STATE OF CONNECTICUT
OFFICE OF POLICY AND MANAGEMENT

TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE
February 23, 2012

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Office of Policy and Management

Testimony Supporting Senate Resolution No. 4 and House Resolution No. 4

RESOLUTION PROPOSING APPROVAL OF A COLLECTIVE BARGAINING AGREEMENT BETWEEN THE STATE EMPLOYEES BARGAINING AGENT COALITION AND THE STATE OF CONNECTICUT

Senator Harp, Representative Walker and distinguished members of the Appropriations Committee, thank you for the opportunity to offer testimony on Senate Resolution Number 4 and House Resolution Number 4 Proposing Approval of a Collective Bargaining Agreement Between the State Employees Bargaining Agent Coalition (SEBAC) and the State of Connecticut.

These resolutions would implement a key component of one of the major initiatives in the Governor's recommended adjustments to the budget for fiscal year 2013: improving funding for the state's pension fund. As you know, restoring Connecticut to sound fiscal footing has been a priority for Governor Malloy over the past year. One of the most significant unfunded liabilities facing Connecticut relates to the state's pension fund: more than $11.7 billion as of the June 30, 2010 valuation date. Unfortunately, decisions made by past administrations have taken short-term savings at the expense of pushing out liabilities—and payments—many years into the future. If left unchanged, the state's contributions to the retirement fund would reach unsustainable levels—levels that the Governor believes no administration will be able to honor. We believe that the state must make sound investments now that will both improve the level of funding in the near term as well as save the taxpayers of Connecticut money over the long term.

Connecticut's State Employee Retirement System (SERS) is funded today at less than 48 percent. The current payment schedule projects reaching one hundred percent funding in 2032, but defers so much of the contributions that to fully fund the system, the payment in the final year would have to be nearly $4.5 billion – more than four times our current payment. These unmanageable balloon payments in the future would be necessary because the state is losing the opportunity to invest pension funds and enjoy the long-term investment earnings. This is a failed approach and we need to change it.

Accordingly, the Governor has proposed a three-pronged approach to addressing pension funding in order to help prevent a dramatic spike in the state's required contributions and avoid a potential fiscal crisis. The first component of his proposal eliminates the SEBAC

IV and V provisions related to pension funding. The second component would make additional contributions to the pension fund, beginning in FY 2014, on top of the actuarially required payments to the fund. The third component would exempt additional contributions (i.e., those that are beyond the actuarially required amount) from the expenditure cap. As noted before, under the current schedule, in order to reach full funding the state's contributions would be anticipated to grow each year until reaching $4.5 billion in FY 2032. A payment of that magnitude would either decimate funding for schools and other critically important programs or force the state to raise taxes. These choices are simply unacceptable. Under the Governor's proposal, restructuring the payment schedule by eliminating SEBAC IV and V and making additional payments will save the state $5.8 billion in aggregate over the next twenty years, allowing the fund to reach eighty percent funding in FY 2025, and putting the pension system on the road to long-term sustainability.

As mentioned, one of the components of the Governor's proposal involves modifying the SEBAC IV and V agreement provisions related to pension funding. The SEBAC IV and V agreements were adopted in 1995 and 1997 and had the effect of pushing pension contributions out well into the future in exchange for short-term reductions in those payments. The collective bargaining agreement between the state and SEBAC that is before you today eliminates those SEBAC IV and V changes, and will increase the state's annually required contribution to the pension fund by about $123 million in FY 2013, with declining additional contributions through 2023 and with savings beginning to accrue thereafter. The funds to honor this agreement have been included in the Governor's recommended budget adjustments for FY 2013. If this agreement is approved by the Legislature, taxpayers will save more than $2 billion over the next two decades. The cost estimate associated with this agreement, as calculated by the state's pension actuary, is attached to my testimony.

I would like to again thank the committee for the opportunity to present this testimony. I respectfully request the Committee and the General Assembly support these resolutions. With that, I am happy to answer any questions you may have.

