Testimony Regarding the Report of the Commission on Fiscal Stability and Economic Growth

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Appropriations Committee, Commerce Committee, Finance, Revenue and Bonding Committee, and Planning and Development Committee
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Distinguished members of the Appropriations, Commerce, Finance, Revenue and Bonding, and Planning and Development Committees:

My name is Alexandra Schluntz, and I am a Yale Law School student. Thank you for the opportunity to testify today as a member of the Yale Law School Legislative Advocacy Clinic.

Tasked with proposing solutions to the state's long-standing economic and fiscal problems, and given only a few months to do so, the Commission's final report includes helpful recommendations on transportation and a careful analysis of the restrictive fiscal restraints and bond covenants contained in last year's state budget, which will hopefully lead to legislative action.

However, **we urge the Legislature to reject the recommendation to remove collective bargaining powers with respect to defining fringe benefits, including pensions, for new state employees.** This recommendation threatens to distract lawmakers from a more pressing challenge of balancing the state's long-term finances, a challenge that the collective bargaining proposal does not solve.

It is true that Connecticut's pensions are underfunded. The State Employees Retirement System (SERS) alone needs to compensate for an unfunded liability of $21 billion over the next several decades. Annual contributions to SERS have increased from $720 million in FY 2010 to $1.5 billion in FY 2017, and these payments are likely to increase for at least the next several years. However, **collective bargaining did not cause this problem. Rather, the unfunded liabilities arose from a failure to save**: for decades, the state failed to make adequate contributions to the pension fund. Connecticut only started making full actuarially required payments in 2013 and the SERS funded ratio remains a paltry 38.1%, far below the nationwide median funded ratio of 71.1%. Notably, similar problems face the Teachers' Retirement System (TRS), which is *not* a product of collective bargaining.

The vast majority of those unfunded liabilities stems from benefits owed to employees who are already retired or are close to retirement. Of the roughly $21 billion in unfunded SERS liabilities, $15 billion is attributable to Tier I hires, those hired before 1984. The state now fully funds newly accrued pension benefits as they are earned—but the historical debt still weighs down the pension funds. The service costs of funding benefits for current employees made up just 31 percent of the actuarially required contribution for 2017; any reduction to benefits for future employees cannot impact the remaining 69 percent.

Efforts to identify savings through further reductions for future employees are not likely to yield significant results. The 2017 SEBAC agreement, itself the product of collective bargaining, yielded a new tier of state employees with higher employee contributions than prior plans paired with lower benefit levels. These changes resulted in the largest labor savings in Connecticut's history, with a cumulative total of $24 billion cut from future wages, active employee healthcare, retiree healthcare, and pensions. As a result, the average state employee hired since July of last year will likely make an average of $28,000 per year upon retirement, after committing 6.5% of their annual salary throughout their employment to that plan. This puts Connecticut's estimated per-employee payout behind every other Northeastern state except Rhode Island, with annual employee contributions also above the Northeast average. **Even if Connecticut does identify savings in future employee plans, the cuts would barely impact the state's unfunded liabilities—since the vast majority of those liabilities stem from benefits owed to Tier I employees.**

As for unfunded retirement benefits owed to vested members, including Tier I employees, such benefits retain their constitutional protections regardless of any changes to collective bargaining. Connecticut courts have found that property law protects public pension benefits. These benefits are also likely to be protected by even more stringent contract law. **As a result, the proposed restrictions to collective bargaining will not enhance the state's ability to unilaterally alter benefit plans that were already established through negotiation.**

Looking ahead, Connecticut still faces a long road to fiscal stability. Successfully navigating these challenges will necessitate creativity, open-mindedness, collaboration, and decisive action. Unilateral legislative restrictions to state employee collective bargaining would do little to address those problems. Rather than devoting legislative time to such a controversial proposal that promises little in the way of savings to the state, we would urge the legislature to focus on developing a clear and compelling long-term vision for our state, including strategic investments in education, healthcare, and transportation infrastructure that would encourage the type of economic growth that has eluded our state for so long.

Thank you for this opportunity to testify. Please feel free to contact me if you have questions or would like additional information. You can reach me at alexandra.schluntz@yale.edu.

Appendix

Table 1: Comparison of Pensions for Newly Hired State Employees in Northeastern States

State	*Employee Contribution*	*FAS Period (number of highest paid years)*	*Formula Multiplier*	*Estimated Annual Pension*
Connecticut[1]	6.5% (plus 1% to DC plan)	5	1.3%	$28,275 (plus DC plan benefits)
Maine	7.65%	3	2%	$45,000
Massachusetts[2]	9% (+2% of salary above $30,000)	5	2.2%	$47,850
New Hampshire	7.67%	5	1.52%	$33,060
New Jersey	7.5%	5	1.67%	$36,323
New York[3]	3 to 6%	5	2%	$43,500
Pennsylvania[4]	6.25%	3	2%	$45,000
Rhode Island[5]	3.75% (plus 5% to DC plan)	5	1%	$21,750 (plus DC plan benefits)
Vermont	5.1%	3	1.67%	$37,575

[1] CT's Tier IV employees' DB contributions may also be increased up to 2% more if the pension fund underperforms actuarial assumptions in the previous year. Employee contributions will increase 0.5% on 7/1/19.

[2] MA's 2.2% formula multiplier is limited to employees who are age 65; see: http://www.mass.gov/treasury/docs/retirement/retguide2016.pdf.

[3] NY's employee contribution rate increases for employees who earn more (the rate for a $90,000 salary would be 5.75%). The 2% formula multiplier is limited to employees with more than 20 years of service (see: https://www.osc.state.ny.us/retire/publications/vo1530/about_your_membership/rs_membership.php).

[4] PA's employees can opt to contribute 9.3% of their salary in return for a 2.5% formula multiplier.

[5] RI's employees must contribute an additional 5% to a DC plan. The formula multiplier for RI employees is 1% for service years after 7/1/2012 (see https://d10k7k7mywg42z.cloudfront.net/assets/4f2feb51dabe9d2cb600fa49/final_rirsaguide_january2012.pdf).

Source: Office of Legislative Research