I was proud to serve in three different administrations in Vermont and in key administrative roles like the Commissioner of Human Resources (DHR) and as the head of the Department of Labor. Through my work in state government, I developed a deep appreciation for our state workforce and the amazing work that they do.

When I was Commissioner of DHR, the Union bargaining teams continually told me that we needed a generous benefits package to compete with the private sector and to attract and retain qualified workers. No one disagreed with their general assumption. As a result, we built one of the most generous benefit packages in the country.

Fast-forward to the past ten years and I find myself dismayed to see our pension system slowly slipping into financial trouble as our unfunded liability has ballooned to $4.5 billion. We need to make structural changes to ensure the viability of our post-employment benefits for current and future retirees.

As the pension discussions in Montpelier heated up, we at Campaign for Vermont began looking at some of the underlying assumptions in the pension debate. What we found surprised me and challenged perceptions I have had for decades.

My hope is that our current policy makers will review the findings of this report with the same open-mindedness that I have had to. This will lead to better decision-making and a more robust discussion around what is best for our state when it comes to pension reform. At the end of the day, we are all in this together and – as we have said previously – the burden of fixing this problem cannot be borne on the shoulders of any one group.

Pat McDonald
President
Campaign for Vermont Prosperity
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## Summary

- Nationally, public employees earn **3X the benefits** of private employees and **25% higher wages**
- Vermont Teacher salaries are **on-par with the national average** and leading other New England states
- On average, employees make nearly **$12,000/yr less** in the private sector vs. the public sector.
  - The average public sector employee is in the **top 25%** of income earners in Vermont.
  - Over the past 30 years, private sector wages have **consistently lagged** the public sector.
  - Even when compared to similar occupations, **teacher wages are competitive**.
- The average private employee makes at least **$20,000/yr less** in retirement than a state employee.
The Public Sector Reality

As policy makers seek solutions to our state’s public pension crisis, we believe that it is critical that they have the data necessary to make informed decisions, especially when that data corrects an underlying premise that may drive a course of action. It is with that principle in mind that we submit this report.

Do state employees make less than private sector workers?
This is the question we set out to answer. For many years we have accepted that generous post-employment benefits were necessary to attract and retain a state employee and teacher workforce in Vermont. This premise has not been challenged or reinforced in any significant way despite having plenty of publicly available data. In this report we dig into data that is available from the Department of Labor, the National Bureau of Labor Statistics, and the Vermont Agency of Education to determine just how competitive our public employee salaries are and if they require significant benefit subsidization to remain competitive.

State Employee Wages
One of the often-repeated talking points from the Vermont state employees’ and teachers’ unions for why defined benefit plans should be maintained in their current forms is because earnings for public sector employees are lower than the private sector. The thinking goes that these richer benefit plans help to balance the supposed disparity and serve as a recruiting tool to attract public sector talent.

Fig 1.0 - National Average Employer Costs for Private Industry vs. Local and State Employees

<table>
<thead>
<tr>
<th></th>
<th>All Private Industry Workers</th>
<th>Full-Time Private Industry Workers</th>
<th>State &amp; Local Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Employer Costs</td>
<td>$13.00</td>
<td>$16.20</td>
<td>$53.59</td>
</tr>
<tr>
<td>Retirement, Health &amp; Other Insurance Benefits</td>
<td>$4.04</td>
<td>$6.72</td>
<td>$25.89</td>
</tr>
<tr>
<td>Other Benefits</td>
<td>$5.08</td>
<td>$8.02</td>
<td>$29.48</td>
</tr>
<tr>
<td>Wage &amp; Salary</td>
<td>$29.48</td>
<td>$33.09</td>
<td>$36.64</td>
</tr>
</tbody>
</table>

Source: BLS June 2021 Release
But are state worker and teacher earnings in fact lower than private sector earnings? While this point appears to be accepted as fact among many stakeholders, the opposite is actually true. As shown by the following data, Vermont state employee and teacher earnings are in fact higher than their Vermont private sector counterparts.

