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SPEAKER AMANN & TREASURER NAPPIER UNVEIL PLAN FOR TEACHERS' PENSIONS

Democrats Propose Comprehensive Solution to Strengthen the Teachers' Retirement Fund and Save Taxpayers Billions Over Long Term

Citing the need to address the growing unfunded liability in Connecticut's Teachers' Retirement Fund (TRF), Speaker of the House James Amann and State Treasurer Denise L. Nappier announced a comprehensive proposal today that would strengthen the financial footing of the Fund and ultimately save taxpayers money.

Amann and Nappier were joined at the news conference by representatives of the Connecticut Education Association (CEA), AFT Connecticut, and the Connecticut Association of Retired Teachers.

The unfunded liability of the TRF has grown from approximately $2.2 billion in fiscal year 2000, to more than $6.9 billion today. Unfunded liability is the amount by which current benefit obligations exceed the existing assets of the fund. In other words, the unfunded liability can be expressed as a ratio of current assets to present value of future pension obligations. The funding ratio for the Teachers' Retirement Fund, for example, now stands at 63%. That means for every dollar the TRF needs to pay benefits, only 63 cents is available today.

"No short-term solution can address the State's growing liability to the Teachers' pension system. Our proposal today is about sound fiscal policy. It will tackle the unfunded liability head-on and ultimately save the State and its taxpayers money," said State Treasurer Denise L. Nappier.

Even if the legislature appropriated 100% of the actuarial recommended contribution today, the required annual appropriations would continue to grow and cost the state more money over time than the Nappier/Amann proposal. House Bill 6141, AN ACT CONCERNING ADEQUATE FUNDING OF THE TEACHERS' RETIREMENT SYSTEM, is a comprehensive solution to stop the unfunded liability from growing out of control, and reduce future payments from the State and its taxpayers by approximately $2.8 billion. The proposal being outlined today will address the unfunded liability in the following ways:

LOWER DEBT SERVICE PAYMENTS OVER TIME

The proposal calls for a $2 billion pension obligation bond (POB) sale, payable over the next 25 years at current interest rates (approximately 5.6%). The debt from the POB sale would cost less than the rate the state is currently being charged (8.5%) on the unfunded liability. Treasurer Nappier and Speaker Amann urged the legislature to "lock in a lower interest rate," so the State could substitute high-interest debt (8.5%), for lower-interest debt (5.6%), thereby saving money over time.

"This plan with savings of $2.8 billion over 25 years represents the biggest and best deal for taxpayers in recent history," said Speaker Amann. "Essentially we are taking advantage of lower interest rates and refinancing the mortgage."

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FULL FUNDING REQUIREMENT

Although Section 10-183z of the Connecticut General Statutes calls for the legislature to appropriate 100% of the actuarial recommended contribution to the Teachers' Retirement Commission, that requirement was not met for more than a decade (1992-2005). The lost opportunity for investment earnings during that time has contributed to the escalating unfunded liability.

Additionally, the proposal would provide for a covenant on the bond sale that requires the State to appropriate 100% of the actuarial recommend contribution to the TRF for the life of the bonds (25 years), thereby keeping the State on-track to decrease the unfunded liability over time.

INCREASED OPPORTUNITY FOR INVESTMENT EARNINGS OVER TIME

In addition to the savings that could be realized through lowering debt service payments, the proceeds of the POB sale would be invested in the Teachers' Retirement Fund, which has historically earned an average of 8.9% (based on average earnings over the past 15 years). Had the State funded at 100% of the actuarial recommended contribution over the past 13 years, the Fund would have gained $2.5 billion in additional investment income.

STRUCTURAL CHANGES TO BUILD ON MERITS

The POB proposal includes structural changes to put the TRF, including a cost of living adjustment (COLA), on stronger financial footing without compromising benefits to teachers. Connecticut's educator organizations support the Amann/Nappier proposal as the long-term solution needed to improve the fiscal integrity of their pension system. Connecticut's teachers do not participate in Social Security, so the state pension system is critical to the future of Connecticut teachers and their families.

"I want to applaud the leadership the Speaker and State Treasurer have shown on this issue," said Connecticut Education Association President Phil Apruzzese. "To attract and retain the best teachers, Connecticut needs to provide a stable, secure retirement system. This legislation will accomplish that goal."

"Every year that the State of Connecticut fails to properly fund the Teacher's Retirement Fund creates greater financial instability," said Sharon Palmer, President of AFT Connecticut. "Pension Obligation Bonds would immediately strengthen the Teacher's Retirement Fund. That's why AFT Connecticut is supporting House Bill 6141."

"Thousands of retired teachers from across Connecticut have been waiting for a solution to the problem of our under funded pension," said Al Cipriani, President, Association of Retired Teachers of Connecticut. "Thanks to the leadership of Speaker of the House Jim Amann and State Treasurer Denise Nappier, a lasting solution to this pressing issue is being proposed."

BUDGET IMPACT CRITICAL

The Speaker and the Treasurer called on legislators to support this measure now.

"Year after year I have called on the state to address the shortfalls in funding to the TRF," said Nappier. "For too long pension funding has been considered tomorrow's problem, but unless we act today with a comprehensive solution like HB 6141, the amount of money we will need to fund our debts to retired teachers could reach mammoth levels and seriously erode future state budgets."

"The state's pension obligations are not going away and will eventually have to be paid in full," said Speaker Amann. "Education is an ongoing priority for the legislature and this plan is important to attracting and retaining the best teachers possible for our children."

"As the State's Treasurer, I understand the importance of good, smart investments," said Nappier. "The proposal Speaker Amann and I outlined today will ultimately yield positive returns – for the Teachers' Retirement Fund- for our taxpayers- and for the economic health of our state."

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