



## PUTTING PENSION COST IN CONTEXT: CONNECTICUT

This brief on Connecticut is part of a series of state reports that compare pension obligation to subsidy spending for FY 2018.

The measure chosen for pension obligation is the employer normal cost, which is the portion of the total normal cost (i.e. present value of future benefits allocated to a particular fiscal year) that is attributable to employers. The employer normal cost is obtained from annual financial statements and actuarial valuation reports – either extracted directly or calculated by: 1) multiplying covered payroll by the employer normal rate; or 2) subtracting the employee share from the total normal cost; or 3) subtracting legacy costs (i.e. annual payment needed to amortize the unfunded actuarial accrued liabilities) from actuarially determined employer contribution.

The cost of economic development incentive programs was obtained from annual reports from economic development agencies, state tax expenditure reports, and GASB Statement No. 77 Tax Abatement Disclosures in annual financial reports. We also consider corporate tax dodging via offshore tax havens as reported by U.S. PIRG in 2016 (latest available data and likely a good approximation for 2018 data).

<b>2018 Connecticut Public Employee Pension Obligations:</b>	<b>\$449,822,008</b>
<b>2018 Cost of Connecticut Subsidies and Corporate Tax Breaks:</b>	<b>\$564,084,528</b>

Connecticut Retirement Systems serve state employees, municipal employees, judges and magistrates, probate judges and employees, policemen, and firemen. The employer normal cost valued for 2018 is \$449.8 million [1]. This is on top of a very large unfunded liability that is threatening the current pension system.

Funding pensions can be even more challenging when tax dollars go to subsidizing private firms, businesses, and developers. Connecticut has a long history of using incentives offensively and defensively with neighboring states, especially New York, despite the fact that the two states are part of the Northeast multi-state labor market in which many commuters cross state lines every day (also including; New Jersey, Rhode Island and Massachusetts).

In 2018, Connecticut spent \$303.3 million on economic development incentive programs and lost another \$260.8 million to corporate tax dodging via offshore tax havens. Among the economic development incentive programs, Connecticut’s Department of Economic Community Development offered various grants worth approximately \$50 million. Nine tax-based incentive agreements are reported under GASB Statement No. 77 on Tax Abatement Disclosures totaling \$202.1 million in foregone tax revenue. The film industry received the largest share – over \$80.2 million in subsidies. There do not appear to be passive state losses attributable to local programs: Approximately 25 percent of Connecticut cities and towns reported tax abatements; none mentioned state reimbursement.

In an attempt to make companies more accountable, Connecticut is switching from paid-up-front grants to a performance-based, or back-loaded, model. However, for every job created, companies will be allowed to keep a percentage of the incremental personal income tax. In other words, new hires at these subsidized firms will be “paying taxes to their boss” instead of to the state (a policy Good Jobs First strongly advises against).

## Subsidy Program Costs

<b>Economic Development Subsidies and Corporate Tax Breaks</b>	<b>Subsidy Amount</b>
Film, Television, and Digital Media Tax Program [2]	\$80,197,846
Urban and Industrial Sites Reinvestment Tax Program [2]	\$43,919,908
Insurance Reinvestment Fund Program [2]	\$19,955,940
Connecticut Neighborhood Assistance Act Credit Program [2]	\$3,463,307
Research and Development Expenditures [2]	\$6,463,375
Historic Preservation and Rehabilitation Programs [2]	\$48,110,749
Insurance Reinvestment Tax Credit [3]	\$100,000
Film Infrastructure Tax Credit [3]	\$13,200,000
Digital Animation Production [3]	\$11,800,000
Angel Investor Tax Credit [3]	\$3,000,000
Electronic Data Processing Equipment Property Tax Credit [5]	\$25,100,000
Various DECD direct financial assistance programs (grants only) [4]	\$47,987,179
Corporate tax dodging via offshore havens [6]	\$260,786,224
<b>TOTAL</b>	<b>\$564,084,528</b>

## Source Documents

(Accessed December 17, 2019)

[1] 16-17 Valuation Reports for state employees, judges, probates, municipal employees, policemen and firemen:

[https://www.osc.ct.gov/rbsd/reports/CT%20SERS%202017%20Roll%20Forward%20Valuation%20Report.FINAL%20\(2\).pdf](https://www.osc.ct.gov/rbsd/reports/CT%20SERS%202017%20Roll%20Forward%20Valuation%20Report.FINAL%20(2).pdf)

<https://www.osc.ct.gov/rbsd/reports/CT%20PJERS%2012-31-2017%20Valuation%20-%20FINAL.PDF>

<https://www.osc.ct.gov/rbsd/reports/CT%20JFSMCCRS%202017%20Roll%20Forward%20Valuation%20Report.FINAL.pdf>

<https://www.osc.ct.gov/rbsd/reports/01-17-2018CTMERS2017RollForwardValuationReport.pdf>

<https://www.osc.ct.gov/rbsd/reports/11917CTSBF2016ValRptFin.pdf>

[2] State of Connecticut Office Of the State Comptroller, “Comprehensive Annual Financial Report For The Fiscal Year Ended June 30, 2018.” <https://www.osc.ct.gov/reports/CAFR-2018rev040919.pdf>

[3] Office of Fiscal Analysis Connecticut General Assembly, “Connecticut Tax Expenditure Report.” February 2018. [https://www.cga.ct.gov/ofa/Documents/year/TER/2018TER-20180201\\_Tax%20Expenditure%20Report%20FY%2018.pdf](https://www.cga.ct.gov/ofa/Documents/year/TER/2018TER-20180201_Tax%20Expenditure%20Report%20FY%2018.pdf)

[4] Grants via through the Manufacturing, Small Business Express program, and other specialized funding sources as provided in the Department of Economic and Community Development’s “2018 Annual Report” (p. 48) <https://portal.ct.gov/-/media/DECD/Research-Publications/Annual-Report/DECD-2018-Annual-Report.pdf?la=en>

[5] Office of Fiscal Analysis Connecticut General Assembly, “Connecticut Tax Expenditure Report.” February 2018. [https://www.cga.ct.gov/ofa/Documents/year/TER/2018TER-20180201\\_Tax%20Expenditure%20Report%20FY%2018.pdf](https://www.cga.ct.gov/ofa/Documents/year/TER/2018TER-20180201_Tax%20Expenditure%20Report%20FY%2018.pdf) Presented amount is the cumulative amount for credits under corporate, insurance premiums and public service companies’ gross earnings taxes.

[6] U.S. PIRG Education Fund. 2016. “Picking up the Tab 2016: Small Businesses Bear the Burden for Offshore Tax Havens.” <https://uspig.org/sites/pirg/files/reports/USP%20PickTab%20Nov16%201.0.pdf>