The Office Of
State Treasurer
Denise L. Nappier

Statement

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STATEMENT OF CONNECTICUT STATE TREASURER DENISE L. NAPPIER AT THE TEACHERS' RETIREMENT BOARD MEETING OF FEBRUARY 7, 2018

Treasurer Nappier made the following statement at a meeting of the Teachers' Retirement Board held on February 7, 2018, at which there was discussion of Governor Malloy's proposal to restructure payments into the Teachers' Retirement Fund:

"Sitting at this table with you today is like being with family. Since the day I was sworn in as State Treasurer, I've been quite concerned about the State's approach to funding its long-term liabilities. For the better part of the last decade, we've stood shoulder to shoulder, united in our mission to protect the health of the Teachers' Retirement Fund.

When we forged a plan in 2007 to issue pension obligation bonds, the paramount objective, from my perspective, was instilling the funding discipline that was lacking in the past, and that was necessary to ensuring that the sins of the past were not repeated.

So with the best of expectations, we finalized the transaction. The ink on the deal was barely dry before the downturn of 2008, when the value of the fund took a serious hit. I candidly admit that I've spent more than a few sleepless nights thinking of how that Great Recession impacted the flexibility available to the State in the event of a fiscal crisis.

But I've always taken solace from the existence of the covenant that ran with those bonds, and that ensured that the State would stand by its commitment to pay the actuarially required contribution -- year in and year out -- for as long as the bonds remained outstanding. I believe that were it not for that covenant, there very well may have been temptation for the State to backslide on its commitment.

So it is with a heavy heart that I find that we may no longer see eye to eye on the importance of upholding the bond covenant. The Governor's proposal to restructure payments into the Teachers' Retirement Fund represents a clear breach of that covenant, and I can't stand idly by and simply watch it happen.

I can appreciate that the Governor is trying to come up with a solution to projected growth in future State payments into the Fund. But the plan he proposes will result in a technical default on the pension obligation bonds. I've gone on record countless times that such a breach is not in the best interests of the State, its taxpayers, or the teachers that rely on the fund.

Rather than jeopardize our State's credibility in the financial markets, there is another path forward. We can avoid the doomsday scenario that some have painted, and we can minimize the burden of escalating payments on taxpayers and future generations – all while maintaining a disciplined approach to funding the State's long-term obligations.

The so-called $6 billion spike in payments into the fund? It simply won't happen. First, it was calculated using inconsistent and inflammatory assumptions. Second, after 2025, we can pay off the outstanding pension obligation bonds for a little over $2 billion. At that point the bond covenant would disappear, and the State could then restructure the payment period by extending the amortization schedule for the remaining liability.

Of course, this plan could effectively work only if there is an ironclad commitment to paying what is required into the teachers' fund each and every year. Funding discipline is essential. Without it, we'll be vulnerable to the habits of old that got us into the problem in the first place, with an underfunded, unhealthy pension fund, and soaring long-term obligations.

The Governor seems intent on making changes that risk the State's credit, when what we really need is the discipline to stay on the current path until we can exercise a viable option in 7 years."

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