OFFICE OF STATE TREASURER DENISE L. NAPPIER

NEWS

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INVESTMENT ADVISORY COUNCIL BACKS NAPPIER LEGISLATIVE PROPOSALS TO STRENGTHEN PENSION FUND

Council Urges Governor, Legislature to Make 100% State Contribution to Pension Fund, Permit Treasurer Flexibility to Act in Best Financial Interest of State

The state's Investment Advisory Council today unanimously endorsed legislative initiatives by State Treasurer Denise L. Nappier that would require the state to fully fund the state's annual pension fund contribution and permit the Treasurer to use the state's unappropriated surplus either to retire debt or accelerate the amortization of unfunded liability, whichever is in the best financial interest of the state.

Both proposals are pending before the current session of the General Assembly.

The IAC endorsement comes just two weeks after Nappier was joined by Connecticut's leading education organizations in calling on the Governor and General Assembly to fully fund the state's pension fund contribution. Not to do so, Nappier has cautioned, will pose a risk of serious budget shortfalls in the future.

The Investment Advisory Council is a non-partisan body that advises the Treasurer regarding the state's pension fund. Chairman Steven W. Hart said the proposals are "fiscally responsible, and are in the best interest safeguarding the pension fund." Hart noted that it is important for the IAC to take positions on critical issues that impact the pension fund, and that the legislature as recently as last session strengthened the oversight role of the Council to assure protection of the pension fund.

In endorsing the proposals, the IAC called on lawmakers and the Governor to appropriate 100% of the actuarially recommended contribution in the new biennial state budget and thereafter, as opposed to the 85% contribution which has been appropriated in past years for the Teachers Retirement Fund.

The second proposal would permit the Treasurer to use the unappropriated surplus either to reduce the unfunded liability of the State Employees Retirement Fund and the Teachers Retirement Fund or to retire state debt, whichever is in the best financial interest of the State. This proposal was also submitted to the legislature by the Treasurer's Office a year ago.

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

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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.

"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 added.

Clare H. Barnett, who serves on the IAC as a representative of state teachers, said: "We are grateful that a top level state official has sounded the alarm about full funding and moved it front and center in the media and before the legislature. We have talked about this issue for many years. The time for action is now, and the teachers and beneficiaries of the pension fund appreciate the leadership of the Treasurer and the Investment Advisory Council on this critical issue."

IAC member Sharon Palmer, also representing teachers, added that full funding is "absolutely fiscally responsible and in the best interest of both beneficiaries and taxpayers. In effect, we are spending now to save later – and the savings are substantial. This is precisely the step we need now, and it is essential that the legislature follow through and begin fully funding the state's contribution this year."

Nappier said that making a commitment to 100% funding of the Teachers Retirement Fund beginning this year will enrich the Fund by more than $4 billion over the next 50 years, requiring $3 billion less in state contributions during that time.

The Treasurer 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.

In addition to the Investment Advisory Council, organizations endorsing the full funding of pension contributions include 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.

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** net of excess earnings account*