OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

FOR IMMEDIATE RELEASE
Thursday, February 1, 2001

BACK TO BASICS: FISCAL INTEGRITY IN PENSION FUNDING WILL ASSURE FUTURE TAXPAYER RELIEF

Small cost to meet obligations now will avoid big budget impact later; Attracting top teachers, balancing budgets create "win-win" for taxpayers

State Treasurer Denise L. Nappier and Connecticut's leading education organizations today called on Governor Rowland to include fully funded state teacher pension contributions in his biennial budget proposal to the General Assembly on February 7. Not to do so, Nappier cautioned, will pose a risk of serious budget shortfalls in the future.

Nappier was joined at a State Capitol news conference by representatives of the Connecticut Education Association (CEA), Connecticut Federation of Educational and Professional Employees (CFEPE), Connecticut Association of Public School Superintendents (CAPSS), Connecticut Federation of School Administrators (CFSA), Connecticut Association of Schools (CAS), and the State Teachers' Retirement Board.

"No single issue facing our pension system – and the fundamental integrity of future state budgets – is more important than fully funding the State's annual pension contributions," Nappier said.

The Treasurer and education leaders called on lawmakers and the Governor to appropriate 100% of the actuarially recommended contribution for the teachers' pension fund in the new biennial state budget and thereafter, as opposed to the 85% contribution which has been appropriated in past years. Nappier said they will be:

- advocating legislation to require lawmakers to appropriate 100% of the actuarially determined level of funding for the State Teachers' Retirement Fund each year. (SB9)
- supporting an Amendment which would make this commitment a part of the State's Constitution.
- offering a proposal, also submitted last year, to permit the Treasurer to use the unappropriated surplus either to reduce the unfunded liability of the pension fund or to retire state debt, whichever is in the best financial interest of the State.

Nappier also urged the state retirement board to work with interested employee representatives, the Office of Policy and Management and the Governor's Office to adopt a more responsible, prudent method of funding the past service liability of the State Employee Retirement Fund.

Contacts:
Bernard L. Kavaler, Treasurer's Office (860) 702-3277
Kathy Frega, Connecticut Education Association (860) 525-5641
Leo Canty, CFEPE, (860) 257-9782

"If action isn't taken now," said CEA President Rosemary Coyle, "we will impose an onerous future burden on Connecticut taxpayers and fail to ensure that the pension fund will be able to meet its obligations to participants and retirees of the fund."

"Ensuring the teacher pension fund is on solid ground is sound fiscal policy. We've gone too long avoiding the commitment necessary to guarantee a fully funded program," said CFEPE President George Springer. "The longer we wait, the more risk we apply to the fund and the tax burden of citizens."

TEACHERS RETIREMENT FUND IS STATE'S LARGEST

The Teachers' Retirement Fund is the largest pension fund overseen by the State Treasury. As of June 30, 2000, the Fund's assets had a market value of value of $10.9 billion*, and an unfunded liability of $2.2 billion. An unfunded liability is the amount by which future payment obligations exceed the capacity of the existing fund to generate the revenue with which to meet them.

"Simply put," Nappier noted, "the teachers pension fund would need an immediate infusion of $2.2 billion in order to reach the level necessary to finance projected payments to members of the retirement system who depend on hard-earned pension checks for their future financial security."

Although Section 10-183z of the Connecticut General statutes calls for the legislature to appropriate to the retirement fund the amount certified by the retirement board's actuary as necessary, that requirement has not been met since 1992. Since that year, the state's annual contributions have been at 85%.

Nappier also noted that the next largest state pension fund is the $8.3 billion State Employees Retirement Fund, which has an unfunded liability of $4.4 billion. Unfunded liability also can be expressed as a ratio of current assets to present value of future pension obligations. The funding ratio for the state employees fund, for example, now stands at 62%. In other words, for every dollar the Fund needs to pay benefits, there is only 62 cents available.

