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OP-EDS

State treasurer: The reckoning has come. It's time to restructure the debt.

By Shawn T. Wooden

The state budget issues under consideration at the Capitol are not so different from the budget decisions that Connecticut families make every day.

It's a recurring discussion of trade-offs: How much is necessary to meet current expenses? To pay off old debts? Should we pay down the mortgage or the credit cards? And how much should we save and invest for the future?

To be sure, the scale of these trade-offs in the state budget is greater. But the fundamental questions are the same: how do we balance the needs of the past, present and future, and how much of that burden is fair for current and future generations of taxpayers to shoulder?

A story by the Connecticut Mirror's Keith Phaneuf in the May 20 edition of The Courant, "Lamont's pension shift would leave next generation of Connecticut taxpayers deep in debt," described the challenge of paying off pension liabilities as if the idea of spreading out the repayment of debt was a novel concept. It is not. Every time we borrow to finance the construction of roads, schools and other infrastructure, those are decisions to borrow today with the knowledge that a future generation will foot the bill.

The sobering reality is that unfunded pension obligations have been building for decades, and the bill for those past debts has come due. For far too many years — seven decades, give or take a year — the state failed to make the necessary payments into the Teachers' Retirement Fund, and it did so while assuming that it could earn more with its investments than the markets could bear.

So the reckoning has come. If the funding for the Teachers' Retirement Fund isn't restructured, as Gov. Ned Lamont and I have proposed, annual required payments will grow to as much as $3.4 billion in a dozen years, consuming ever-larger portions of the overall state budget.

With a one-time use of the current year's surplus — an opportunity that may not come again any time soon — the state will be able to provide assurance to bondholders that we will make good on our commitment to pay off pension obligation bonds issued in 2008. Once we do this, we can make important changes to the way in which the state annually contributes to the Teachers' Retirement Fund — including a more appropriate investment return assumption, bringing it in line with how experts expect markets to perform going forward.

We can also extend the repayment window by 17 years, which would create as much as $900 million in budget savings over the next five years — funds that can be used for critical services and investments in future growth.

To be clear: Coming to grips with the state's unfunded pension liabilities is one of the thorniest fiscal problems we've ever faced. With this year's surplus, we have an opportunity to restructure the fund in a way that makes it more sustainable, and that will provide much-needed budget flexibility that will allow us to not only meet current expenses, but will allow us to invest in future growth. This is an opportunity that is too compelling to ignore.

The story in The Courant correctly pointed out that budget savings over the life of the restructuring will be offset by additional costs, but the article overstates that cost by at least several billion dollars.

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The bottom line is this: The restructuring proposal is a fiscally prudent approach that helped lead Standard & Poor's credit rating agency to recently upgrade Connecticut's bond credit outlook to "positive" for the first time in nearly two decades. And according to Fitch Ratings, this proposal would "alleviate significant fiscal risks to the state over roughly the next 12 years tied to scheduled, escalating contributions to the Teachers' Retirement Fund."

Beyond the numbers, this proposal is prompting a much-needed debate over the issue of fairness when it comes to who will pay the bill. Is it right for this current generation of taxpayers to bear the lion's share of these unfunded pension liability costs created by several prior generations?

The proposed restructuring is a fiscally sound, sustainable path that protects taxpayers, creates room in the state budget for funding critical services and investments in our future and lays the foundation for economic growth.

It's time to meet this challenge head on and adopt Senate Bill 873. This plan is nothing less than a new, balanced road map for Connecticut's future fiscal stability.

Shawn T. Wooden is the Connecticut state treasurer.