



The Office Of State Treasurer  
Denise L. Nappier

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# News

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## **STATEMENT OF STATE TREASURER DENISE L. NAPPIER ON FUNDING OF STATE EMPLOYEES' PENSIONS**

“The recent announcement of an agreement concerning the funding of the State Employees’ Retirement Fund represents a tangible step forward. Both Governor Malloy’s administration and the State Employees’ Bargaining Agent Coalition (“SEBAC”) are to be commended for developing a thoughtful and well-considered approach. While the broad outlines of the plan appear promising, I look forward to reviewing a comprehensive actuarial analysis concerning the precise impact of this restructuring so that we can fully appreciate its implications.

I also commend my colleague, Comptroller Kevin Lembo, for the reforms he advanced a year ago – most of which are reflected in this agreement.

Several recommendations I made also have been incorporated into the agreement. These include a continued commitment to an actuarially funded plan for all retirees, and upholding the 2032 deadline for paying off at least some unfunded liabilities. And I am also pleased to see that the agreement calls for a more realistic investment return assumption that reflects the capital market environment, as well as a transition to a level dollar methodology.

Having said that, there are elements of the agreement that give me pause and that deserve more scrutiny related to the extension of the time periods for funding the remaining liability as well as new gains and losses. While I support reasonable phase-ins of gains and losses to temper the impact on the State’s yearly pension costs, the use of 25-year phase-ins should be very limited. For example, significant investment losses due to severe downturns in the market, such as what we witnessed in 2008, would be an acceptable phase-in experience. We should not, however, allow benefit enhancements, such as early retirement incentive programs, to be phased in and paid for over such a long time horizon.

The next step – prior to any action by the General Assembly – must be to review the details once they are available. In addition, it will be essential to understand the costs and consequences of extending the post-1983 liabilities to 2046, as well as the new approach of applying gains and losses over additional 25-year periods.

Furthermore, for the sake of protecting the state's credit, we should commence constructive dialogues with rating agencies so that the ultimate reform is judged no less than credit neutral.

Any funding adjustment is only as good as our ability to stick to it. While I recognize that pension reform must balance short term fiscal impacts with long term funding goals, we must insist upon what has been missing from prior approaches to these challenges – an ironclad commitment to funding of the State's actuarially required annual pension contribution.

Connecticut's taxpayers deserve assurance that the undisciplined habits of the past -- of failing to make good on the obligation to fully fund the State's commitments to retirees – will not resume. The General Assembly must legislate its commitment to make the annually required contribution so that future generations of public officials and collective bargaining units cannot repeat the ill-advised funding practices that got us to the place we are today.

Before us is a day long overdue -- to finally begin to address the State's unfunded pension liabilities and adopt a plan that will stand the test of time.”

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