Commerce Committee
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HB 6583: An Act Concerning Public Employees Benefits Solvency

Testimony Submitted by:

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Good Morning Senator LeBeau, Representative Berger, Senator Frantz, Representative Camillo and distinguished members of the Commerce Committee, my name is Tony Leonardi of Woodbury, Connecticut and I am pleased to appear before you today to speak in favor of House Bill 6583, entitled "An Act Concerning Public Employees Benefits Solvency." The bill before you today allows for the use of a unique mechanism by the State to assist it in addressing a portion of its current fiscal situation, specifically with respect to its obligations to fund the pensions of its employees.

In recent years, many state and local governments, including Connecticut, have encountered a funding crisis in their pension and other post-employment benefit (OPEB) plans for public employees.

This crisis in the states has resulted from many factors, including: the escalation in health care costs; very large losses in the stock market; generous pension and health benefits provided in defined benefit plans; public employees retiring earlier and living longer; and, reduction and postponement of employer contributions to the pension plans.

State employee pension and health plans have accumulated obligations well in excess of assets and current funding, and the mandates of the Governmental Accounting Standards Board (GASB) Rules 43 and 45 requiring the measuring of those liabilities have brought the problem into clear focus. In some cases, like the States of New Jersey, Illinois and California, and of course Wisconsin, the scope of the problem is so deep as to be seemingly insoluble without the complete repudiation of those obligations in a bankruptcy-type proceeding. This is something that I firmly believe the policymakers in this State wish to avoid.

A much more reasonable solution to this problem is the Public Employee Benefit Solvency Program (PEBS) created by Bill Gray, a colleague of mine, as a means of addressing state and municipal unfunded pension liabilities. While it is not a complete solution for all unfunded liabilities, it can serve to reduce or eliminate a material portion of these liabilities in the employee benefit area without creating additional burdens to the taxpayers or to the employees.

The objective of the PEBS is simple: strengthen the Public Employees' Retirement System so that the State can meet its obligations to its employees, while reducing the cost to the State to fund such liabilities, all accomplished without increasing taxes or reducing employee benefits.

As noted, the concept of the program is straightforward: each state employee represents a valuable asset to the State while they are employed, but they also represent a future liability to the pension fund. The concept of the PEBS program is to insure that liability in what is referred to as a "Complete Cost Recovery" design.

Each currently active employee, ages 25-69, that can answer NO to two basic health questions, will be insured for $50,000. We expect that 95% to 97% of active employees in that age group will qualify for the coverage.

Bill Gray invented a "Full Cost of Premium Recovery" policy structure, which ensures that the initial policy death benefit of $50,000 per employee will grow on a guaranteed basis through a special design by (1) the schedule of premiums paid and (2) guaranteed interest of 5% per year on the schedule of premium payments---which are 'distributed' back to the State Retirement Fund at the death of the insured, making the life insurance plan entirely self-funding.

Under the program, the State Pension Fund makes the annual insurance premium payments to the carrier; The State Pension Fund, or a trust within the State Pension Fund, is the owner and beneficiary of a policy on each qualified actively at work employee at time of enrollment. When each insured passes away, the insurance carrier will pay the initial death benefit of $50,000 plus repay the State Pension Fund 100% of the insurance premiums that it paid-in, and 100% of the GUARANTEED annual accrued interest at a rate of 5% per year on scheduled premium payments up to age 90.

Over the life of the program, over $22 billion of death benefit will be paid back to the State. Nevertheless, the program can provide <u>immediate</u> benefits to the State in order to address its budget deficit.

- The present value of those future death benefits equals approximately $6.6 Billion which the State can use to offset and reduce its liabilities to the pension fund; and
- Potential reduction in ARC of over $500 Million per year

It is important to emphasize that the plan outlined above does not require either the State or the employees to reduce the post-employment benefits which were promised or bargained for. Indeed, the plan provides several benefits to both the employees as well as the State. In particular, the benefits for employees include:

- Solvency to the Pension Plan
- Strengthen Plan

- No Cost for Employees
- No Reduction of Benefits
- Benefits Remain Untouched
- Does Not Reduce Employees Insurable Capacity

The benefits for the State include:

- Solvency to the Pension Plan
- Strengthen Plan
- Guaranteed rate of return on the investment by the State Pension Fund

- No Additional Cost
- No Need to Increase Taxes

- Predictable Cash Flow
- Not Market Driven
- Reduced Volatility

- Reduced Required Annual SERS Contributions
- Improve Balance Sheet

The PEBS concept is being examined in many other States throughout the country as an innovative and more than cost-effective means to not only maintain but, more importantly, fulfill those obligations which they have to their respective pension funds without imposing additional burdens on the taxpayer or the employee. Nevertheless, in Connecticut, this innovative and unique mechanism is not available to the policymakers without the passage of HB 6583. I strongly encourage this Committee, as well as the General Assembly, to adopt this legislation so that this unique and relatively risk-free method of fulfilling its pension obligations is available to it.

Thank you for your attention and I would be happy to entertain any questions you may have.