M. Jodi Rell
GOVERNOR
STATE OF CONNECTICUT

September 7, 2010

Dear Members of the State Post-Employment Benefits Commission:

Let me first take this opportunity to thank you for the considerable time and effort you have dedicated to this Commission, which I established through Executive Order 38. I have closely followed your work and I know that you will continue to work aggressively to seek innovative and cost-effective solutions to the problems we confront.

As you know, governments across the country and at all levels – federal, state and local – are struggling to cope with significantly underfunded pension, health care and other retirement benefits. Nationally, it is a *$1 trillion* problem.

The problem in Connecticut has accumulated over numerous decades. Connecticut's current unfunded liability totals nearly $34 billion. Of that total, that vast majority – slightly more than $25 billion – is for retiree health care; the balance, about $9 billion, is for retiree pensions.

In recent years, I am proud to say, my Administration has taken important steps in addressing this issue. My budgets have generally insisted on making the full actuarially recommended contributions to retirement accounts, though the past two challenging fiscal years have led to limited, agreed-upon pension deferrals. I also strongly supported and signed into law the 2007 Public Act which requires the state to make the full annual contribution to the Teachers' Retirement Fund.

More importantly, in the 2009 agreement I negotiated with the State Employee Bargaining Agent Coalition (SEBAC) we obtained significant and long-term concessions that will have a positive effect on future obligations. These include:

- A "Rule of 75" affecting entitlement to health benefits for state employees who leave state service with vested pension rights but do not immediately begin collecting a pension. Previously, these individuals qualified for retiree health benefits when they reached retirement age with at least 10 years of state service. Under the "Rule of 75," the *combination* of a retiree's age and years of service must equal or exceed 75 before he or she can begin receiving health benefits, even if qualified for a pension at an earlier date. This reduces the state's overall health benefits obligation, thus reducing the level of underfunding (which, as noted above, is the largest portion of the state's unfunded liability).
- A requirement that current employees with less than 5 years of service and all new future employees contribute 3 percent of their earnings annually to fund retiree health care during the first 10 years of their employment. Previously, there was no

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contribution from active employees to fund retirees' health plans. This establishes a new revenue stream to help further support the retiree health care fund.

These two changes will have major implications for cutting our long-term health care and pension costs and, in turn, reducing the problem of unfunded liabilities. Future budgets will feel the relief – and so will taxpayers.

However, these measures alone are far from adequate to resolve the overall problem. Serious challenges remain.

As you know, there are many demands on the resources of state government. With limited dollars, it is imperative that we make substantive changes now in order to cut costs, reduce our liabilities and prepare our employees to see salaries and benefits that are in line with private-sector employment. It is time not only to offer innovative solutions but also to consider suggestions that may have been dismissed in the past or voted down by previous Legislatures.

Below are a list of suggestions that I believe will confront and correct our unfunded pension and retiree health care problems:

1. Establish a defined contribution plan for new employees;
2. Increase employee contributions toward both pension and OPEB;
3. Establish a rule that in years where there are negative earnings in investments there would be no Cost of Living Adjustment (COLA) for that year;
4. Refine the "Rule of 75" to a "Rule of 80" for retiree health insurance and increase the premium share for every 5 years of service below 25;
5. Increase the early retirement to age 60 and increase the penalty for early retirement;
6. Increase the normal retirement age to 65;
7. Reduce the anti-spiking provision from 30 percent to 18 percent over the previous two years' earnings;
8. Increase the premium share for retiree health insurance to active rates for the former employee and a higher amount for dependents;
9. Seek to reduce long-term health cost trends through service delivery changes such as higher co-pays for emergency room and specialist visits;
10. Move final average salary computation from 3 years to 5 years for pension purposes
11. Reduce timeframe for buying back military and other service;
12. Cap maximum pension salaries at $100,000; and
13. Invest a sizable portion of any savings in the annual Actuarially Required Contribution from these changes towards reducing unfunded liability.

As you continue your deliberations, please know that we should not be constrained by what process your recommendations may take. Some may be done administratively, some may require legislation and still others will require collective bargaining.

I am committed to taking any appropriate administrative action before I leave office and I hope and expect the Legislature will accept their responsibility to make any necessary changes as well.

I once again want to thank you for your time and consideration. Your work has profound implications for the financial security and economic future of our state. Future Governors, Legislatures and generations of taxpayers will benefit from your efforts.

Sincerely,

M. Jodi Rell

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Governor