Testimony on Senate Bill 873
Submitted by Isabel Blank, External Affairs Manager
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Good afternoon distinguished members of the Appropriations Committee. My name is Isabel Blank. I am Manager, External Affairs at the Yankee Institute for Public Policy, and I am writing to testify on **Senate Bill 873**: An Act Stabilizing the Teachers' Retirement Fund. For questions or follow up, please contact me at isabel@yankeeinstitute.org.

Connecticut's pension liabilities are the single most important issue we face as a state. We applaud the Governor for making it one of his top priorities to find a solution. Specifically, this bill addresses some of the important structural changes that must be made to the Teacher Retirement Fund.

This bill adopts a more realistic investment-return assumption of 6.9% instead of the current 8.0%. This is much more in line with capital market expectations. A large issue with several of the state's retirement funds has been an overoptimistic discount rate. While this change will not solve the issues of our past, it will certainly help improve the outlook of the fund for the future. However, TRS returned only 4.8 percent between 2006 and 2016. While lowering the rate to 6.9% is a step in the right direction, it will still lead to continued underfunding. We therefore propose the discount rate be set by statute as the average of the rate of return actually earned in the preceding ten years, to be reset on the same day each year. This automated, floating discount rate would be far more realistic and aligned with the actual results achieved by the state in recent years. It would also disincentivize risky investment on the part of the state investment boards by creating real-world consequences, in the form of a lower future discount rate, for promiscuous and ill-considered risk taking

In addition to the proposed changes, teacher contributions should be raised to match levels required by other states. Teachers in Massachusetts currently contribute 11 percent of pay toward their pensions; in Connecticut, the rate is only 7 percent.

We appreciate the Governor and legislature's dedication to solving the pension crisis in Connecticut and hope you consider our recommended changes to this bill.