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TESTIMONY OF ROBYN KAPLAN-CHO, RETIREMENT SPECIALIST THE CONNECTICUT EDUCATION ASSOCIATION (CEA)

AN ACT CONCERNING THE STATE BUDGET FOR THE BIENNIUM ENDING JUNE THIRTIETH 2017 RELATED TO THE STATE TEACHERS' RETIREMENT BOARD (STRB)

BEFORE THE APPROPRIATIONS COMMITTEE MARCH 3, 2015

Good evening Senator Bye, Representative Walker, and members of the Appropriations Committee. My name is Robyn Kaplan-Cho and I am the Retirement Specialist for the CEA, representing over 37,000 active teachers and over 5,500 retired teachers who are members of the State Teachers' Retirement System.

At the outset, I would like to express CEA's support for Governor Malloy's full actuarially recommended appropriation to the teachers' retirement fund. This continued commitment to fiscal prudence combined with improved investment returns should put the pension fund on the path to long-term sustainability.

However, the Governor's budget proposal provides a reduced appropriation to the retired teachers' health insurance fund. As you know, state statute requires that the state contribute 33 percent of the cost of the STRB health subsidy and Medicare supplement plan. The budget before you provides only 15 percent.

CEA has addressed this Committee many times before, consistently asking that the full statutory amount be appropriated. This year, it is even more imperative that you do so, as we are on the cusp of creating a legal trust for the retired teachers' health insurance fund, with the assistance of State Treasurer Nappier, that would finally provide the structure for long-term funding and stability. The proposed funding level of 15 percent absolutely prevents the trust from being launched and allows the year-to-year instability and potential for insolvency to continue.

As you may know, the state's actual contribution to this fund has been consistently below the required amount. In 2010 and 2011, the State contributed $0 to the retiree health fund. In 2012, it contributed its required amount. Our last state budget reduced the state's contribution to 25 percent rather than the required 33% level. In actual dollars, the Governor's current proposal means that there will only be $34 million in the health fund ten years from now, rather than over $330 million that would result from providing the statutorily required amount.

The history of this retiree health fund evinces intent to set up a fund that would be sustained primarily by contributions from active and retired teachers but would also have a committed appropriation from the state. The reality is that active teachers have contributed the lion's share to this fund, followed by retired teachers. In fact, 41 percent of the cost of the retiree health insurance program is borne by active teachers' contributions. But, at the rate we are going, the fund will not be there for them when they are ready to retire. This is exacerbated by the reality that the number of retired teachers is increasing while the amount of active teacher contributions to the fund is decreasing. In short, all of the active teachers' retiree health fund contributions are being spent by current retired teachers.

Yet, faced with the potential bankruptcy of this fund in the next several years, the State Teachers' Retirement Board took the responsible step over the last year and a half of convening a work group to try to create a long-term solution to this funding debacle by considering ways to lower the cost of the plan and the feasibility of creating a health trust that could begin to chip away at the unfunded liability which currently stands at $2.4 billion. As of this past January 1st, The STRB implemented a new prescription drug plan which has resulted in significant savings. The intent was to use those savings, along with the <u>full</u> contributions expected to be received from the three partners to the fund – active teachers, retired teachers and the state - to begin funding the trust. That trust could finally be invested over a longer investment horizon yielding a moderate return, as opposed to the current minimal return generated from being in the short-term investment fund (STIF). Moreover, the STRB health consultant told the work group that the unfunded (OPEB) liability of the trust would be significantly decreased, which is the ultimate goal that we all share.

Unfortunately, by reducing the state's appropriation over two years by over $30 million, the Governor's budget is forcing the fund to remain a pay-as-you-go fund with no hope whatsoever of reducing its unfunded liability. This pattern of merely funding enough of the cost to keep the fund afloat for the next few years is simply short-sighted and fiscally unsound. As we recently learned from the long-awaited news that the state's cost for the teachers' pension fund is finally decreasing, proper funding ultimately saves the state money because ***when the proper amount is appropriated, the cost to the state actually goes down.*** The result is that active and retired teachers feel more secure in their retirement system and the state spends less. That is truly a win-win.

This Committee has the ability to restore the 33 percent funding and in so doing, you will allow the retiree health trust to be launched and the long-term liability of the trust will begin to decrease.

Please modify the current budget and restore the 33 percent contribution to the retired teachers' health insurance fund. Thank you for your time and consideration.