Denise L. Nappier: Pension reform within reach, if to do it there is resolve

By Denise L. Nappier

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The start of a new year prompts many of us to resolve to do better, to rein in what may not have worked so well in the past in favor of striving toward our best selves.

While some resolutions may never last the month, here’s one that I recommend all of us in state government stick to: Once and for all, let’s squarely address the proper funding of the state’s pension plans and take measurable steps to ensure that past does not become prologue.

Last month, the administration of Gov. Dannel Malloy and the State Employees Bargaining Agent Coalition (SEBAC) struck an agreement that would restructure the unfunded liabilities of the State Employees’ Retirement Fund (SERF) in a way that will avert a significant spike in the State’s annual required contributions. The agreement, presented in broad outline, represented a positive step forward.

I commend my colleague, Comptroller Kevin Lembo, for the reforms he advanced a year ago — most of which are reflected in this pension funding agreement — and Governor Malloy, for his commitment to forging a path forward on this dilemma since he took office in 2011.

We now, with an up-to-the-minute valuation in hand, can better gauge the numbers behind the agreement. And just like getting on that proverbial scale, the numbers were sobering.

The valuation reported a decline in the funded ratio from 41.5 percent in 2014 to 35.5 percent as of June 2016. We expected as much, especially with the sensible right-sizing of the investment return assumption from 8 percent to 6.9 percent.

That recalculation, which is more consistent with how we expect markets to perform going forward, was a major contributor to a $6.8 billion increase in the amount of the unfunded liability.

There is no cause for celebration, to be sure. But there is a silver lining: The restructuring proposal, considered in its entirety, will result in the State having to contribute more into the
pension system over time, which will allow for the contributions to be invested and grow. And the proposal will mitigate that spike which threatened to strangle the State’s ability to meet other, compelling budget demands.

The proposal, however, doesn’t go far enough. The phase-in of future gains and losses over 25-year periods, which the plan calls for, should only be allowed in very limited circumstances. For example, significant investment losses due to severe downturns in the market, such as what we witnessed in 2008, would be an acceptable phase-in experience. We should not, however, allow benefit enhancements, such as early retirement incentive programs, to be phased in and paid for over such a long time horizon.

And we also should insist on an ironclad commitment to stick to this funding schedule. Ten, 15 or even 20 years from now, we shouldn’t have to contend with the same outcry over how to deal with this unfunded liability. We know how to deal with this funding challenge. Pay for it. And stick to it.

What the General Assembly can and must do now is ratify the agreement. Notwithstanding the alarming signal from the Capitol last week — that the legislature would decline to vote on union contracts — our senators and representatives should act on the proposal.

They should also adopt legislation that locks in the commitment to make the annually required contribution. Otherwise, memories will fade, and there will be too great a temptation for future administrations to tinker with the funding obligation, which is what got us to where we are today — waist deep in unfunded pension liability.

And to be frank: A comprehensive solution will absolutely require a clear-eyed and good faith discussion on how we can make pensions and benefits more affordable and, consequently, sustainable. That is of critical importance as well.

Before us is a day long overdue — to finally begin to address the State’s unfunded pension liabilities and adopt measures that will stand the test of time. We owe our state employees a secure pension, and we owe our taxpayers the assurance that we will fully and finally dispense with the undisciplined habits of the past.

Denise L. Nappier is Connecticut state treasurer.