Nationally, there is a significant gap between state and local workers and private sector workers. State and local governments pay nearly $17 more per hour when benefits are considered and still maintain more than a $7 per hour advantage when looking at just wages.

**Teacher Wages**

Vermont Teachers enjoy salaries that are right at the national average ($61,730 vs $61,027) and are 16th highest in the country. Our teachers lead states like Hawaii, New Hampshire, and Maine when it comes to compensating our teachers.

While it is perhaps a poor indication of workload, Vermont schools also have the lowest student teacher ratios in the nation at 10.5:1. California, for example, has 23:1.\(^1\) Earnings vary quite a bit across different school districts with South Burlington capturing the highest salaries while smaller school districts in the center of the state are much more constrained.

Comparing averages for teachers become difficult because of this variation but we face similar challenges in the private sector with wages for the same occupation varying by region.

Source: National Education Association

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\(^1\) [https://nces.ed.gov/programs/digest/d20/tables/dt20_208.40.asp](https://nces.ed.gov/programs/digest/d20/tables/dt20_208.40.asp)
The Verdict

Now that we understand some national and state level trends around public sector wages, we looked at how they compared to the private-sector.

Fig. 1.2 - Sample of Vermont Teachers Average Annual Earnings 2019

Source: Education.Vermont.Gov

Fig. 1.3 - Vermont Annual Earnings 2019

Source 1  Source 1  Source 1  Source 1  Source 2  Source 3

Median Private Sector  Average Private Sector  Average All Workers  Average State Employees  Average State Teachers  75th Percentile All Workers
There is a lot to unpack here. First, it is important to note that medians wages will be lower than averages because, particularly in the private sector, the upper quartile draws the average up. While you can see this effect at play in Figure 1.3 but it’s not as significant as we might expect.

The next thing we notice is that both state employees and teachers, on average, make around $12,000 more per year than private sector employees, or about 25% more in wages annually. This is before we consider benefits, which we can expect (as indicated in figure 1.0) are likely 250-300% higher than the private sector. Comparing benefits between the public and private sectors in Vermont is outside the scope of this report, but we will note several instances where disparities are likely to exist.

Finally (and perhaps most importantly), we can see that both the average teacher and state employee are in, or very close to, the top 25% of income earners in Vermont. This means that they take home more in wages than 75% of workers. This is certainly not the perception that many stakeholders have or the picture that union advocates paint, but this is what Department of Labor data shows.

**When this changed**

We wondered when this changed. Surely at some point it must have been true that the public sector was under-compensated, we thought. We went all the way back to 1990, the oldest available data from the Department of Labor (only 2004-2020 shown below). At no point have private sector workers surpassed the wages of the public sector. Furthermore, the wage growth for public sector employees outpaced the private sector, particularly during recessions. Again, this does not include benefits.

Of note here, is that teachers specifically have seen wage growth slow over the past decade. This is likely because of the contractions in school spending in response to rising tax rates and a shrinking student population. Wage growth in high-demand sectors like health care have accelerated over the same time period leading us to believe this is a supply/demand effect. State employee wages have been unaffected.
Comparing like industries

One argument that we could make on teachers’ behalf is that they require specialized training and advanced degrees in order to carry out their jobs. There is merit to this argument, so we compared public teachers to other types of teachers and also to nurses. Both occupations require advanced degrees with specialized training.

In 2019 public teachers made $6.84 more per hour than nurses, an 18% gap. Benefits were also more generous. This advantage has been maintained over the past 15 years. Interestingly, both occupations saw significant gains in benefits that outpaced the growth in wages.

Another thing to pay attention too are the wages for all teachers. The Department of Labor data does not include a private sector teacher breakout in their wage data, but they do include teachers with all employer types. The difference between public school teachers and all teachers accounts for private school teachers. We can see from Figure 1.5 that private school teachers drag down the average, meaning they are paid less in both wages and benefits than public school teachers. This is important because the Agency of Education requires private schools to be certified with teachers having similar certifications to private school teachers. These are the two most direct comparisons we have for public school teachers to similar positions in the private sector. In both cases public teachers are paid more in wages and benefits.

