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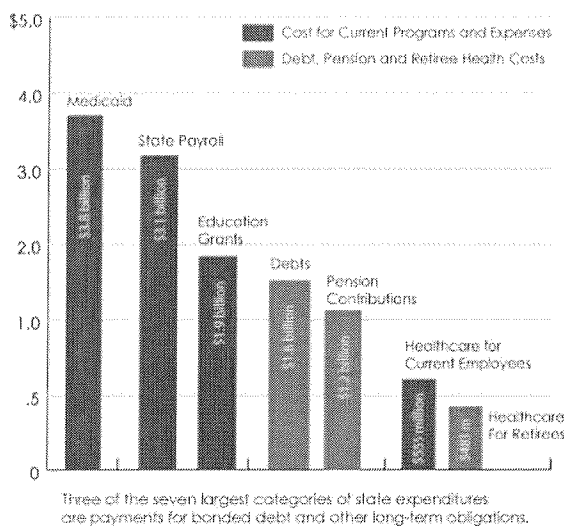
Connecticut in the red on retiree pensions, benefits

Mark Pazniokas ⁽¹⁾
February 1, 2010

Gov. M. Jodi Rell ⁽²⁾ will deliver her budget proposal on Wednesday, re-igniting a debate over what the state can afford as it looks ahead to several more years of difficult times.

But the debate begins with Connecticut tightly constrained by the commitments of previous governors and legislatures.

Largest categories of state expenditures, 2010.



⁽³⁾ been "chronically underfunded."

In a comprehensive 2007 study of retirement costs ⁽⁴⁾, the Pew Center for the States found that Connecticut scrimped on its annual pension contributions in nine of the 10 years examined. From 1997 to 2005, the state contributed between 66 percent and 99 percent of what the actuaries said was necessary.

And although full payments have been made since 2006, that practice appears to be coming to an end. With a \$500 billion budget shortfall in the fiscal year ending June 30, the state is about to defer a \$100 million contribution. The deferral does not reduce benefits, but it leaves the fund with less money for the treasurer to invest to offset future pensions.

"It is easy money," said Rep. Arthur O'Neill ⁽⁵⁾, R-Southbury. "It is painless, because nobody currently receiving something has it taken away from them. You don't have to raise taxes. You don't even have to actually go out and borrow money in the market."

O'Neill, the longest-serving Republican in the House, said no one should be surprised that politicians opt for "kicking the can down the road" instead of imposing the immediate pain of tax increases or cuts in services.

Today's voters have more clout than tomorrow's taxpayers.

Until recently, the cost of retirement benefits was of little concern in most state capitals. Booming equity markets fattened pension funds, taking the pressure of states to keep up their contributions.

In good times and bad, states tended to be generous with retirement benefits. As the *Pew Center for the States* ⁽⁶⁾ noted in its comprehensive, recent study of rising retirement costs:

"In bad budget times, retirement benefits become easy substitutes for salary increases, because states can put off the bills. In good times, feelings of legislative largesse can create new retirement benefit policies that have costly long-term price tags."

Wyman put it slightly differently.

"We didn't have money, so you negotiate something else. And at that time, pensions were inexpensive, and you didn't have to put the money out then. Or it was health care, which was very inexpensive at that time," she said.

If the state fired every employee, closed every office and terminated every aid program, legislators still would have to appropriate \$3.3 billion this year to meet its past obligations.

And they would have to keep paying for years.

When it comes to long-term obligations, Connecticut has one of the worst balance sheets in the nation: \$15.8 billion in unfunded pension obligations for state employees and teachers, \$21.7 billion for retiree health care and \$18 billion in bonded debt.

"Our kids and our grandkids are the ones going to be paying for this," said Nancy S. Wyman ⁽⁷⁾, the state comptroller.

In this year's budget of \$18.6 billion, nearly \$1 of every \$5 will go to pension contributions, health care for retirees and payments on long-term debt for schools, highways and other capital projects.

"It's not sustainable," said Wyman, a Democrat.

"I completely agree with the comptroller," said Senate Minority Leader John P. McKinney ⁽⁸⁾, R-Fairfield. "I think it is a ticking time-bomb."

But it's a bomb that most legislators believe is set to go off on someone else's watch. And in politics, the here-and-now tends to trump the future.

Under Rell, the state has contributed the amount recommended by actuaries--\$1.2 billion this year-to the pension funds. But in the past, Wyman, said, pensions have

Connecticut and the other states have received two rude shocks: boom markets can go bust, and a government agency has forced them to take note of the exploding cost of health care for retirees and their families.

The state provides health coverage for 55,000 employees, 42,000 retirees and about 100,000 dependents. The annual cost is \$1 billion, with roughly half for active employees and half for retirees.

In 2004, the Government Accounting Standards Board required municipalities and states to carry on their books what had been a hidden cost - the long-term liability of retiree health.

In December 2007, the Pew Center finished the first 50-state review of the numbers and came to an alarming conclusion: Most states had saved nothing to help soften the impact of health costs on future budgets.

No state had a bigger problem than Connecticut. On a per-capita basis, the state's \$21.7 billion unfunded liability for retiree health care was the highest in the nation -- more than \$6,000 for every man, woman and child.

