AFT Connecticut
A Union of Professionals

Testimony of
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Appropriations Committee Hearing
March 4, 2016

HB 5418 AN ACT CONCERNING ESTABLISHING THE ANTICIPATED RATE OF RETURNS FOR INVESTMENTS IN STATE RETIREMENT PLANS

Good evening Senator Bye, Representative Walker, Senator Kane, Representative Ziobron and members of the Appropriations Committee. My name is Jan Hochadel and I am the President of AFT Connecticut, a diverse state federation of more than 90 local unions representing more than 30,000 public and private sector employees. They are participants in the State Employee Retirement System (SERS), the Teachers' Retirement System (TRS) and the Municipal Employees Retirement System (MERS). It is on their behalf that I appear before you to today to testify on HB 5418.

HB 5418 would remove authority from the State Employee Retirement Commission and the Teachers' Retirement Board to set anticipated rates of return and move it to the Investment Advisory Council. It is unclear how this would make any meaningful difference in the way pension investments are made or how anticipated rates of return are set.

The real pension concern among public employees are the unfunded liabilities that resulted in Connecticut's failure to pay what it promised. As of 2014, SERS was approximately 42% funded and TRS was 59% funded with a total unfunded actuarial accrued liability of about $25.7 billion. These shortages can largely be attributed to failure to prefund on the part of the state. SERS began in 1939, but benefits were not prefunded until 1971. Before then, benefits were paid from the general fund. When the state did begin prefunding, they did so at inadequate levels. Even when the state paid more of its required contribution after 2000, it was not enough to cover benefits and pay down the unfunded liability. TRS was not prefunded before 1982 and then, like SERS, contributions were less than required. Unlike SERS and TRS, MERS is well funded at over 90% and is an example of how solvency can be achieved when both the employer and employees contribute as required.

State Comptroller Kevin Lembo has offered a prudent, responsible plan to move SERS towards the more stable position enjoyed by MERS. Comptroller Lembo's proposal has the potential to reduce the volatility of future payments to the pension fund and create a more manageable schedule for paying down the unfunded liabilities. It would extend the current amortization period, lower the investment return assumptions and change the methodology for amortizing gains and losses based on variations between actual and assumed experience. It is a traditional approach rooted in actuarial best practices and create a clear path to paying off past obligations. This is the more comprehensive direction in which we should be focusing our attention and efforts.

I urge you to take no action on HB 5148 and instead support Comptroller Lembo's plan. Thank you for the opportunity to testify. I'd be happy to answer any questions you may have.