The Office Of
State Treasurer
Denise L. Nappier

News

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Statement of State Treasurer Denise L. Nappier Regarding Moody's Investors Service's Consideration of Pension Obligations

Moody's Investors Service released a "Special Comment" last week concerning states' unfunded pension liabilities, and the manner in which these liabilities would be factored together with total outstanding debt in evaluating states' creditworthiness.

In response to Moody's report entitled "Combining Debt and Pension Liabilities of U.S. States Enhances Comparability" released January 26, 2011, State Treasurer Denise L. Nappier issued the following statement:

"Moody's recent expansion of its methodology for evaluating states' creditworthiness -- by adding bonded debt liabilities along with long term pension liabilities -- may result in an attention-grabbing mathematical exercise, but arguably may not provide investors the full picture. It is not just the level of liabilities that matters, it is how well those liabilities are managed. The "credit score" for any borrower gives significant weight to the borrower's track record in meeting its long-term obligations as well as its future ability and commitment to pay.

We at the Treasury will continue to emphasize Connecticut's strong debt and pension fund management practices with all of the credit rating agencies. This track record includes disciplined repayment of debt, managing within the State's debt limit, an active and prudently managed debt refunding program, full funding of the Teachers Retirement Fund in accordance with a bond covenant developed by my office in 2008, as well as a renewed commitment expressed by Governor Malloy to fully fund the State Employees Retirement Fund for the next biennium. When it comes to managing long term obligations, all borrowers -- just like all states -- are not created equal, and certainly the absolute level of any state's debt should be viewed in the overall context of how a state honors its obligations.

It is also important to take into account how the investment of pension funds has been managed during difficult market conditions. Relative to its peers, Connecticut's combined pension investments have outperformed 65% of other large public funds, with assets greater than $1 billion, over the twelve year period ending June 30, 2010. Importantly, the State's combined investment funds have exceeded their benchmarks for both the short and long term. During the particularly volatile two-year period surrounding the equity market bottom in March of 2009, Connecticut's plan outperformed 74% of its peers, demonstrating its ability to protect capital in market downturns while participating in long-term capital appreciation.

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