STATE OF CONNECTICUT
OFFICE OF GOVERNOR DANNEL P. MALLOY

Asking Towns to Partner in Supporting and Fully Funding the Teachers' Retirement System

As part of his Fiscal Year 2018/2019 budget proposal, Governor Malloy is proposing a new way of funding the Teachers' Retirement System by requiring that towns contribute a share to support the pensions of their municipally-employed educators. This proposal does not change or reduce teachers' pensions. Additionally, the budget will include recommendations that will support retired teachers and administrators. The proposals include:

- **requiring municipalities to help support the Teachers' Retirement Fund;**
- **preserving the phased-in income tax exemption on retired teachers' pensions; and**
- **shoring up the Teachers' Healthcare Fund.**

Building a Better Partnership – Supporting the Teachers' Retirement System

The Teachers' Retirement System (TRS) provides pension benefits for all Connecticut educators, including teachers and school administrators. Teachers and school administrators of local school districts are municipal employees. This means that city or town officials decide how large or small of a workforce they wish to support and negotiate all employment agreements including salary and benefits. However, municipal governments do not contribute to the pension obligations for this group of their employees. The State of Connecticut and educators themselves make all pension payments for teachers and administrators without any support from municipalities, even though the state has no role in negotiating these long-term obligations and the municipality is the employer. This system is unique to educators – the State does not do the same for other municipally employed workers such as police or firefighters.

Furthermore, unlike other educational cost sharing grants, the TRS payments are not based on student enrollment or need. Rather, state funding is driven by how much a local municipality can afford to pay in terms of salaries and benefits, as well as how large of a workforce they wish to employ. Such a system creates vast disparities across communities.

To build a better partnership between the state and local governments in making good on promises made to educators, the Governor is proposing that municipalities share responsibility for paying for the teacher pensions that they have negotiated. Under the proposal, municipalities will be required to contribute one-third of the actuarial cost of funding TRS. This amounts to a total of $407.6 million in FY 2019 and $420.9 million in FY 2019 to the State's General Fund in support of these pension costs. This proposal does not change or reduce teachers' pensions.

Currently, teachers contribute 6 percent of their salary to the fund, while the state's share equals 30 percent of salary. Under the new system, the teachers' share of costs will not change, but municipalities will effectively assume a share equal to approximately 10 percent of salary. This new system will ensure that municipalities are true partners with the state by contributing a share to the Teachers' Retirement Fund.

Preserving the Income Tax Exemption

During the 2014 legislative session, a phased-in exemption for teachers' pensions was enacted for retired teachers who continue to live in-state. Beginning in 2017 and annually thereafter, the income tax exemption will be set at 50 percent. The Governor's biennium budget proposal for FY 2018 and FY 2019 preserves this exemption.

Protecting Solvency – Teachers' Healthcare Fund

The Governor proposes a $10 million increase of the state's contribution to the Retired Teachers' Healthcare Fund in FY 2018 over FY 2017, and an additional $3.7 million increase in FY 2019. Additionally, the state's contribution to the fund will be raised to 25 percent of total healthcare costs from its current funding level of approximately 18 percent. This proposal ensures the state will be better positioned to meet its obligations and immediately increases the contribution to the fund, protecting its solvency.