CEA
Advocating for students and teachers

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Testimony of Donald E. Williams, Jr., Executive Director of the Connecticut Education Association Public Safety and Security Committee, SB 280, AAC The Connecticut Lottery Corporation

Thursday, March 15, 2018

Good afternoon members of the Public Safety and Security Committee. My name is Donald Williams, Executive Director of the Connecticut Education Association, representing Connecticut's teachers.

The CEA supports the premise of SB 280, which would explore contributing the Connecticut Lottery Corporation to the state's pension liability.

If structured correctly, this would utilize a public asset for a public purpose, significantly pay down the state's unfunded pension liability, and correspondingly reduce the state's yearly financial obligation.

Two potential models include New Jersey's earmarking of lottery revenue into state pension obligations, and the Ontario Teacher's Pension Plan.

New Jersey is not the model to follow because they privatized the fund prior to dedicating revenue to the state's pensions, and lost the ability to utilize the considerable value of the entire lottery program.

The Ontario Teacher's Pension Plan, however, provides a better model. The plan acquired rights to the Irish and British sweepstakes in Canada, which have been premier lotteries in Canada. This provides the plan with the benefit of not only the annual revenue stream, but also the larger valuation of the rights to lotteries that produce reliable revenue over time.

Connecticut's Commission on Fiscal Stability and Economic Development recently recommended consideration of transferring the Connecticut Lottery into the Teacher's Retirement Fund (TRF). A chart submitted to the commission by the Millstein Group showed that the legislature's action last year to restructure the state employee pension fund stabilized that fund, and has resulted in manageable and predictable payments required by the state for future decades. The TRF, however, has been underfunded by the state for many decades, and needs similar restructuring.

Merely dedicating the income stream from the Connecticut Lottery will not, alone, reduce the state's unfunded liability. Annual revenue produced by the lottery is approximately $300 million. The state currently is required to contribute about $1.2 billion to the TRF, so in a manner of speaking the state is already contributing 100% of the lottery funds to the TRF and more.

The Connecticut Lottery is valued at approximately $5 billion dollars. By placing the lottery into the TRF, the TRF would increase in value by $5 billion, and go from about 56% funded to over 70% funded. This would dramatically reduce the state's unfunded liability. This would also reduce the state's yearly payment into the TRF since there would be less unfunded liability to pay off. In addition, when the TRF is more than 70% funded, it may be possible to reamortize the fund and reduce the expected investment return from 7.9% to 6.9%, as long as the TRF remained funded at 70% or greater.

Overall, transfer of the Connecticut Lottery—if structured as described above—would dramatically reduce the state's unfunded liability in the Teacher Retirement Fund, and result in greater predictability and stability for the state. The sooner this occurs, the better the result will be for Connecticut in stabilizing and managing its pension commitments. Thank you.