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TESTIMONY OF ROBYN KAPLAN-CHO, RETIREMENT SPECIALIST, THE CONNECTICUT EDUCATION ASSOCIATION (CEA) CONCERNING SENATE JOINT RESOLUTION No. 4 (SJR 4)

RESOLUTION PROPOSING AN AMENDMENT TO THE CONSTITUTION OF THE STATE TO GUARANTEE FULL FUNDING OF THE CONNECTICUT TEACHERS' RETIREMENT SYSTEM

BEFORE THE COMMITTEE ON GOVERNMENT ADMINISTRATION AND ELECTIONS
MARCH 16, 2007

Good morning Senator Slossberg, Representative Caruso and members of the GAE Committee. My name is Robyn Kaplan-Cho and I am the Retirement Specialist for the Connecticut Education Association.

You may recall that last year, the Wall Street Journal cited Connecticut as having one of the worst (top five (5)) funded public pension systems in the country. This past November, the actuary for the State Teachers' Retirement Board released the June 30, 2006, actuarial report in which it was announced that the Teacher Retirement Fund's (TRF's) unfunded liability had grown from $5.2 billion to $6.9 billion in just two years.

SJR 4 aims to change this course of fiscal distress by providing pension funding protections that are crucial not only to Connecticut teachers as the beneficiaries of the TRF, but also to Connecticut's taxpayers who will be impacted in the future if these protections are not enacted.

Why is a constitutional amendment necessary?

There is no question that supporting an amendment to our state's Constitution is a significant act for this legislature. However, because the current funding requirement found in state statute (C.G.S. section 10-183z(a)) has consistently proven inadequate to ensure the appropriate and sound funding of the TRF, such an amendment is absolutely necessary. That is, despite clear language requiring that the General Assembly "shall appropriate...the amount certified by the retirement board as necessary", the legislature has failed many times to honor this provision. Beginning in 1993 and continuing until 2001, the General Assembly overrode this statutory requirement and budgeted approximately 85% of the actuarially recommended amount. Moreover, even during most of this state's "good years", despite clear bi-partisan proclamations of the importance of appropriate funding, the legislature failed to make the required appropriation. The most recently passed budget finally did include an allocation of the full actuarial amount to the TRF and the Governor's current proposed budget does as well. We would hope that this leads to a positive pattern of funding in the future. But history clearly demonstrates that we cannot simply rely on hope. Rather, a stricter legal standard is necessary to ensure such a result because our current statutory requirement is not enough.

The fiscal impact of this underfunding is sobering: there has been a massive loss of investment opportunity, particularly during those years when the fund's investment returns were substantial. As an example, the State Treasurer took a look at fiscal year 2004 and estimated that by appropriating $85 million less than the required amount, the State lost the chance to earn an estimated additional $822 million over a 29-year period. The reduced appropriation that occurred for FY 2005 denied the State of the opportunity to earn $1.7 billion over a 29 year period. We also need to remember that as the pension liability grows, so does the potential impact on the future taxpayers of CT who inevitably will be left to pay the bill when these debts come due down the road. These future taxpayers are real people: our children and grandchildren. Finally, from a planning-for-the-future standpoint, we need to be concerned that if Connecticut continues to have such an underfunded pension plan, this state will not be able to attract and retain high quality teachers.

Isn't the passage of a constitutional amendment somewhat radical?

No, in fact this resolution would allow us to conform to a national trend of amending a state constitution to include pension funding protections. According to a national study conducted by the National Retired Teachers' Association (NRTA) in 2000, fourteen (14) other states have passed constitutional amendments aimed at guaranteeing appropriate funding. Fourteen (14) states have provisions in their state constitutions requiring that pension funds be used for the exclusive purpose of paying pension benefits, thirteen (13) states have passed amendments preventing the diversion of pension assets, and five (5) states have passed amendments establishing the pension fund as a separate trust. Attachment A provides a brief sampling of the actual language found in other states' constitutions.

Please recognize that the time has come to step up the state's commitment to appropriate pension funding. Through the adoption of Senate Joint Resolution 4, this General Assembly can put an end to years of fiscal irresponsibility and chart a new, more prudent path.

Thank you.

ATTACHMENT A

CONSTITUTIONAL PROVISIONS FOUND IN OTHER STATES

I. EXAMPLES OF PROVISIONS TO SECURE SOUND FUNDING PRACTICES

Arizona

Public retirement systems shall be funded with contributions and investment earnings using actuarial methods and assumptions that are consistent with generally accepted actuarial standards. (Arizona Constitution, Article XXIX)

Maine

Beginning with the fiscal year starting July 1, 1997, the normal cost of all retirement and ancillary benefits provided to participants under the Maine State Retirement System must be funded annually on an actuarially sound basis. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not exceeding 10 years. (Maine Constitution, Article IX, Section 18-a)

Each fiscal year beginning with the fiscal year starting July 1, 1997, the Legislature shall appropriate funds that will retire in 31 years or less the unfounded liabilities of the Maine State Retirement System that are attributable to state employees and teachers. The unfounded liabilities referred to in this section are those determined by the Maine State Retirement System's actuaries and certified by the Board of Trustees of the Maine State Retirement System as of June 30, 1996. (Maine Constitution, Article IX, Section 18-b)

New Hampshire

The employer contributions certified as payable to the New Hampshire retirement system or any successor system to fund the system's liabilities, as shall be determined by sound actuarial valuation and practices, independent of the executive office, shall be appropriated each fiscal year to the same extent as is certified. All of the assets and proceeds, and income therefrom, of the New Hampshire retirement system and of any and all other retirement systems for public officers and employees operated by the state or by any of its political subdivisions, and of any successor system, and all contributions and payments made to any such system to provide for retirement and related benefits shall be held, invested

or disbursed as in trust for the exclusive purpose of providing for such benefits and shall not be encumbered for, or diverted to, any other purposes. (New Hampshire Constitution, Part I, Article 36-a.)

II. EXAMPLES OF PROVISIONS TO PROTECT ASSETS IN A RETIREMENT SYSTEM'S TRUST FUND

Alabama *All of the assets, proceeds or income of the teachers', employees', state police, public and judicial retirement systems of Alabama, or any successor systems thereto, and all contributions and payments made to such systems to provide for retirement and related benefits thereunder, shall be held, invested as authorized by law, or disbursed as in trust for the exclusive purpose of providing for such benefits, refunds and administrative expenses under the management of the boards of control of the aforementioned retirement systems; and none of such assets, proceeds, income, contributions or payments shall be used, loaned, encumbered or diverted to or for any other purpose whatsoever.* (Alabama Constitution, Amendment No. 472)

Arizona *The assets of public retirement systems, including investment earnings and contributions, are separate and independent trust funds and shall be invested, administered and distributed as determined by law solely in the interests of the members and beneficiaries of the public retirement systems.* (Arizona Constitution, Article XXIX)

Maine *All of the assets, and proceeds or income therefrom, of the Maine State Retirement System or any successor system and all contributions and payments made to the system to provide for retirement and related benefits shall be held, invested or disbursed as in trust for the exclusive purpose of providing for such benefits and shall not be encumbered for, or diverted to, other purposes. Funds appropriated by the Legislature for the Main State Retirement System are assets of the system and may not be diverted or deappropriated by any subsequent action.* (Maine Constitution, Article IX, Section 18)