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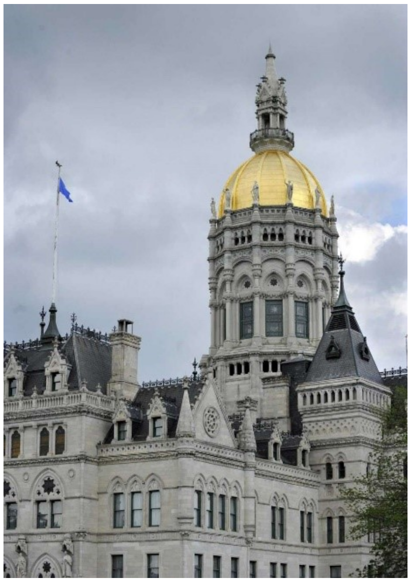
Budget averts massive teacher pension payment

Ken Dixon | June 4, 2019



HARTFORD — The state’s new two-year $43.2-billion budget awaiting Gov. Ned Lamont’s signature would help avert a massive, multi-billion-dollar payment to the dangerously underfunded Teachers’ Retirement Fund that would have hit the state within five years.

The spending package approved by the Senate on Tuesday includes a strategy for the fund that Lamont and State Treasurer Shawn T. Wooden have been planning since February. It would utilize some of the state’s surplus while providing stability in payments in exchange for extending the payments by billions of dollars over 17 years, ending in 2049.

The goal is to restructure payments to make them more affordable for taxpayers, while continuing to pay benefits and costs to bondholders. The issue dates back to 2008, when the state issued $2.2 billion in bonds to help the TRF.

Speaker of the House Joe Aresimowicz said Wednesday that the reamortization of the teacher retirement program, including nearly $381 million in a special reserve fund - backstopped by the Connecticut Lottery Corp. - is the first major attempt to address the issue in decades years. Another move was lowering the estimated rate of return from an unrealistic 8 percent, down to 6.9 percent.

“It’s not a comfortable situation,” Aresimowicz said. “But that’s exactly what our forefather and mothers did to us. They did it worse. It was 70-plus years of pay-as-you-go, and when we got hit with billions of dollars of bills, we’re paying what we owe and we’re trying to find ways to make it more affordable. This is a problem we invented and we’re trying to react to it, and we can argue whether we’re doing the right thing or not but unless everybody wants a huge tax increase to pay the billions of dollars in two or three years, this was the best situation we could come up with.”

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“When the state sells its bonds, if you look at the risk factors, if you’re looking at the state of Connecticut, the teacher pension was the single-biggest problem,” House Majority Leader Matt Ritter said. “So, yes, it is going to cost you more money long-term, but what do you gain short-term? What decisions are businesses making knowing that that cliff is gone? What are they investing in? What are they expanding in?”

But Sen. Paul Formica, R-East Lyme, ranking member of the legislative Appropriations Committee, said during the Senate debate on Wednesday that stretching out payments in exchange for short-term relief was also used in recent years in the pension fund for state employees.

“This has become a habit of shifting money out into the future,” Formica said.

The maneuver would save $183.4 million in the first year of the budget, and $189.4 million in the fiscal year that starts July 1, 2020. Without reamortizing the obligation, the state could be liable for a $3.4-billion payment in 2032. Wooden said that the extra costs over the 17 added years could reach $5 billion.