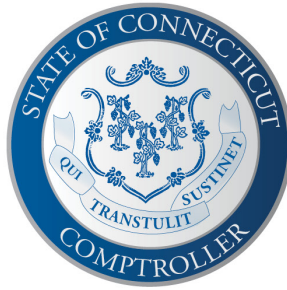


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Written Testimony  
Comptroller Kevin Lembo  
February 25, 2020

**Raised H.B. No. 5115: AN ACT CONCERNING THE UNFUNDED PENSION LIABILITY PORTION OF THE FRINGE BENEFIT COST FOR 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 5115, which would require the Comptroller to fund the unfunded pension liability portion of the fringe benefit cost for employees of the constituent units of the state system of higher education.

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 85.4 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.

The FY 2020 state budget relies on \$273.4 million in fringe benefit rate recoveries to make the full employer pension contribution for SERS. The rest of the contribution (over \$1.34 billion) is paid by transferring appropriated amounts from the General Fund and Transportation Fund.

When considering any changes to the current method of fringe benefit recovery, I would strongly recommend that state policy makers and the Connecticut General Assembly keep in mind the following principles:

1. Any reforms or changes should honor the State's commitment to making the full employer contribution to the SERS Pension Fund as calculated by the SERS actuary.
2. Reductions in unfunded liability costs for groups like the higher education units, however laudable the reasons, will require a commensurate increase in costs to the State's General Fund.

In order to fund a full subsidy of the SERS unfunded pension liability for the higher education units, my office calculates an additional \$93.8 million would need to be appropriated into the General Fund SERS appropriation for FY 2021. This total would include amounts to cover the SERS UAAL for:

- Board of Regents – Community Colleges
- Board of Regents – Connecticut State Universities
- Board of Regents – Charter Oak State College
- University of Connecticut
- University of Connecticut Health Center

My office certainly understands the concerns the committee has regarding the impact the unfunded pension liability has on the constituent units of higher education, including on students and researchers. At the same time, any changes adopted should ensure that the full pension contribution is made to the State Employee Retirement System.

Thank you for your consideration of this important issue.