The state did little better on the soundness of its pension fund. It was 56 percent funded, tied for the lowest with Rhode Island, and down from 72 percent in 2000.

Pew says a sound pension fund should be 80 percent funded.

Wyman said more than a decade of chronic underfunding is the major cause of the pension fund's precarious condition, exacerbated by increased demand as more employees have retired, plus the recent downturn in the financial markets.

It is now only 52 percent funded, despite the stepped-up contributions since Reil became governor. The state's contribution will be re-calculated next year.

"A state as wealthy as Connecticut, we shouldn't be carrying that. We shouldn't be the state with the highest debt in the nation," said Wyman, whose office acts as a monitor of the state's finances.

The issue is seeping into the 2010 campaign for governor.

At least two Republican candidates, Tom Foley and Oz Griebel, have suggested that the state follow private industry and shift new employees from pensions to defined-contribution plans.

But if campaigns are about the future, governing usually is about the present.

Robert Genuario, the governor's budget chief, said he expects that that the state's retirement system will be re-examined - but that will be the concern of whomever is elected governor in 2014. The current contract expires in 2017.

"That's an issue that folks will talk about in 2016," he said. "They are not going to talk about it now."

Alaska and Michigan have introduced defined-contribution plans for new employees - a public version of the 401 (k) plans now common in the private sector - but other states have tried and failed.

Sal Luciano of the American Federation of State County and Municipal Employees said the unions would fight a shift to that model, just as they opposed introducing market risk into Social Security, when President Bush proposed partially privatizing it.

"We need to raise other people up, not see how low you can go," he said.

House Speaker [Christopher G. Donovan](#) ⁽¹⁰⁾, D-Meriden, and House Majority Leader [Denise W. Merrill](#) ⁽¹¹⁾, D-Mansfield, are opposed to that route.

"I would like to have private sector become more like public pensions," Donovan said. "We need to do more to protect people's pensions."

Joseph Brennan, the senior vice president of the Connecticut Business and Industries Association, said that might become impossible.

"When you are looking at long-term, unfunded liability and demographics for Connecticut, it is just unsustainable. We have one of the oldest populations in the country," he said. "Fewer people are coming up to pay the taxes and support it."

Over the short-term, Wyman said, she hopes that at least the state can resist offering another retirement incentive plan like the one that induced an estimated 3,800 employees to retire last year.

Reil's administration calculated the short-term savings at \$205 million, but Wyman said she believes the long-term costs eventually will be greater.

"To me, so much of what we do is short-sighted," she said.

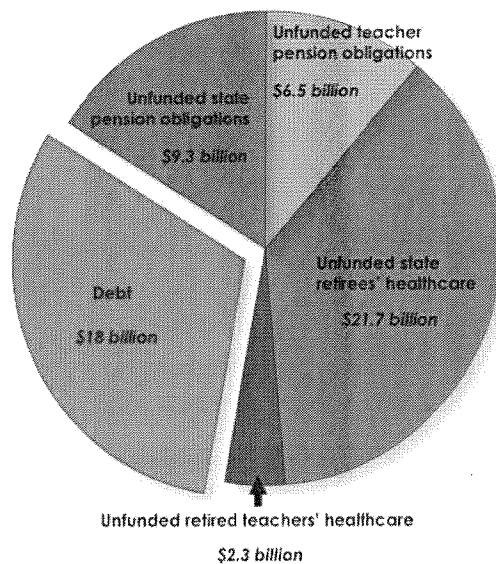
Luciano, the executive director of Council 4 of the American Federation of State County and Municipal Employees, agreed with Wyman that the long-term costs are too high.

"I've never been a big fan of 'RIPs,'" Luciano said, referring to retirement incentive plans. "RIPs don't save money. They are politically popular. They save money from the general fund, but they put a big burden on the pension fund."

It turns out they also can put pressure on the general-fund budget. The reason is health care.

Only one-third of big companies offer retiree health benefits, giving workers an incentive to stay until age 65, when they are eligible for Medicare. But

Debt and Other Long-term Obligations



Almost 70 percent of the state's long-term financial obligations are for retirees' healthcare and pensions.

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Connecticut state workers earn lifetime health benefits after 10 years of service.

Once those workers reach age 65, Medicare becomes their primary health insurer and the state benefits are supplemental. In Wyman's view, that means the state should do everything it can to encourage workers to retire later, not sooner.

But Rich Harris, the governor's spokesman, said that the administration blunted the impact on retiree health costs by negotiating "the rule of 75" in the retirement-incentive deal.

It requires that a retiree's age and years of service add up to 75 to get health coverage.

"That creates an enormous, continuing savings to the state," he said.

Wyman said the state needs to think now, even as it struggles to close a gap in the current budget, about how it will tackle its long-term obligations once the fiscal situation improves.

Memories of bad times seem to quickly fade, she said.

Wyman was a state legislator in 1991, when the legislature passed an income tax after three straight years of difficult budgets.

In hindsight, she said, the state should have placed more of the tax revenues that flowed to the state in the reserve account, known as the rainy day fund.

"From 1992 to 2008," she said, "we had so much surplus that if we had put it away into the rainy day fund or used it to pay down some of the debt, we wouldn't be where we are today."

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