Testimony of Daniel Livingston,
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Concerning Approval of the Pension Funding Agreement Between the State and SEBAC
March 11, 2020

Representative Walker, Senator Osten, and members of the Appropriations Committee.

I address you today as the Chief Negotiator for SEBAC, the State Employees Bargaining Agent Coalition. In 2017, the General Assembly approved an agreement between SEBAC and the State that re-amortized about three quarters of the SERS Pension Plan's unfunded liability, and most importantly moved, to a flat dollar payment system - away from the balloon payment system that had been insisted upon by then Governor John Rowland. When the Coalition testified before you about that agreement, we pointed out the importance of our defined benefit pension system. We pointed out that our state government belongs to its people, and it exists to provide a vast array of services to the people of this state -- creating, or making it possible for local government to create, everything from a clean environment, to safe roads, to good schools, to safe communities, to providing critical services for families, the elderly, the disabled, and those in economic need. Nothing is more important in allowing the State to carry out its obligations than a skilled, educated, dedicated, and committed workforce. And nothing is more important in helping assure these things than a real defined benefit pension, and a funding plan that makes it possible to provide one. We pointed out in 2017 that a defined benefit plan is an employer's way to encourage long service from its employees, thus increasing average skill levels, decreasing turnover costs, and improving services. And we pointed out that while our current pension plans are all moderate and well-funded, our old legacy pension plan had been poorly funded for close to two generations before we had collective bargaining to create an enforceable obligation to fund pension promises, and that the 2017 re-amortization agreement provides a stable and affordable way to finally deal with that generation's old debt. The General Assembly passed that agreement on February 1, 2017.

The 2017 Funding agreement drew virtually no opposition on its merits – it was supported by SEBAC and the Malloy administration, as well as such diverse groups as CBIA and the Pew Charitable Trust. The Agreement implemented many of the recommendations of the non-partisan Center for Retirement Research at Boston College, which advocated strongly for re-amortizing to avoid the unaffordable balloon payments which would otherwise occur in the coming decade, and moving to a flat dollar payment system so that we were never faced with balloon payments again. On its merits, the 2017 Pension Funding Agreement was a no-brainer.

Some opponents argued against the 2017 Funding Agreement not because they thought on its merits it was bad. Instead, they argued that if we re-amortized the pension debt, the Coalition would not agree to engage with the Malloy administration about a long-term savings agreement. The Coalition testified that this was false in February of 2017, and proved it was false in June of 2017, when members ratified SEBAC 2017, a concessions and savings agreement that provided more than $1.5 billion in savings in the 18/19 biennium – singlehandedly eliminating half the budget deficit – and $25 billion in savings over 20 years. As they have so many times before, state workers stepped up to help protect the critical services they provide and the State they proudly serve. They didn't need the incentive of a defective pension funding system to do the right thing.

The question might be then, if we did the critical re-amortization to level dollar payment in 2017, why are we back in 2020? The answer has to do with the importance the Coalition places on keeping one's word. In early 2019, newly elected Governor Lamont, in his efforts to balance the budget, asked the Coalition to consider re-amortizing the last 25% of the unfunded liability. This provided additional short-term budgetary savings but remained true to the commitment to provide level funding as the system of paying off the old pension debt. The Coalition consulted its actuaries who were neutral on making that change. They had told us all along that it was not important whether we re-amortized all of the debt - or 75% of the debt. The important thing was to get to level dollar payments, which we did in 2017, and which we would continue to do with Governor Lamont's proposal. In fact, the original discussions in 2017 had anticipated re-amortizing 100% of the unfunded liability. The Malloy administration preferred 75% because of some concern that Wall Street would react poorly to the re-amortization. In the end, Wall Street, along with Pew and many others reacted positively to the 2017 initiative.

We told Governor Lamont and the public that we were willing to re-amortize the last 25% of the SERS liability as long as the State addressed a problem it had been unwilling or unable to address in 2017 -- the balloon payments connected to the Teacher's Retirement System, which like SERS, had suffered from generations of legislative underfunding. Fixing that issue, as strongly supported by both teacher's unions and virtually every fiscal expert, was essential to the state's long term fiscal health.

In the 2020/21 budget Act, the Governor and the General Assembly finally re-amortized the Teacher's Retirement debt, moving that critical system to level dollar payments where it belongs and placing it on sound fiscal footing. In the same Act, the General Assembly incorporated the savings from the agreement before you into the biennial budget, correctly assuming that the Coalition would keep its word that if the Teacher's Retirement System was dealt with properly, we would agree to the Governor's funding proposal on SERS. We have kept our word. The General Assembly has already incorporated that into the budget. For that reason, we ask you to vote yes on House Resolution No. 8 and Senate Resolution No. 6.