The Office Of State Treasurer
Denise L. Nappier

News

PRESS STATEMENT
FOR IMMEDIATE RELEASE
May 3, 2013

STATEMENT OF STATE TREASURER DENISE L. NAPPIER

HARTFORD, CT – Connecticut State Treasurer Denise L. Nappier has issued the following statement:

"The recent release of consensus revenue estimates was sobering: while a surplus is likely for Fiscal Year 2013, we see on the horizon significant and intractable deficits. No one can argue that the State of Connecticut faces a tough fiscal road ahead.

Nothing constructive can be gained, however, when significant misstatements are made -- such as those offered on May 1 by House Republican Leader Larry Cafero about the sale of pension assets to meet pension obligations. When all is said and done, I can assure our Republican colleagues that the Connecticut Retirement Plans and Trust Funds (CRPTF) will remain solvent. We are managing the funds prudently and in a fiscally responsible manner, and doing so while traveling uphill, so to speak, because we are working to build the pension fund despite past years of insufficient state contributions to the fund.

The sale of CRPTF pension assets in order to pay benefits has become a normal course of business – this is not news. And, these sales are strategically managed to maintain sufficient levels of liquidity while preserving the corpus of the plans. This practice has nothing whatsoever to do with the State's cash resources to pay operating expenses. Simply put, pensions and the General Fund are two separate pots of money.

Let's also not forget that Representative Cafero and his colleagues at the Connecticut General Assembly historically have voted to contribute less than what the fund actuary said was required. Today, we are feeling the impact of that ill-advised practice as represented by a significant unfunded liability which, in turn, has increased the need to liquidate pension fund assets to meet pension benefit payroll and other expenses.

Representative Cafero stated in his press release that I had "quietly disclosed" to the independent Investment Advisory Council plans to liquidate in accordance with pension fund cash flow projections. In truth, if he had done his homework, he would know that not only is the IAC a public body, but that its proceedings are covered by the media, as was the case with what is a regularly scheduled cash flow projections report.

Now, I must admit that I've been called many things in terms of how my office manages and reports on cash flow projections, but "quiet" is not one of them. Anyone who knows me understands that I am not shy when it comes to asserting the views of my office and pension fund business in particular. Take, for example, the following quote from my February 21, 2000 testimony before the Labor and Public Employees Committee concerning the need to address the unfunded pension liability:

'Did you know that none of your annual appropriation for these retirement systems actually goes into the pension fund? It is all going to pay current retirees. The employer share for the State Employees and Teachers Retirement systems (including your appropriation and various grants) is about $500 million this year. However, employee benefits exceed $1.2 billion. Therefore, in addition, to the annual budget appropriation, (and grants, and employee contributions), over $450 million dollars is projected to be paid OUT of the pension fund to pay benefits this year — and this number will continue to grow in the future. Currently, the pension trust funds are able to pay for retiree benefits from interest and dividend income. However, within two years — probably sooner — we will have to start liquidating assets (taking capital gains) in order to pay retirees. We will also have to look at our asset allocation plan to make sure that we have the necessary liquidity to pay these benefits. We will have to invest a larger portion of our trust fund assets for the shorter term and we therefore will not enjoy the higher returns associated with longer term investments. Our increasingly negative cash flow directly affects our investment strategy and may have a negative impact on investment returns.'

The good news is that since the Great Recession, the pension funds have rebounded. For the calendar year ending December 31, 2012, the Connecticut Retirement Plans and Trust Funds realized an investment return of 13.47%. Since then, we have likewise seen strong results: as of March 31, 2013, the fiscal year to date return was 12.07%, with the market value of the CRPTF standing at $26.3 billion, up $2.3 billion since the beginning of the fiscal year, while paying out $600 million in pension benefits.

Other positives: as a result of Governor Malloy's initiative and subsequent agreement with the State Employees' Bargaining Agent Coalition, pension plan design changes, and a drop in the actuarial assumed investment rate of return, the State Employees' Retirement Fund's cash flow will improve over a five-year horizon. This, too, was reported in the cash flow projections report, but apparently Representative Cafero forgot to mention it – or maybe he wanted to keep it quiet.

As Treasurer, I am committed to ensuring that the State's investment strategy is on track. As for the State's budgetary challenges – for which the Governor and General Assembly share responsibility – that is another matter entirely. Hard decisions need to be made about incredibly difficult and complex priorities, and the right mix of expenditures and revenues that will position Connecticut for growth. This effort deserves no less than the best from both Democrats and Republicans, and I challenge my Republican friends to rise to the challenge."

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