State of Connecticut

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Testimony of Representative Tom Reynolds
Joint Committee on Appropriations
March 5, 2010

H.B. 5106, AN ACT CONCERNING A COMMISSION ON STATE EMPLOYEE PENSION AND POST EMPLOYMENT BENEFIT LIABILITIES

Senator Harp, Representative Geragosian, and fellow members of the Appropriations Committee, I am pleased to submit testimony in support of this proposed bill, which I introduced as part of a package of budget reform legislation to change the state's policies and practices that have helped to create and perpetuate our ongoing fiscal crisis.

This bill would establish a temporary commission to develop a long-term plan for addressing the state's unfunded liabilities for state employee pensions and state employee and teacher retiree health care and other benefits.

Unfunded liabilities represent what the state is obligated to pay in the future in the form of pensions, health insurance, and other benefits for teachers and state employees. Connecticut's unfunded liabilities for pension and other post employee benefits for state employees and teachers now totals $42.6 billion (see table below)—an amount which exceeds our entire biennial state budget.

UNFUNDED LIABILITY	$ LIABILITY	% FUNDED
State Employee Pensions	$9.3 billion	52%
Teachers' Pensions	$6.5 billion	70%
State Employees Post Retirement Health & Life	$24.6 billion	0%
Teachers' Post Retirement Health & Life	$2.2 billion	0%
Total	$42.6 billion	

Source: Office of Policy & Management, as of 9/30/2008

The state has a long-term plan for meeting our obligations to the teachers' pension fund, which has led to the fund now being 70% funded—getting closer each year to the minimum recommended funding level of 80%. However, the state employee pension liability is $9.3 billion and only 52% funded—nearly dead last among all states in the nation.

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Our unfunded liability for "other post-employment benefits" (OPEB) like health and life insurance for teacher and state employee retirees is an astounding $26.8 billion. Again, we rank dead last among all states by funding nothing towards this obligation and depending solely on a "pay as you go" system of meeting our annual obligation for current retirees.

This trend of growing future obligations is simply unsustainable. Given the rising cost of health care, the decline of the stock market, and the adverse impact to the pension fund resulting from the recent SEBAC agreement, it is reasonable to expect these obligations to grow exponentially.

Unfunded liabilities represent claims against future state revenues. We can phase in funding for these obligations now or prepare for the inevitable legacy of ever increasing annual costs for retiree benefits, lower bond ratings and more expensive borrowing, less money for services, higher taxes, and spending cuts.

We must increase annual contributions to the recently established OPEB Trust Fund for health insurance obligations for state employee and teacher retirees using funds from future surpluses. We must adopt a 25-year plan to address the unfunded liability of state employee pensions. We must avoid early retirement incentive programs if they exacerbate the state's pension liabilities.

We must honor existing law which directs budget surpluses to reduce unfunded liabilities (after the maximum threshold in the Budget Reserve Fund is achieved). We must work with the unions to consider more changes to pension and retiree health plans for new hires. We must adopt health care cost containment strategies to reduce OPEB liabilities.

However, none of the above strategies will be advanced without a bipartisan commission dedicated solely to this mission. With representatives from both branches of government, both parties, the unions, and the professional community this commission can propose a long-term plan to the legislature and Governor that will help the state avert the debilitating impacts of the status quo.

Thank you for considering this important legislation.