Source: BLS – Employer Costs for Employee Compensation
Private Access to Retirement Benefits

Private employees, unsurprisingly, have very little access to defined benefit plans like the ones that public employees enjoy. Most have access to a defined contribution plan, but many (nearly 2 in 5 workers) have no access at all to employer contributions towards retirement.

Defined benefit plans are a hallmark of public sector employers and are relied upon for recruitment and retention of workers. Something we don’t talk about, but perhaps should is the fact that public employees are required to serve a vestment period before becoming eligible for pension benefits. Private sector employers with defined contribution plans offer portability when employees change jobs. State employees and teachers do not get to take this benefit with them if they leave public service. Some may argue this is good because it incentivizes employees to stay, however US workers now change jobs every 4.2 years on average so defined benefit plans may actually become more of a liability than an asset for recruiting as workers become more mobile.

Source: Congressional Research Service – Worker Participation in Employer-Sponsored Pensions
Figure 2.2 above compares what a private insurance market would charge for a CPI protected retirement annuity issued on the day of retirement. Issuing an annuity with $50k per year in guaranteed income would cost $924k for a couple who are 65-63. The state employee maximum benefit of $40k for a single retiree would likely be worth over half a million on the open market. Essentially this would be equivalent to the State of Vermont writing a $500k check on the day the employee retires.

Figure 2.3 - 2019 FED Survey of Consumer Finances

We compared the cost of a pension-like benefit to what private-sector workers have actually saved. Looking at average savings, employees at retirement age are not able to afford this kind of CPI protected
annuity that is similar to a pension benefit. When we look at the median savings, the picture becomes even bleaker. Even at retirement age, most workers couldn’t even afford a plan with half the replacement income of state employees. A median retiree between 65 and 75 will have $164k saved for retirement, which yields less than $600 per month in private retirement income.²

Who is more prepared for retirement?
As was documented in figure 1.0, public employees have much higher benefits and incomes than private sector workers. We know that a major component of this is pension benefits, but how does this actually play out for employees when they retire?

Retirement Income Comparison
Perhaps unsurprisingly, when we compare pension benefits to average retirement savings for private sector workers the disparity is apparent. Per a presentation from the Department of Human Resources in July 2020, most retirement eligible employees qualify for the max benefit with an average retirement compensation of $40,200.³


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² Based on calculation from Fidelity.com
Reliance on Social Security

When we look at how reliant Vermonters are on Social Security we discover a disturbing fact. Well over half of retired Vermonters rely on Social Security for 50% or more of their retirement income and nearly a quarter are 100% reliant on it. Considering that the 2021 annual social security benefit was $18,516, this is a sobering statistic.⁴

When we compared retirement income between the public and private sectors we made an assumption that an average private sector retiree made roughly $70k annually at retirement and were able to maintain average retirement savings. However, this picture does not accurately capture the full range of experiences as the chart above depicts. In our comparison the private sector employee was 47% reliant on Social Security income. The reality is that nearly two-thirds of private sector employees are actually in a worse financial position in retirement than our example. For this reason, we would consider our private sector employee example to be an optimistic comparison.

One other important point is that financial advisors often recommend a 75% income replacement ratio for retirees to maintain the same quality of life they enjoyed during their career.⁵ Even in our optimistic scenario the private sector retiree only reaches 60%. The public sector employee gets to 78% even before personal savings and health benefits are considered.

Health care is a large expense for retirees so having the majority of this covered by your previous employer is a major benefit to retired state employees and helps to stretch their retirement income much further than private sector employees without access to this benefit. Fidelity estimates that a

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A retired couple will need to save about $300k (after taxes) for health care expenses in retirement – about 15% of their post-retirement income. Public employees largely do not have to worry about this as their primary responsibility will be out of pocket deductibles and co-pays.

**The Risks**

There is a bubble coming for state employee retirements. Ten percent of employees could retire now, most with the maximum allowed benefit. Another 9% are eligible within five years, which means nearly one fifth of the state workforce could turn over within the next five years.

