SENATE BILL 873
AN ACT STABILIZING THE TEACHERS' RETIREMENT FUND

Summary of Proposal:

Finding a solution to the state's pension liabilities is one of the Governor's top priorities. This proposal reflects three core principles that form a foundation for restructuring how the teachers' pension system is funded. First, the state will keep its promises to investors in our bonds. Second, the state will abide by a statutory bond covenant by providing adequate provision for bondholders in order to access the flexibility available in re-setting the amortization schedule. Every facet of this solution is consistent with the provisions of the bond covenant and the advice previously provided by the state's bond counsel. Third, it addresses a long-standing concern of the major credit rating agencies by instilling greater flexibility in the repayment of our long-term obligations. It also adopts a more realistic investment-return assumption (6.9% instead of 8.0%) in line with capital market expectations. Finally, this more realistic investment return assumption will be in sync with the pension funds' strategy for investing without taking on undue risk.

Reason for Proposal:

This proposal allows the state to revise the actuarial factors and assumptions governing the calculation of contributions to the Teachers' Retirement System.

Significant Impacts:

This proposal is expected to result in budgetary savings totaling $183.4 million in FY 2020 and $189.4 million in FY 2021. The contribution to the Capital Reserve Fund will reduce the FY 2019 surplus by $380.9 million, although the reserve fund balance will remain available to offset future debt service costs.

Section Details:

Sec. 1 establishes a Teachers' Retirement Fund Bonds Special Capital Reserve Fund which shall serve the purpose of securing the payment of the principal and interest for the Pension Obligation Bonds (POBs) issued in 2008, and to provide adequate provision for the protection of the holders of such bonds, to allow the state to change the amortization methodology for the Teachers' Retirement Fund. The funds will only be used in the unlikely event that the state otherwise failed to make its debt payments to the POB holders. If the amount in the fund is less

than is necessary, transfers will be made from lottery revenue that would otherwise have gone to the general fund.

Secs. 2-4 allow lottery revenue, if needed, to be transferred to the new reserve fund.

Sec. 5 transitions the amortization methodology for the Teachers' Retirement System from level percent of payroll to level dollar over a five-year period.

Sec. 6 replaces the existing amortization schedule with a new 30-year schedule, and allows future gains or losses to be amortized over new 25-year periods.

Sec. 7, subject to the approval of the TRB, revises the 6/30/2018 valuation with the new actuarial assumptions noted above and to adopt a return assumption of 6.9% and to adopt a credited interest assumption not greater than 4%.

Sec. 8 appropriates $380.9 million in FY 2019 to the fund.