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**Written Testimony
Comptroller Kevin Lembo
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Concerning

S.B. 280 AN ACT CONCERNING THE CONNECTICUT LOTTERY CORPORATION.

Good morning, Sen. Larson, Rep. Verrengia, Sen. Guglielmo, Rep. Sredzinski and Members of the Public Safety and Security Committee.

Thank you for an opportunity to express my support for S.B. 280 An Act Concerning The Connecticut Lottery Corporation.

Recently, states and municipalities have begun to experiment with transferring assets to state pension funds to reduce unfunded liabilities. Major examples include New Jersey and California.

In New Jersey the contribution of the lottery corporation's assets to the state's pension funds for a period of 30 years reduced the state's unfunded liability by more than \$13 billion and improved the funded ratio of the state's retirement systems by 14 percentage points, from 45% to 59%. The lottery revenues will reduce the annual required state contribution to the state's pension funds. An additional benefit of the lottery revenue stream is that it will reduce the liquidity needs of the pension fund assets, allowing the New Jersey state treasurer to keep a higher percentage of the pensions' assets in longer-term investments with higher potential rates of return.

In Connecticut both the Teacher's Retirement System (TRS) and the State Employees Retirement System (SERS) are significantly underfunded and face similar liquidity challenges to those faced by the New Jersey Pension funds. Contributing the Connecticut Lottery assets to the retirement funds has the potential to both significantly reduce unfunded liability and improve the long-term investment rate of return for pension plans. In addition, contributing the lottery funds to the state's pension funds will reduce the percentage of the actuarially determined employer contribution (ADEC) – the amount the state must contribute each year to the retirement plans that is subject to the vagaries of the annual appropriations by the legislature. Since the election of Governor Malloy, the state has made its full ADEC, but prior to 2010 the state regularly underfunded the pension by not appropriating the full ADEC. Once

contributed to the retirement funds, the lottery revenue will not require an appropriation, thereby reducing the percentage of the ADEC subject to the whims of the annual appropriation process. Rating agencies rated the New Jersey contribution of Lottery assets to the state's pension plan a slight net positive, primarily for this reason.

While contributing the lottery assets to the pension fund will provide some immediate benefits to the plan, there are potential risks. Currently, lottery revenues are deposited into the general fund. An analysis is required to determine if the offsetting reduction in ADEC will result in additional annual costs or savings to the state's General fund. In New Jersey the reduction in the ADEC is not projected to be enough to completely offset the loss of lottery revenue to the General fund. In Connecticut the lottery contributed \$323 million to the General fund in FY 2017, a significant amount. However, the state contribution to SERS and TRS combined was more than \$2 billion, driven primarily by unfunded liabilities.

In Connecticut the lottery was established with the expressed purpose of providing additional funding for education. I recommend that the Committee consider revising the legislation to require an analysis in which all of the lottery assets are contributed solely to TRS, in keeping with the initial promise of the creation of the lottery system funding for education-related expenses.

Given the significant unfunded liabilities in the TRS and SERS retirement systems and the substantial pressure the increasing General fund pension obligations are placing on the state's budget, every option to reduce the impact of the state's unfunded liability must be fully evaluated. I strongly urge your support for S.B. 280 in order to require an independent evaluation of the impact of contributing the state's lottery assets to TRS, SERS or both.

I thank you for the opportunity to testify and urge your support.