** net of excess earnings account*

BUDGET IMPACT CRITICAL

As a result of the decisions to fund the Teachers' Retirement at only 85%, the Teachers' Retirement Fund missed out on the full advantage of the greatest sustained bull market in the history of the American economy, the leaders noted. "The Fund would be $1.4 billion better off today," Nappier said. "We've made choices in the past and we now have to live with their consequences," But it's not too late to make a better choice today."

"Had we made appropriations at 100%, the Fund would have earned $27 billion in investment returns by 2048. The State would have had to contribute only $18 billion through 2048, and we would have assets valued at $57 billion. That opportunity is gone."

As a result, the Treasurer pointed out that the Governor and legislature now have two options:

- "We can continue funding at 85%. If we do, we'll only have $53 billion in asset value by 2048; our investment income will only have amounted to $15 billion; and the State will have had to make $27 billion in contributions, or
- We can move to 100% contributions beginning with the next fiscal year's budget and we will have a $57 billion fund that will have earned $22 billion on investments and required $24 billion in State contributions."

Contacts:
Bernard L. Kavaler, Treasurer's Office (860) 702-3277
Kathy Frega, Connecticut Education Association (860) 525-5641
Leo Canty, CFEPE, (860) 257-9782

"It's our choice," Nappier said. "We can keep doing what we have been doing. We will contribute more and end up with less. Or we can make a commitment to 100% funding beginning this year. That commitment will enrich the Fund by more than $4 billion over the next 50 years, requiring $3 billion less in state contributions."

TIME FOR FULL FUNDING IS NOW

The latest actuarial recommendations were released at the November 28, 2000, meeting of the State Teachers' Retirement Board. Actuary Brian Dunn recommended annual contributions of $210,701,421 and $221,236,492 for the next two years. These contributions are designed to pay the pensions of existing retirees, set aside money for future retirees, and eliminate a portion of the existing debt. The actuary uses earnings of the fund to make the calculations, and Dunn reported growth in investment earnings to the board.

At 85% funding, the legislature contributed $214.7 million to the fund for 2000-2001. The latest actuarial determination recommends a 100% state contribution of $210.7 million for 2001-2002. That means the state could spend $4 million less next year than it did and still make the 100% contribution. It is an ideal moment to move to 100% funding, the leaders stressed.

Coyle said, "This session is a unique window of opportunity. In third year of extraordinary budget surpluses, legislators and the Governor would be hard-pressed to explain anything but a 100% contribution." But Coyle added that the issues are larger than any one-year action or inaction. "This is a long-term problem with long-term consequences, and the system must be improved," said Coyle. Connecticut teachers do not participate in Social Security, and Coyle described the state system as "critical" to the future of Connecticut teachers and their families.

Roch Girard, president of the Connecticut Federation of School Administrators, said: "These are the best of times for our state, and there is urgency for lawmakers to properly fund the retirement system. The situation will surely go from bad to worse when bad economic times return to the state. So, the time is now to begin to correct the underfunding of past years."

"For too long, Connecticut's state government has regarded pension funding as tomorrow's problem. Well, tomorrow is about to arrive and, when that happens, the amount of money we will need to fund our debts to retired teachers and state workers could reach astronomical levels and seriously erode future state budgets," Nappier said.

TAX DOLLARS AND INVESTMENT INCOME

"There are only two sources available to the state to meet its pension obligations: investment returns on fund assets and the state budget," Nappier noted. "From all of the capital market forecasts I've looked at, we will not be seeing the investment revenue in the pension fund that we've enjoyed the past few years. Therefore, the state budget pressures will only intensify."

"Connecticut's pension investments have done well," Nappier said. "During the 12 months ending September 30 of last year, the funds achieved an annual return 16.58% gross of fees, which placed us ahead of 85% of similar public funds across the nation with assets greater than $1 billion. We will remain a top performer, but our capital market assumptions for the future are lower. Clearly, no reasonable forecast of investment return is going to bail us out of this dilemma."

