

## Why the General Assembly Should Appropriate the Full \$181 Million Needed for the Retirement System

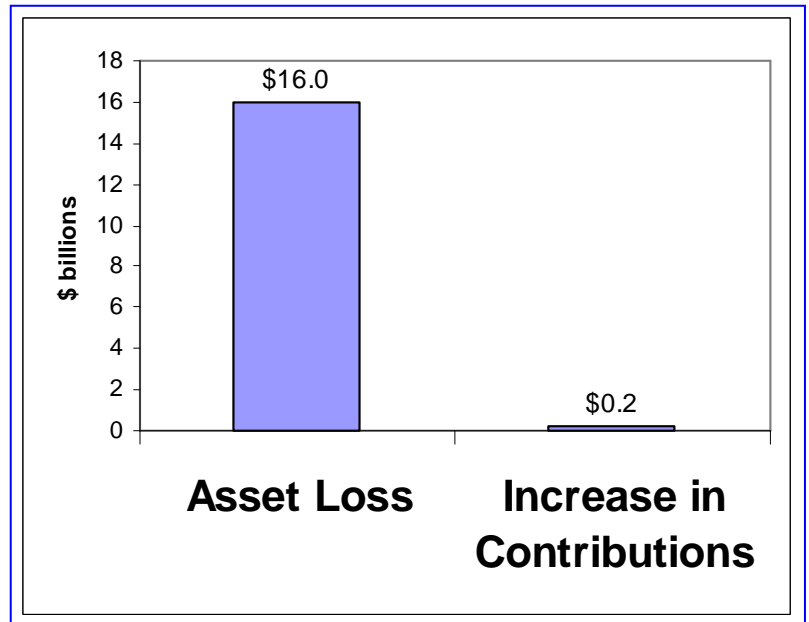
The budget bill passed in 2009 increased the state's FY 2011 contribution to the Teachers' and State Employees' Retirement System (TSERS) to 4.93% of pay. However, the Annual Required Contribution (ARC) is 6.71% of pay. From the General Fund, this is \$181 million more than currently budgeted. The Governor's budget appropriated only \$20 million of the \$181 million. The State needs to contribute the entire ARC amount because:

### ARC A Small Part of Portfolio Losses

#### 1. Repays A Small Fraction of Losses.

Even this increase is restoring only a tiny fraction of the 2008 investment losses. The losses totaled \$16 billion and this increase is only \$181 million.

**2. Delay is Painful.** Ultimately the State must honor its obligation to its employees. If we delay meeting this obligation, it becomes much more difficult. If we wait until FY2012 to get back on track, the needed increase is projected to be \$645 million. If we wait until FY2013, it is \$1.32 billion. If we wait until FY2020, it is almost \$10 billion.



- 3. We Contributed More in the Past.** In the 1980s and 90s, the State contributed between 7% and just over 10% of pay. These contributions were sufficient to pay for new benefits being earned (about 6% of pay) and pay off unfunded liability. At 4.93%, we would not even be paying the cost of new benefits earned during the year, much less paying off the liability.
- 4. Amount is Small Relative to Peers.** Our neighboring states have recently been contributing 7% to 13% of pay. Large private sector employers in the U.S. contribute an average of 7% of pay for retirement. Even with the full \$181 million, the State would still be contributing less than 7%, which is still less than our peer states.
- 5. Continue 69-Year Record of Responsibility.** Since the founding of the system in 1941, the General Assembly has always appropriated the Annual Required Contribution. Do not make breaking that tradition your legacy.