
Connecticut Won't Default on Pension Bonds, Budget Director Says.

- **Treasurer warned governor's plan would cause technical default**
- **Governor's aide says he won't back plan that would affect debt**

Connecticut bondholders, rest easy.

Whatever plan Governor Dannel P. Malloy proposes to avoid skyrocketing payments to the state's teachers pension, it won't trigger a technical default on Connecticut's pension bonds, his budget director said in an interview.

"We're looking at a whole series of options right now, but none that we pick, unless they carry me out feet first, are going to involve the state defaulting or not honoring its bond covenants," said Benjamin Barnes, Secretary of the Office of Policy and Management.

Connecticut Treasurer Denise Nappier warned that Malloy's proposal to stretch out payments on the teachers' pension's unfunded liability beyond 2032 to sidestep a potential $5 billion payment increase would trigger a technical default. Municipal Market Analytics, an independent research firm, said last week that such a breach would be a "clear credit negative" and investors should demand higher yields on Connecticut bonds to compensate for the risk.

A covenant in a $2.1 billion pension bond issue from 2008 requires the state to appropriate the full annual contribution to the pension and amortize its unfunded liability through 2032, the year the bonds mature.

The governor's office has said the legislature can authorize the board overseeing the teachers' pension to change the assumed rate of return and extend the amortization period, meaning the state would continue to make full annual contributions, just over a longer period. But he's also considering alternative proposals.

"We would be better off with a longer amortization period and lower investment return assumption," Barnes said. "We would like to get there, if there's a way to do so, without defaulting on the covenant."

A series of proposals to shore up the teachers' pensions could be released as soon as Wednesday. "I'm certain bondholders won't be harmed by what we're proposing," Barnes said.

The governor, who is set to leave office in 2019 and isn't seeking re-election, is acting because Connecticut's annual contribution to the teachers' pension is estimated to rise to $6 billion in 2032 from $1 billion in 2014 if investments return an annualized 5.5 percent, according to a Nov. 2015 study by the Center for Retirement Research at Boston College commissioned by the state. The teachers' pension had 10-year annualized returns of 5.3 percent as of June 30, 2016.

To make the required payments to the pension, Connecticut's governor has said residents would have to choose between deep cuts to local aid or large tax increases if investment returns didn't meet their benchmark.

Nappier argues that Malloy's "doomsday scenario" won't happen because it was calculated using "inconsistent and inflammatory assumptions."

Last year, the state extended the amortization period for the state employee pension to 2046. The deal, which also reduced the assumed return on the pensions' investments to 6.9 percent from 8 percent, avoided an increase of annual payments to the pension ranging from $4 billion to $6 billion annually. Connecticut's general fund budget is currently about $19 billion.

The move reduced the risk that the pension would consume a growing share of the budget, Barnes said.

"We would like to do the same thing for the teachers' system," he said. "Nobody had done any of this work for 30 to 40 years before us. We're trying to finish this up and put theses funds in good order during our tenure."

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