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Written Testimony
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February 21, 2019

Raised H.B. No. 7118: AN ACT FUNDING THE UNFUNDED PENSION LIABILITY PORTION OF THE FRINGE BENEFIT COST FOR CERTAIN EMPLOYEES OF THE CONSTITUENT UNITS OF THE STATE SYSTEM OF HIGHER EDUCATION.

Good afternoon Senator Haskell, Representative Haddad, Senator Hwang, Representative Hall and the members of the Higher Education and Employment Advancement Committee.

I write today regarding House Bill 7118, An Act Funding the Unfunded Liability Portion of the Fringe Benefit Cost for Certain Employees of the Constituent Units of the State System of Higher Education. This act would prohibit the passing of unfunded pension liabilities to students and recipients of research grants through the fringe benefit rates charged for non-General Fund employees at public institutions of higher education.

While this sounds like a laudable goal, I would like to urge caution in pursuing this policy objective through the mechanism proposed in HB 7118. The unfunded pension liability in the State Employee Retirement System (SERS) has grown over decades and has indeed created budget problems throughout state government. In the current fiscal year, for example, unfunded pension liability will represent 84.4 percent of the employer contribution to the SERS pension fund. As the state budget is currently structured, all funding sources help to make the full pension contribution for SERS, which includes unfunded liability. These funding sources include the General Fund, Transportation Fund, Federal grants, private grants, capital project funds, industry-supported special revenue funds as well as the higher education tuition and research funds. In short – all funding sources pay their share, including the constituent units of higher education.

One objection my office would have to this bill is that it proposes to treat the university funding sources differently by exempting them from having to pay any portion of the unfunded pension liability. This policy change would create a significant problem for the state with the Federal government. Each year, the U.S. Department of Health and Human Services (DHHS) reviews and approves the state's fringe benefit rates. The Federally approved rates for SERS Retirement include contributions for unfunded pension liability. In approving the fringe benefit rates, DHHS is agreeing that the state can charge

Federal programs for SERS retirement, including a portion of the unfunded pension liability. However, that agreement is made with the understanding that all funding sources will be treated in a similar fashion. In other words, Federal programs cannot be charged higher fringe benefit rates than another funding source. By exempting the universities from paying unfunded liability, as proposed in HB 7118, the state would be violating that agreement with the Federal government. In turn, DHHS would demand that Federal programs also be exempted from paying unfunded liability through the SERS retirement rate.

The FY 2019 state budget relies on $267.5 million in fringe benefit rate recoveries to make the full employer pension contribution for SERS. The rest of the contribution (nearly $1.3 billion) is paid by transferring appropriated amounts from the General Fund and Transportation Fund. If the universities and Federal programs were exempted from paying a share of unfunded liability, my office projects the General Fund would need to pay an additional $96.2 million to make up for the lower SERS fringe benefit rate recoveries. If unfunded liability were entirely removed from the SERS fringe rate calculation for all funding sources, the General Fund would need to pay an additional $146.3 million.

If the legislature wants to provide more support for higher education, my office has traditionally recommended two alternatives: 1) increasing the General Fund block grants to the universities; or 2) making additional direct fringe benefit subsidy payments as is currently done for the University of Connecticut Health Center and the Board of Regents' Community College System[1]. Of course, each of these options would result in higher costs for the General Fund as well.

However, to avoid unintended financial consequences for the state budget, I would strongly recommend not making the proposed changes to the fringe benefit recovery methodology. For that reason I ask you to oppose HB 7118 as currently constituted.

Thank you for your consideration of this important issue.

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[1] The Office of the State Comptroller currently provides $13.5 million in fringe benefit support to UCONN Health Center based on CGS Section 3-123i and $16.2 million to the Community College System pursuant to Public 18-81, Section 16.