Coyle said, "For too long, the fund has been subjected to the uncertainty of the investment market and the year-to-year preferences of lawmakers who have not considered 100% funding a priority. This is a decide-as-you go system that appears to ignore long-term consequences."

AN INVESTMENT IN EDUCATION

David Larson, Executive Director of the Connecticut Association of Public School Superintendents, said: "There is national concern about a shortage of teachers and administrators. We, in Connecticut, need to keep our ability to retain and attract high quality educators for our children. A sound retirement system is part of our state's ability to attract and retain teachers and administrators. There is no underestimating the retirement system's importance in keeping our public education system one of the best in the country."

"We are facing a teacher shortage in the coming years," added CFEPE President Springer. "For us to attract new teachers and retain current ones we need to be able to assure them their pension plan is not in jeopardy. A commitment to full funding will have a positive impact in that effort."

CEA President Coyle continued, "This issue cuts across generations. We need to recognize that there is stress on the system as new waves of teachers retire. We have to go back to basics. Connecticut leads the nation on all indicators of student achievement, yet when it comes to the retirement system of the educators who teach those children, Connecticut falls short. Teachers need to know that their commitment to children is valued by a system that keeps its promises. A constitutional amendment goes directly the health of the fund and the integrity of the system."

"Connecticut's citizens deserve fiscal prudence," Nappier said. Today's proposals – to make small investments and reap large benefits – are fiscally prudent. Connecticut's children deserve great teachers and every citizen should be served by first-rate state employees. A financially sound pension fund will attract them. If ever there existed a win-win scenario, this is it."

KEY ISSUE FOR TAXPAYERS, TEACHERS

CEA President Coyle said that pension funding is an issue that touches every person in her 33,000 member organization. "Putting the fund on the road to fiscal health is critical to us," she said. The leaders also stressed that full funding is an important issue for taxpayers as well as teachers.

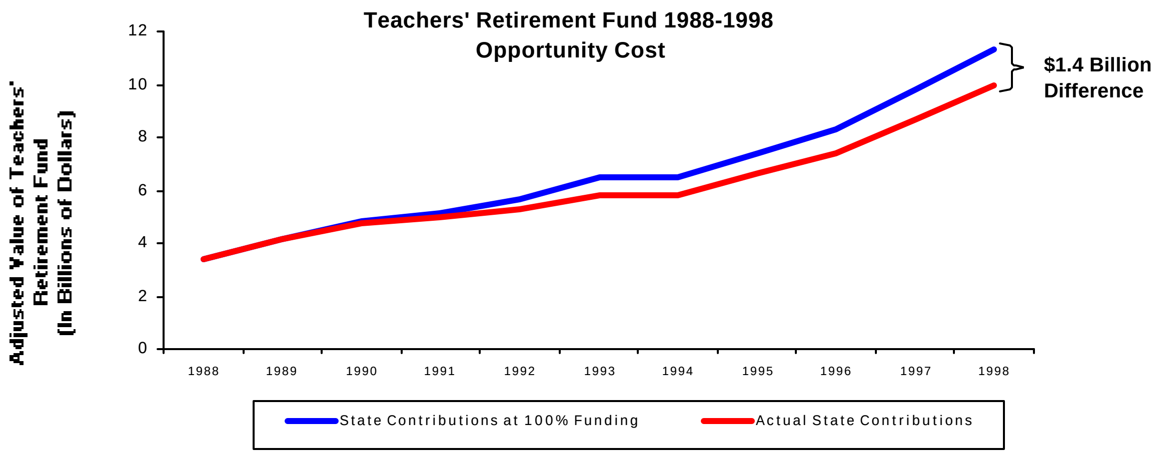
"Without a commitment to full funding, we will continue to lose the earning potential of the fund as we continue to face increasing demands for benefit payments," Nappier said. "Underfunding has to stop and it has to stop now. The relatively small amounts of money we fail to contribute today will overwhelm the budget in the future as pension obligations become due."