Attachment – Cost Estimate

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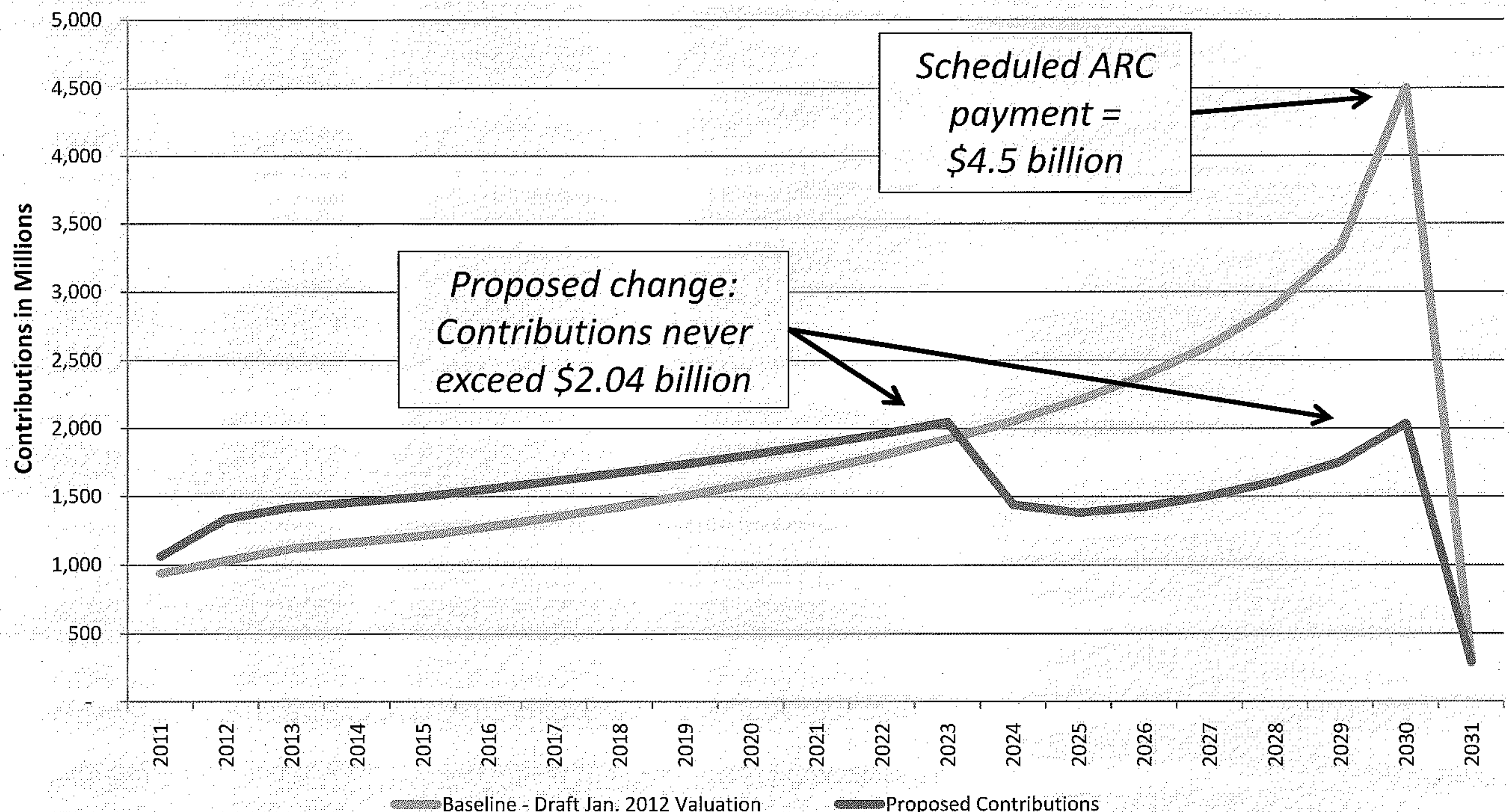
Cost Estimate of Negotiated Agreement Dated February 3, 2012

Valuation year	Fiscal Year	Total Change to Actuarially Required Contribution	General Fund	Transportation Fund	Recoveries from Other Funds
2011	2012	$ -	$ -	$ -	$ -
2011	2013	123,393,000	85,249,879	12,738,106	25,405,015
2012	2014	128,329,000	88,660,068	13,247,659	26,421,273
2013	2015	123,241,000	85,144,865	12,722,415	25,373,720
2014	2016	116,234,000	80,303,862	11,999,068	23,931,070
2015	2017	107,773,000	74,458,318	11,125,622	22,189,060
2016	2018	97,690,000	67,492,165	10,084,734	20,113,101
2017	2019	85,721,000	59,223,010	8,849,150	17,648,840
2018	2020	71,536,000	49,422,863	7,384,804	14,728,332
2019	2021	54,722,000	37,806,390	5,649,062	11,266,548
2020	2022	34,754,000	24,010,878	3,587,725	7,155,397
2021	2023	10,948,000	7,563,765	1,130,184	2,254,051
2022	2024	(17,612,000)	(12,167,796)	(1,818,122)	(3,626,082)
2023	2025	(52,194,000)	(36,059,843)	(5,388,091)	(10,746,066)
2024	2026	(94,630,000)	(65,378,069)	(9,768,844)	(19,483,087)
2025	2027	(147,722,000)	(102,058,323)	(15,249,638)	(30,414,039)
2026	2028	(216,076,000)	(149,282,803)	(22,305,958)	(44,487,239)
2027	2029	(308,091,000)	(212,854,218)	(31,804,850)	(63,431,932)
2028	2030	(441,614,000)	(305,102,722)	(45,588,696)	(90,922,582)
2029	2031	(665,487,000)	(459,772,324)	(68,699,554)	(137,015,122)
2030	2032	(1,464,442,000)	(1,011,755,153)	(151,177,277)	(301,509,570)

NOTE:
This cost estimate is based on a preliminary actuarial valuation that is anticipated to be adopted by the State Retirement Commission in Feburary, 2012. As such, this estimate is based on current actuarial assumptions; actual pension savings will be based on revised valuations in future years.

State Employees' Retirement System

Revised Pension Contribution After Eliminating SEBAC IV & V And With Additional Fixed Contributions Beyond ARC



Achieves 80% funded ratio by 2025, and 100% by 2032