The Office Of State Treasurer
Denise L. Nappier

Statement

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STATEMENT OF STATE TREASURER DENISE L. NAPPIER

"If anything is penny wise and pound foolish, this is it. Governor Malloy's veto of House Bill 5420, *An Act Concerning Principal Investment Officers*, demonstrates a failure to understand the necessity of filling these highly skilled, specialized positions with the best talent available. The General Assembly got it right when the legislation was adopted 144-1 in the House and unanimously in the Senate.

Simply put, the Treasury has had difficulty hiring Principal Investment Officers (PIO) to manage the assets of the State's pension funds because the salary range is too low. Currently, we have just one PIO on pension funds management staff and five vacancies. Highly qualified candidates from other public pension plans of similar size show great interest in working at the Treasury, only to withdraw after learning that the salary range would force them to take a pay cut. We have lost 11 candidates for this reason thus far.

A 2013 compensation survey conducted by an external consultant found that the upper limit of the PIO's compensation range as established by DAS and OPM was well below the median pay at similar public pension funds, and found an even greater gap in comparison to what the private sector offers. This has made recruitment and retention extremely difficult.

Consider this fact: Principal Investment Officers have a relatively short average tenure of 2.6 years as compared with the average tenure of other senior Treasury professionals at more than 20 years. A key driver of the short tenure of PIOs is our inability to retain talent with market level compensation packages.

Nor is the governor correct when he calls for further oversight. In fact, there is no slippage of oversight, considering the role that the bill assigns to the Investment Advisory Council, an independent board. The bill provides that the IAC approve the salary ranges and advise and consent to the appointments of PIOs just as it does for the chief investment officer and the deputy chief investment officer. The IAC is the more appropriate body to work with the Treasury – a constitutional office -- than the state's executive branch agencies because of its knowledge of investing (as required by state law) and familiarity with the management of Connecticut's pension funds. The IAC also has union representation, which should have alleviated the governor's expressed concern about the ongoing negotiations with the public employee unions.

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In addition, it is irrelevant whether the legislature included money for increased state employee salaries in the budget – another reason offered by the governor in his veto message. These positions are not paid out of the General Fund and therefore there is no fiscal impact on the State budget.

The governor is being short sighted. The pension plans are at a critical juncture and, today more than ever, must generate strong investment performance with prudent management in order to meet significant long term liabilities into the future. If the state cannot recruit experienced, seasoned professionals to manage these assets, it becomes more difficult to achieve the level of returns required to meet annual pension obligations. And that may lead to the need for additional state funding from the General Fund."

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