Nappier pointed out that none of the annual appropriation for the state's retirement systems actually goes into the funds. Instead, she said, it is all going to pay current retirees. The employer share for the State Employees and Teachers' Retirement systems was about $500 million last year. However, pension benefit payments exceeded $1.2 billion. Therefore, in addition to the annual budget appropriation, over $450 million was paid OUT of pension funds for benefits last year.

"Pension funding shortfalls erode the guarantee of future benefits and cost more in the long run," Springer said. "We have been warning the state for years not to underfund the program because of the future consequences. We are pleased to see Treasurer Nappier and the others now stepping up to do the right thing."

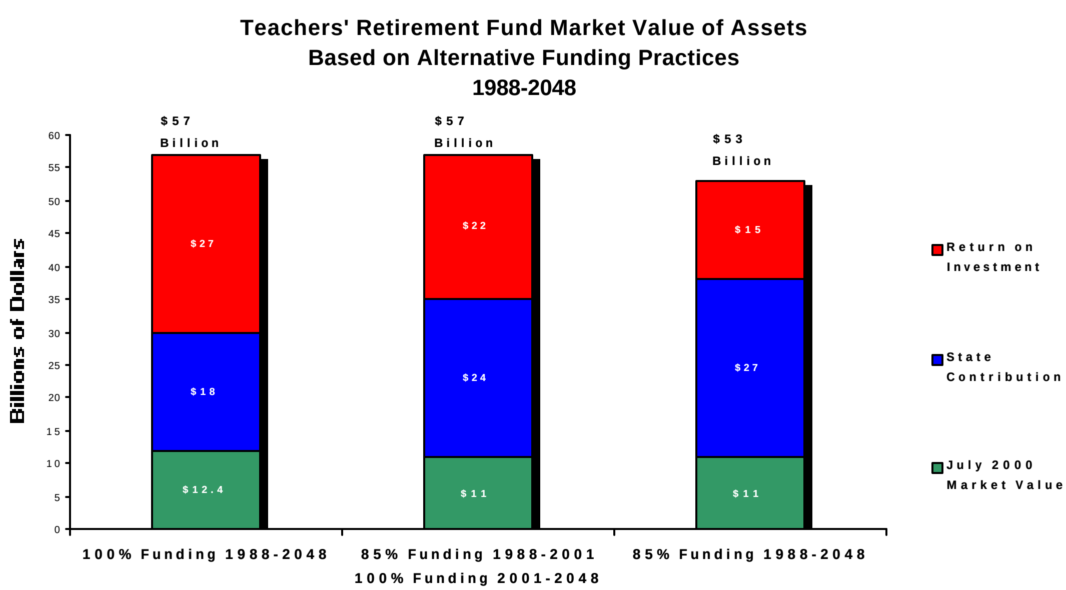
-30-

Contacts:
Bernard L. Kavaler, Treasurer's Office (860) 702-3277
Kathy Frega, Connecticut Education Association (860) 525-5641
Leo Canty, CFEPE, (860) 257-9782



Dept. Public Health	$	72,053,871.00
Dept. Mental Retardation	$	627,434,761.00
Dept. of Mental Health and Addiction Services	$	298,060,734.00
Aid to the Disabled	$	62,192,298.00
Husky Program	$	7,274,328.00
Child Day Care	$	11,669,156.00
School Construction	$	269,900,000.00
Total	**$**	**1,348,585,148.00**

Numbers are based on actual expenditures for fiscal year 2000
Published by the Office of Fiscal Analysis in:
"The Year End Analysis of the FY 2000 General Fund and Transportation Budgets" October 25, 2000



Contacts:
Bernard L. Kavaler, Treasurer's Office (860) 702-3277
Kathy Frega, Connecticut Education Association (860) 525-5641
Leo Canty, CFEPE, (860) 257-9782