State of Connecticut

KEVIN LEMBO
COMPTROLLER

Hartford

January 14, 2016

The Honorable Dannel P. Malloy
Governor of Connecticut
State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106

Dear Governor Malloy:

In November, I wrote to express my support for your focus on fixing our broken pension funding system and reforming the state's pension funding policy. I also suggested that we engage the retirement plans' actuaries to investigate responsible alternative funding solutions that meet generally accepted actuarial best practices, retain market confidence and create a predictable payment schedule with a clear path to paying off our past obligations.

Pension reform – like any important public policy challenge – demands that we build a solution on data, research and actuarial best practices. To quote one of my favorites, American engineer and statistician W. Edwards Deming, "Without data you're just another person with an opinion."

In that spirit, I have been working with actuaries to develop a series of data-based alternative pension funding reform options. We can all agree that there is a growing consensus on the goals that we want to achieve through any pension reform solution, including:

- Ensuring adequate payments to meet our obligations
- Preserving and strengthening the state's bond rating
- Enhancing cost stability and predictability
- Maximizing investment returns to offset future General Fund obligations

Cost stability and predictability, in particular, must be the focus of any conversation about Connecticut's budget, tax policy and – in this case – pension funding. As I emphasized in advocating the Budget Reserve Fund reform that was adopted last year, we must tame volatility and introduce much-needed predictability.

Attached is a detailed report on the result of my findings for your review. My report features three pension funding scenarios – as well as a "baseline" scenario that allows you to compare the state's current funding policy to possible solutions.

As I explain in the report, one of these concepts stands out above the others. The third and final concept presented – Scenario 3 – would not only establish cost stability and predictability, but it would save the state approximately $1 billion in long-term pension costs when compared to the current funding methodology.

All of the scenarios analyzed in my report retain all retirees in the existing State Employees' Retirement Fund with benefits prefunded through employer and employee contributions. In addition, all scenarios utilize closed amortization periods – setting a finite date by which unfunded actuarial accrued liabilities (UAAL) will be paid off.

I have also proposed that we commit to regular independent comprehensive audits of the plans' actuarial valuations to determine the reasonableness of the actuarial methods and assumptions being used. Such regular audits will help right the ship should the state begin to veer off course again.

Once again, I am grateful that you have raised this issue and look forward to working with you to reach a collaborative, data-based solution to the state's pension funding crisis.

Sincerely,

Kevin Lembo

Kevin Lembo
State Comptroller