NANCY WYMAN
Comptroller

MARK E. OJAKIAN
Deputy Comptroller

Sept. 8, 2010

The Honorable M. Jodi Rell
Governor
State Capitol
Hartford, CT 06106

Dear Governor Rell:

I am in receipt of your letter of Sept. 7 to members of the Post-Employment Benefits Commission containing a list of suggestions to address the unfunded portions of the state pension and retiree-health care systems.

You asked the Commission to address these issues at its scheduled meeting on Sept. 9 - the first day of the Jewish New Year holiday. I ask that the meeting be postponed in recognition of this holiday.

While I clearly share your desire for the state to confront its long-term liabilities, your proposals do not appear to directly address the most effective means to reduce them.

As Treasurer Nappier points out in her Sept. 7 reply to your letter, the largest unfunded liability on the state's books is mostly in OPEB for retiree health insurance. Our actuaries have presented analysis to the Commission showing that adopting a modest funding program for the OPEB trust would have a dramatic impact on reducing the OPEB liability.

I first proposed creating this trust in 2006 and believe that the most effective way to reduce this liability is simply to commit to funding it. For example, a $100 million down payment and a $50 million annual payment thereafter would reduce the unfunded liability by $6.7 billion and the Annual Required Contribution by $400 million.

Regarding the SERS unfunded liability, most of that liability is due to historical underfunding of Tier I of the retirement system, which I have noted publicly many times. Unfortunately, the actuarial-funding method adopted by the state in 1995 ensured that the unfunded liability would continue to increase - since the costs were back-loaded. In other words, this outcome was by design and should not be a surprise. Periodic early retirement incentive programs only worsened the situation.

Virtually none of the unfunded liability can be attributed to retirement benefits for participants in the current Tier IIA for those hired after October 1997. Tier IIA's benefits are much less generous than Tier I and even the flawed actuarial funding method used by the state has more than covered the costs for Tier IIA.

For example, while actuarially required pension contributions in recent years have exceeded 20% of payroll, the 2009 SERS actuarial report stated that the normal cost for Tier IIA participants was only 4.7% of payroll. Proposals to further reduce Tier IIA benefits or to convert to a defined contribution plan will do nothing to reduce or eliminate the current unfunded liability for SERS.

Instead, I believe that the Commission should focus on reducing the unfunded liability for Tier I. Therefore, I request that the Commission explore creative ways of financing the reduction of the Tier I debt and to separate that liability from Tiers II and IIA.

I look forward to your reply and to working together to find solutions to this critical fiscal challenge facing our state government and our taxpayers.

Sincerely,

Nancy Wyman

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State Comptroller