INSURANCE & REAL ESTATE COMMITTEE

HOUSE BILL No. 5015 AN ACT CONCERNING STATE EMPLOYEES PENSIONS SOLVENCY

Testimony of Rep. Jeff Berger: IN SUPPORT OF HB 5015 6611

Senator Crisco, Representative Megna, and Members of the Committee, as state employees ourselves, we have a strong interest in the solvency of the state pension plan, and as representatives of taxpayers across the state, we have an equally strong interest in the efficient funding of the state's pension obligations.

As you all know, CT ranks about 4th among states (depending on which recent year you look at) in state debt, about 2nd in unfunded liabilities per capita (these being pensions and other post-employment benefits or "OPEB"). These are not rankings where we can be proud to be leading the country! Our pension obligations for state employees are only about 48% funded. And Our OPEB obligations of about $18 billion, are less than 1% funded! In total, we have unfunded pension and OPEB liabilities of about $40 billion.

This problem is not new, but is certainly coming into sharper focus as GASB accounting standards are put into effect and require more realistic valuations of unfunded liabilities as well as better funding of them. Failure to address this issue will affect our financial ratings, which will, in turn, affect our interest rates for borrowing.

Unfortunately, we are trying to address this looming problem at a time when our budget is severely strapped already, so we cannot just raise taxes or cut other programs in order to divert funds into our pension obligations.

Many states, including CT, have tried issuing POBs (pension obligation bonds) in past years, to borrow money and turn around to invest it, on the assumption we could earn more in the market than it costs us to borrow the money. A January 2013 article in Governing Magazine stated that "many economists view them as risky gimmicks…those (POBs) issued in the latter years of the 1990s or 2000 were in negative territory even before the 2008 crash. … After 2008, (virtually) all POBs were underwater…" The article singled out CT for its $2.28 billion POB, noting that "CT's timing could hardly have been worse." Given the now-sour view of POBs, we can hardly pursue that approach again!

As Rep. Larson and I explored ways to address our grim situation, we learned of some alternatives using life insurance as a funding mechanism. We listened to complex presentations, and studied variations on the approach. Some require some up-front funding and some can be structured to require no up-front funding. Some involve life insurance written on current employees and some on retirees. All of the proposals seemed to hold the potential to significantly improve our pension and OPEB funding situation. Folks representing the companies that offer these products will be here to testify and can describe these investment instruments in great detail.

However, these proposals are very complex and not yet widely tested in the government sector. Valid questions were raised about such issues as whether the state has a legal "insurable interest" for purposes of writing life insurance on employees or retirees and whether there are "non-discrimination" issues. These questions cannot be definitively answered by us as legislators, but require a legal analysis, which we believe will support the use of such products in at least some circumstances.

Not wanting to give up on a full vetting of these options, if indeed they can help us find a way out of our financial problems, we have drafted a bill that calls on the experts in our state (the Treasurer, the Insurance Commissioner, and CT State Employees Retirement Commission) to issue an RFI to solicit various proposals for funding our pension obligations. In addition the bill would call on the appropriate entities (such as the Insurance Commissioner & Attorney General) to answer some of the legal questions we encountered in our exploration of the options.

By calling on our state's experts to fully examine the options and use empirical parameters to compare their effectiveness to baseline options, such as investing in the market, then we feel we will have a fair and competitive process for selecting the best approach.

The bill requires this process to be completed before the next session starts, so that any necessary legislative implementation language can be submitted and acted upon next session.

This is more than a "study bill," in that it requires action that can move us down the path towards better pension funding and a more secure future for both our retirees and our tax payers. However, it does not take precipitous action, and rather requires a careful and analytical evaluative process.

I urge your support.

Rep. Jeffrey Berger