State of Connecticut

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Editor
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To the Editor:

Connecticut continues to face challenging economic forces, and we now are paying the piper for years of underfunding our long-term pension liabilities. But policymakers across our State are making measurable progress with this very real challenge. *The Wall Street Journal* missed a valuable opportunity to portray a more complete assessment of Connecticut's fiscal health in its article, *Connecticut, America's Richest State, Has a Huge Pension Problem* (October 5, 2015).

First, the demand for Connecticut bonds was mischaracterized. Indeed, we continue to enjoy robust demand for our bonds and at favorable rates. In August, a competitive sale of general obligation bonds attracted numerous bids, and resulted in the lowest overall interest cost for similar State sales since March. And just last week, a successful special tax obligation bond sale for transportation improvements drew historic levels of demand from investors.

Second, with respect to the State's ability to meet its pension obligations, Connecticut has significantly strengthened its commitment to pay what is actuarially required to fully fund its two largest plans – which represent the bulk of the unfunded liabilities -- inside of roughly twenty years. That there is a plan in place should not be mistaken for "complacency about fiscal problems" as the article suggests. As State Treasurer, I've often stood alone in offering the sternest criticisms of past administrations, urging them to reverse the trend of sporadic funding. But today, I can honestly say that there finally is real progress toward a better funding ratio for our pensions -- for the benefit of not only retirees, but also taxpayers.

For the Teachers' Retirement Fund (the largest of Connecticut's pension plans), 100 percent of the actuarially required payments are "deemed appropriated" and are not subject to legislative whim. It is, without question, on a path to full funding. There is a similarly disciplined plan for the State Employees' Retirement Fund, for which there is a collectively-bargained agreement negotiated by Governor Malloy that eliminated a provision allowing reduced annual pension contributions and costing millions of dollars in lost investment opportunity. Connecticut has scored a home run given its binding commitments, as compared to many of our pension fund peers. It also bears noting that by fully funding the annual required contribution, Connecticut will avoid increasing liquidity requirements to pay monthly pension benefits and enjoy the higher returns associated with longer term investments.

With that said, a comment on the article's proposition that Connecticut's unfunded liabilities are due, in part, to "a subpar investment record." Over the past fifteen years, according to a 2014 peer analysis by Wilshire Trust Universe Comparison Service, the Connecticut Retirement Plans and Trust Funds ("CRPTF") outperformed the median return, and did so with a lower risk profile than the average plan. More importantly, during this same period, CRPTF exceeded its benchmark, a more meaningful and relevant measure of relative performance. So, Connecticut's investment program continues to be a reliable source to help the State pay pension benefits, in good times and bad, despite historic market volatility and considerable uncertainty.

In the final analysis, the fiscal health of Connecticut's pension funds will be measured by more than a static calculation of funded ratio. The added assurance of full funding of the State's annual commitment is no less significant, particularly during an era of great fiscal stress when full funding may otherwise be in jeopardy.

Sincerely,

Denise L. Nappier

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