



## State of Connecticut

### SENATE

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Senator Prague, Representative Zalaski, Senator Guglielmo, Representative Rigby, and distinguished members of the Labor and Public Employees Committee,

I am State Senator Michael McLachlan, and I am here to testify in regards to *House Bill 5313: An Act Creating a Task Force to Study a State-Administered Pension Fund for Employees in the State.*

While this bill would create a task force to study a state-administered defined benefit plan for employees of employers in the state, I want to point out what it does not do.

What this bill does not do is address the elephant in the room, and that's Connecticut's unfunded liabilities.

To put it plainly, our liabilities here in Connecticut are like a sleeping cancer. That cancer is growing each day. It will affect our children and our grandchildren through higher and higher taxes.

It is impacting us right now.

Connecticut ranks among the top three states in a category we do not want to be in. That category is largest unfunded liabilities, ranked in proportion to population.

How big is our burden? It's about \$11.7 billion. That liability caused Moody's Investor Services to downgrade the state's bond rating in January.

As of the latest adopted valuation, Connecticut's pension fund holds less than 45% of the money it needs to meet its obligations to state employees (\$9.3 billion in assets compared with \$21 billion in obligations). Actuaries and ratings agencies typically cite a ratio of 80% as fiscally healthy.

The news of the downgrade prompted Governor Malloy to set a goal of increasing the state's annual contribution to the pension system over the next 20 years, but setting goals is not enough, and increased contributions must not come at the expense of higher taxes or increased government spending.

Because I felt we could no longer ignore the elephant in the room. I have joined other legislators in proposing cost-saving pension reforms for state employees hired on or after July 1, 2012.

The reforms include:

- **Removing pensions from the scope of collective bargaining agreements.** Connecticut is one of few states that negotiate with their employees over pensions. Our neighboring states have taken tough steps to reform pensions and none of them include pensions in collective bargaining. Reforms in Rhode Island and New York include a move away from expensive defined benefit plans toward less expensive 401 (k) plans like those the Connecticut senators are proposing. In November, Rhode Island passed sweeping pension reforms including adopting a hybrid 401 (k) plan, and New York Governor Andrew Cuomo

pension reforms including adopting a hybrid 401 (k) plan, and New York Governor Andrew Cuomo recently proposed to offer 401 (k) plans to New York state employees as part of a comprehensive pension overhaul.

- **Enrolling new state employees in 401 (k) plans, rather than the defined benefit plans.** 401 (k) plans will provide a good retirement for our state workers at about half the cost to taxpayers of our current pension system. 401(k) s will also allow state workers more flexibility in planning their retirements and the plans are portable.
- **Ending the practice of “padding” state employee pensions with overtime and longevity pay.** We can fundamentally change this unsustainable pension system and eliminate the loopholes that allow state employees to unfairly pad their retirement income at taxpayer expense. Those loopholes include using overtime and longevity pay in pension calculations, rather than simply taking an average of an employee’s base pay. For example, Connecticut currently pays 376 retired state workers annual pensions of more than \$100,000. Our plan would eliminate these loopholes for future state employees. When my constituents learn about pension padding and the fact that hundreds of state employees earn six figure pensions when many of them are struggling to make ends meet, they are appalled. They feel that there is a government class and then there is everybody else.

In many ways, Connecticut’s pension problem is state government’s dirty little secret. It is past time we shine some light on it. Left unchecked, our unfunded pension liabilities will have disastrous consequences for taxpayers.

For the reasons cited above, I am disappointed that the bill before you does not address the real issues we face as the policy makers of this state.

I strongly urge the committee to vote against House Bill 5313.

Thank you for the opportunity to testify.