



TREASURER SHAWN T. WOODEN
TESTIMONY SUBMITTED TO THE APPROPRIATIONS COMMITTEE
MARCH 26, 2021

Senator Osten, Representative Walker, Senator Miner, Representative France, and distinguished members of the Appropriations Committee, thank you for the opportunity to submit testimony in support of **S.B. 1081 An Act Concerning the Interest Rate Relating to Teachers' Retirement System Cost-of-Living Allowances and Reserving Certain Lottery Fund Revenue for the Connecticut Teachers' Retirement Fund Bonds Special Capital Reserve Fund**, **H.B. 6661 An Act Concerning the Establishment of a Financial Literacy Trust Fund**, and **H.B. 6662 An Act Declaring Racism as a Public Health Crisis and Establishing the Commission on Racial Equity in Public Health**.

S.B. 1081 An Act Concerning the Interest Rate Relating to Teachers' Retirement System Cost-of-Living Allowances and Reserving Certain Lottery Fund Revenue for the Connecticut Teachers' Retirement Fund Bonds Special Capital Reserve Fund

The bill before you has two components. The first section of the bill aligns statutory thresholds for pension fund performance and cost of living allowances (COLAs) for retirees with the System's recently lowered assumed rate of return. The second section reconciles conflicting provisions authorized through the State's biennial budget with respect to potential lottery revenues and the securitization of outstanding pension obligation bonds.

Teacher's Retirement COLAs are tied to Social Security cost of living adjustments and are meant to coincide with each other, with a further adjustment based on investment returns. This adjustment for investment performance has been in place since 1992 and affect two classes of retirees – those retiring before 2007 and those retiring after 2007. Under current law, teachers who retired before 2007 may received a maximum COLA of 6% if our returns exceed 8.5%. For retirees after 2007, the maximum COLA is 5%, so long as returns exceed our assumed rate of return by three percent.

It is important to note that the Fund's performance in no way guarantees larger COLAs for our retirees. Rather, by law, COLAs must coincide with cost of living adjustments through Social Security. Since 2010, the Social Security cost of living adjustments was greater than 3% only once, with average increases of 1.4% and three years in which there were no increases. As such, no retiree within our own system has received a maximum COLA of 5% or 6%, depending on their date of retirement, at any point since this policy was enacted. Rather, COLAs have only exceeded the statutory minimum 5 times during this time.

On June 5, 2019, the Teachers' Retirement Board (TRB) lowered the Fund's assumed rate of return from 8.0% to 6.9%. By lowering the assumed rate of return, our investment strategies will no longer be aligned with reaching or exceeding 8% returns, and thus the likelihood that annual returns will exceed 8.5% has significantly decreased. The TRB previously lowered the assumed rate of return first, from 8.5% to 8%, but the legislature never made corresponding changes to the statutory thresholds on maximum COLAs.

In speaking with the Fund's actuary, the evaluation of the fund does not consider the statutory thresholds. Rather, the analysis looks at the fund over the long-term, anticipating static growth based on inflation. It is our conclusion that lowering these thresholds will have no impact on actuarial assumptions and therefore no impact on the State's contribution to the fund, its future liabilities, or the calculation of its funded ratio.

For me, this proposal restores fairness to our Teachers' Retirement System. It restores our historic approach to the handling of COLAs by adjusting statutory thresholds to account for changes made in our assumed rates of return. The proposal provides a degree of generational equity to our current retirees without additional risk to the State, and without an increase to our bottom line.

Section 2 of the bill addresses conflicting provisions within the FY 20/21 budget. Public Act 19-117 pledged lottery revenues to refill a special capital reserve fund established to secure outstanding pension obligation bonds related to the Teachers' Retirement Fund. This provision was essential to the restructuring the Fund to avoid future funding spikes and allow for the lowering of the assumed rate of return. Within the same adopted budget, a conflicting section established an account to finance debt-free community college, using future lottery revenues from mobile or online lottery draw games (iLottery). The proposed technical change makes clear that those online lottery revenues are legally first pledged to refill the reserve fund.

It is important to me that we clearly state the high unlikelihood that our reserve funds will ever be drawn upon and therefore it is extremely unlikely that lottery revenues would be needed to refill our reserves. But it is my position, and the position of our Bond Counsel, that our statutes clarify that the reserve fund has first call on potential iLottery revenues. I ask that you keep this in mind, not just as contemplated in this bill, but when considering the establishment of any new lottery revenues moving forward.

H.B. 6661 An Act Concerning the Establishment of a Financial Literacy Trust Fund

This bill creates a trust fund to support financial wellness programs across the state. The fund is administered and managed by my office and can accept private contributions as well as public appropriations.

According to a nationwide survey, Connecticut has a failing grade for providing its students with the financial knowledge they need to succeed. In fact, more than 1 in 6 students in the U.S. fail to reach the baseline level of proficiency in financial literacy, leaving them without a foundation to make strong financial decisions in their life.

I have advocated for the inclusion of financial literacy as a graduation requirement and testified on my own proposals before the Education Committee the last two sessions. While I remain steadfast in my belief that requiring financial literacy in school is the correct path forward, I also believe that we should support local programs within communities that are already doing this important work. Through this fund, I can utilize my unique relationships with Wall Street and financial institutions to direct resources to these programs. The fund would be managed as part of the Connecticut Retirement Plans and Trust Funds (CRPTF) and generate returns over time. The Treasurers of Massachusetts, Vermont, and Arizona have similar funds that their offices administer to support financial wellness programs in their states.

I urge the committee to act favorably on H.B. 6661 and create a framework so that we can support financial wellness programs across the state.

H.B. 6662 An Act Declaring Racism as a Public Health Crisis and Establishing the Commission on Racial Equity in Public Health

As we approach the one year anniversary of the murder of George Floyd, and the racial reckoning his death sparked across the country, I am encouraged by the work that the General Assembly is doing to address the racist systems and institutions that continue to impact the lives of people of color in our state.

One of the ways this racism manifests is through disparate measures and outcomes in health for Black and white individuals. The pandemic exacerbated this inequality, and highlighted the way in which systemic racism in public health is literally a life and death issue. Reports show that Black counties have three times the rate of infections of

COVID-19 and six times the rate of deaths caused by the virus compared to white counties.¹ According to the Centers for Disease Control (CDC), people of color have been disproportionately affected by COVID-19 because of inequities in the social determinants of health, like poverty and healthcare access.²

We know that systemic racism impacts health outcomes, but studies have also shown that experiencing racism in and of itself has an effect on your health. Negative police interactions in particular have been shown to cause harm and stress, which in turn can negatively affect the mental health of those directly and indirectly experiencing such interactions.³ Compounding these issues is an underlying distrust of the medical community, which is caused by a disturbing history of discrimination.

All of this makes clear that racism is indeed a public health issue, and should be declared a public health crisis. Racism and health are intertwined, and this bill is an important step forward in understanding the full impact of racism on health and how these trends can be reversed.

I thank the committee for introducing this bill, and urge you to act favorably.

¹ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7375320/>

² <https://www.cdc.gov/coronavirus/2019-ncov/community/health-equity/race-ethnicity.html>

³ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7375320/>