<table>
<thead>
<tr>
<th>Group F in FY20</th>
<th>Number</th>
<th>Avg Age</th>
<th>Avg Service</th>
<th>Avg Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retire-Eligible Age + Service</td>
<td>318</td>
<td>65</td>
<td>19</td>
<td>$72,098</td>
</tr>
<tr>
<td>Retire-Eligible: Max Benefit – 30 Years</td>
<td>429</td>
<td>60</td>
<td>35</td>
<td>$80,400</td>
</tr>
<tr>
<td>Additional Retire-Eligible: Within 5 Years</td>
<td>671</td>
<td>57</td>
<td>22</td>
<td>$74,882</td>
</tr>
<tr>
<td>Not Eligible to Retire Within 5 Years</td>
<td>1,513</td>
<td>47</td>
<td>17</td>
<td>$72,379</td>
</tr>
<tr>
<td>F* - Started After June 2008</td>
<td>4,713</td>
<td>41</td>
<td>5</td>
<td>$56,692</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7644</strong></td>
<td><strong>46</strong></td>
<td><strong>11</strong></td>
<td><strong>$63,365</strong></td>
</tr>
</tbody>
</table>

Source: [DHR Presentation to Pension Task Force – July 22, 2020](#)

If all eligible state employees retired today, it could incur as much as an additional $25 million\(^6\) liability in year one and possibly a $130 million\(^7\) liability over the next five years. If the next wave of eligible employees also retired within the next five years, the additional impact to the pension funds would soar even higher.

It is clear that the problem is going to get worse before it gets better. If we are to ensure the viability of this system we need to start taking these issues seriously.

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\(^6\) Based on max benefit calculation of 40,200 (50%) and the normal calculation for age eligible employees in 2020.

\(^7\) Based on projected CPI increases from [Statista.com](#) and the benefit calculation for Group F from [VermontTreasurer.Gov](#)
Conclusion
We set out on this project expecting to find that pension benefits were an unquestionable asset to recruiting and retaining our public sector workforce. The chair of the Campaign for Vermont Board of Directors is a retired state employee, as is her husband, and we have long supported the necessity of a sustainable pension system that keeps our promises to public employees.

What we found surprised us. Here are our key findings:

1. The average public sector employee is in the top 25% of income earners in Vermont, even before you consider health benefits.
2. On average, employees make nearly $12,000/yr less in the private-sector vs. the public-sector.
3. The average private sector employee makes at least $20,000 less per year in retirement than a public sector employee. This disparity likely grows when health benefits are considered.
4. Wages for public sector employees have grown faster over the past 20 years than private sector employees. And, over the past 30 years (as far back as we have data) private sector wages have consistently lagged the public sector.
5. The problem is going to get worse before it gets better as nearly 20% of state workers are approaching retirement.
6. The extraordinary benefits offered to public sector retirees may not be necessary to compete for qualified workers.

Recommendations
We need to be cautious about breaking promises to existing employees, but the state should look closely at benefit packages offered to new hires. The often-repeated narrative of these benefits being required to attract workers does not appear to hold up under scrutiny. We had long taken this for granted, but state employees and teachers both compete well on salaries before benefits are even considered. Shockingly, public employees make $17 more per hour when benefits are factored in.

We recommend the following:

➢ Do not substantially alter retirement benefits for workers within the vestment period.
➢ Expanding the vestment period and adjusting COLAs are potential tools to reduce liability but employees included in the new vestment period should be held harmless.
➢ Closely examine the total benefits package, they may not need to be as generous as previously thought.
➢ Consider a defined contribution plan or a hybrid plan for new hires as opposed to a defined benefit plan.
➢ Treat claims of the necessity of maintaining overly generous benefits for recruitment purposes skeptically. The data does not support this claim.

We appreciate consideration of this research as a critically important datapoint in the discussions around pension reform in Vermont. The narrative around the need for extraordinary pension benefits for public employees that we were all led to believe, unfortunately, does not hold water. We are hoping this report sets the record straight without detracting from the value of our public sector workers.