



PUTTING PENSION COST IN CONTEXT: VERMONT

This brief on Vermont is part of a series of state reports that compare pension obligations to subsidy spending for either FY 2018 or FY 2019, depending on data availability.

The measure chosen for pension obligation is the employer normal cost, which is the portion of the total normal cost (i.e. present value of future benefits allocated to a particular fiscal year) that is attributable to employers. The employer normal cost is obtained from annual financial statements and actuarial valuation reports – either extracted directly or calculated by: 1) multiplying covered payroll by the employer normal rate; or 2) subtracting the employee share from the total normal cost; or 3) subtracting legacy costs (i.e. annual payment needed to amortize the unfunded actuarial accrued liabilities) from actuarially determined employer contribution. Where the necessary information is not provided, the employer normal cost is estimated by multiplying the total normal cost by the actuarially determined employer contribution (rate) as a percentage of total contribution (rate).

The cost of economic development incentive programs was obtained from annual reports from economic development agencies, state tax expenditure reports, and GASB Statement No. 77 Tax Abatement Disclosures in annual financial reports. We also consider corporate tax dodging via offshore tax havens as reported by U.S. PIRG. Where data for a particular program or tax expenditure is not available for the year of study, the most recent data (but no earlier than 2016) is used as an estimate.

2019 Vermont Public Employee Pension Obligations	\$27,692,876
2019 Cost of Vermont Subsidies and Corporate Tax Breaks	\$193,374,753

Vermont's public employees are covered by the Vermont Municipal Employees' Retirement System (VMERS), the Vermont State Employees' Retirement System (VSERS), or the Vermont State Teachers' Employees Retirement System (VSTRS). The employer normal cost total for 2019 is \$27.7 million, with VSERS – the largest membership – accounting for \$17 million [1-3]. Vermont's pensions have suffered chronic underfunding, causing unfunded liabilities to jump sharply over the past decade. If the situation does not improve, future new hires could potentially wind up in less-secure defined contribution or hybrid plans.

Vermont's incentive spending may not be huge, but it is substantial for a small rural state. The costliest program is property tax abatements for preserving farmland and forestland [4]. The Vermont Economic Development Authority approved \$87.9 million in loans for mainly agricultural and small businesses [6]. Corporate tax dodging by means of offshore haven takes \$40 million a year out of state coffers if the 2016 data can serve as an adequate approximation [9]. Other than these three revenue

losses or diversions, incentive programs are kept under \$10 million [4-8]. These include the Vermont Employment Growth Incentive (VEGI), Downtown and Village Center Tax Credit Program (for historic preservation), and Tax Increment Financing (TIF) districts. Vermont also offers grants to developers for brownfield remediation and to businesses for foreign expansion, but there is no information about the costs of such assistance.

Even though Vermont's programs are moderate and rural-oriented, at more than six times the state's pension obligation, they should receive greater scrutiny as both as cause of and a solution to the state's public pension situation. A bill proposed in early 2020 to make VEGI more transparent and accountable is a step in the right direction.

Subsidy Program Costs

Economic Development Subsidies and Corporate Tax Breaks	Subsidy Amount
Agricultural and Managed Forest Land Use Program [4]	\$45,385,579
Vermont Downtown and Village Center Tax Credit Program [4]	\$2,188,991
Vermont Employment Growth Incentive [4]	\$2,876,311
Investment Tax Credit [5]	\$1,555,000
Research and Development Tax Credit [5]	\$2,044,000
Tax Increment Financing Districts [5]	\$6,220,000
Vermont Economic Development Authority Loans [6]	\$87,938,568
Vermont Training Program [7]	\$2,252,485
Remote Worker Grant Program [8]	\$320,834
Corporate tax dodging via offshore havens [9]	\$42,592,985
TOTAL	\$193,374,753

Source Documents

(Accessed February 25, 2020)

- [1] Vermont Municipal Employees' Retirement System. 2019. "Actuarial Valuation and Review as of June 30, 2019." <https://www.vermonttreasurer.gov/sites/treasurer/files/VMERS/PDF/2019/VMERS%206-30-2019%20Valuation%20Report.pdf>.
- [2] Vermont State Employees' Retirement System. 2019. "Actuarial Valuation and Review as of June 30, 2019." <https://www.vermonttreasurer.gov/sites/treasurer/files/VSERS/VSERS-reports/VSTRS-actuarial-valuation/VSERS%206-30-2019%20Valuation%20Report.pdf>.
- [3] Vermont State Teachers' Retirement System. 2019. "Actuarial Valuation and Review as of June 30, 2019." <https://www.vermonttreasurer.gov/sites/treasurer/files/VSTRS/PDF/2019/VSTRS%206-30-2019%20Valuation%20Report.pdf>.
- [4] Vermont Department of Finance and Management. 2019. "Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019." https://finance.vermont.gov/sites/finance/files/documents/Rpts_Pubs/CAFR/FIN-2019_CAFR_FINAL.pdf.
- [5] Vermont Department of Taxes. 2019. "2019 Tax Expenditure Reviews as part of the: 2019 Biennial Tax Expenditure Report." <https://ljfo.vermont.gov/assets/Subjects/Tax-Expenditure-Reports/88d0b85215/2019-Tax-Expenditure-Reviews-FINAL.pdf>.
- [6] Vermont Economic Development Authority. 2019. "2019 Annual Report." <https://www.veda.org/hubfs/VEDA.FY19.Annual.Report.pdf>.
- [7] Vermont Agency of Commerce and Community Development. 2019. "Vermont Training Program Annual Report Fiscal Year 2019." <https://accd.vermont.gov/sites/accdnew/files/documents/DED/VTP/VTP%20Annual%20report%20F19.pdf>.
- [8] Vermont Agency of Commerce and Community Development. 2019. "Remote Worker Grant Program Annual Report January 1, 2019 to September 15, 2019." <https://accd.vermont.gov/sites/accdnew/files/documents/DED/Remoteworker/2019RemoteWorkerReport.pdf>.
- [9] U.S. PIRG Education Fund. 2016. "Picking up the Tab 2016: Small Businesses Bear the Burden for Offshore Tax Havens." <https://uspirg.org/sites/pirg/files/reports/USP%20PickTab%20Nov16%201.0.pdf>