The Office Of State Treasurer
Denise L. Nappier

Statement

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STATEMENT OF STATE TREASURER DENISE L. NAPPIER ON FUTURE FUNDING OF PENSION PLANS

HARTFORD, CT -- "A heightened focus on the State's unfunded pension liabilities is long overdue. The bold action plan of Governor Malloy and his team -- which calls for a significant restructuring of one of the State's largest pension plans -- is a useful first step toward balancing the interests of the beneficiaries of the pension plans and the State's taxpayers.

While there is considerable merit to a full discussion of this proposal, caution is warranted given what we've seen so far. There are a myriad of investment, legal, actuarial and tax issues with which the State must contend. In addition, any plan must ensure that we honor our commitments to our retirees. That obligation is inviolate.

We should take pause over the apparent departure from a disciplined funding approach to the State's pension liabilities – for current workers and future retirees alike - an approach that only recently was put in place to ameliorate the State's history of inadequate funding of its long-term pension promises. Nor should we take any actions that would adversely affect the bond covenant adopted when pension obligation bonds were issued in 2008 to bolster the Teachers' Retirement Fund.

The Governor and I do agree in principle on one pivotal issue: the need to right-size the investment returns assumptions for the State's largest pension plans. The extent of the change may be subject to debate. But from the Treasury's perspective, we've seen a significant shift in the capital market assumptions going forward and the prospects for returns don't resemble the robust results of the recent past.

Wednesday's action by the Teachers' Retirement Board to lower the investment return assumption to 8 percent is a start, but not enough in my view. The Treasury's analysis suggests that an investment return assumption of 7.5 percent or below would be more in line with what we can reasonably achieve. Clearly, it stands to reason that setting return assumptions at levels more likely to be attained will strengthen the financial health of the funds over the long term. In the meantime, I look forward to the Board revisiting this issue at its next meeting in February.

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So while the Governor is right to be concerned about the projected growth in the State's annual contributions to the pension plans, the sobering reality is that paying less now will absolutely mean paying more in the future -- which is what got us to where we are today, years of putting off today's pension fund obligations for tomorrow.

That is why policy leaders should examine less radical departures from Connecticut's current funding method that could still alleviate the General Fund impact of a spike in pension payments while preserving the core principles of an actuarially sound plan.

Perhaps we might revisit the fixed full-funding goal for the State Employees' Retirement System by adjusting the amortization period – currently slated to end in 2032 – in an actuarially sound way when the plan is funded at 80 percent. This would need to be accompanied by an iron-clad commitment to pay the ARC annually; otherwise our undisciplined behavior in the past might return in the future.

Another example: look to the experience of other plans, such as the Indiana State Teachers' Retirement Fund, which includes a pay-as-you-go component and relies on the State making a statutory minimum payment to the fund. It also has a dedicated revenue stream, buffered by a reserve fund to smooth out the payments by the State. These features are designed to protect against disruptions in payments and to counter the escalating costs states face as workers live longer in retirement.

I stand ready to work with our partners in state government and all stakeholders to address these issues with thorough, solid actuarial analysis to ensure that we have a plan that can stand the test of time."

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