

The University of Connecticut Chapter of

AAUP

THE AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS, INC.

1875 Storrs Road

Storrs, Connecticut 06268

Campus Mail: AAUP, U-6028

WWW.UCONNAAUP.ORG

Telephone: (860) 487-0450

Fax: (860) 487-0341

Testimony regarding raised S.B. 8, “An act concerning the unfunded liability portion of the fringe benefit cost for employees of the constituent units of the state system of higher education”

Thomas D. Bontly

Associate Professor of Philosophy and Past president, UConn-AAUP

February 21, 2022

Esteemed chairs, ranking members, co-chairs, and members of the Higher Education and Employment Advancement Committee,

My name is Tom Bontly. I am a faculty member in the UConn Philosophy Department and also immediate Past President of the UConn Chapter of AAUP (the American Association of University Professors). UConn-AAUP represents more than 2000 full- and part-time academic and coaching professionals at UConn.

Thank you for this opportunity to provide written testimony on SB 8, which I strongly support and urge you to adopt.

We all know that Connecticut has a significant problem with accrued unfunded liability. This debt is the legacy of *decades* of chronically underfunding the state’s pension and retiree health plans. The cost of covering the unfunded liability has caused difficulties throughout state government, but nowhere more than in higher education.

Currently, a big chunk of the payment on this debt is passed to the state’s institutions of higher education in the form of artificially inflated fringe benefit rates. For example, the fringe rate for classified staff in FY 2022 is a whopping 108% of salary – up from 98.8% in FY 2020. Importantly, more than 50% of the rate consists in a charge levied to help the state pay down the unfunded liabilities in its pension and retiree health care plans. In other words, more than half the fringe rate has nothing to do with the employee’s own benefits (which are relatively affordable and not nearly as generous as benefits were in the days of old). Instead, it goes to pay the state’s credit card bill.

As Lloyd Blanchard and Jeffrey Geoghegan (CFOs of UConn and UCH, respectively) detail in their joint testimony, the cost to the UConn and the Health Center combined is more than \$100 million per year and growing. The effects at UConn have been deleterious: larger class sizes, bigger tuition increases, and a general drag on our researchers’ ability to compete for federal grant dollars. Less grant revenue means fewer jobs for Connecticut residents to fill, fewer patents and business start-ups, and generally less money flowing into the Connecticut economy.

We are incredibly grateful for the General Assembly's decision last year to appropriate an additional \$7.5 million to help defray UConn's unfunded liability cost (not to mention the help provided to UCH). The payoff from this decision has been striking, with a dramatic increase in grant funding in just the last year.

The bill currently before the Committee, SB 8, would have the state cover 100% of the unfunded retirement liability this year and going forward. I realize that this is a big request, but the current moment is possibly Connecticut's 'last best chance' to solve the unfunded liability problem. For the state, remarkably, finds itself with a projected surplus of \$1.48 billion in the coming year – truly remarkable considering the enormous deficits the state faced only five years ago. (Much of that surplus owes to the 2017 SEBAC agreement, which was projected to save the state in the neighborhood of \$25 billion over ten years.).

It would be a smart move to direct a portion of those savings into higher education and solve the unfunded liability problem for higher education once and for all. Think of it as an investment in Connecticut's future, and ultimately in our children. The economy of the future will be driven by knowledge, and public universities will be the engine that keeps it running. Like your car's engine, however, universities need regular maintenance. Skip a few oil changes and you're likely eventually to find yourself stuck by the side of the road, watching the other cars go by. Similarly, if we ignore the unfunded liability problem and just keep driving along, we risk hollowing out our public universities, and losing millions in grant funding and generations of college students to neighboring states in the process. But if we fix the problem now, we can shore up those universities for years to come and protect the state's ongoing investment in public higher education.

The effects of unfunded liabilities

In case the members of the Committee would find the information useful, I will here elaborate on the negative effects of the bloated fringe rates on UConn.

First, inflated fringe rates drive up the cost of educating our students. While our administration tries to avoid passing the unfunded liability charge to our students, in reality, they are forced to choose: raise tuition, or hire fewer instructors and thereby increase time to graduation. Either way, the students wind up paying more – a hidden tax on students and their families, to pay for the mistakes of the past.

The second problem with these artificially inflated fringe rates is that they drive up the cost of doing research at the state's flagship university, making UConn's researchers less productive and less competitive for federal grant money. Grant awards are typically capped, meaning that granting agencies (e.g., NIH) generally do not increase the size of an award to cover the state's high fringe. Instead, it comes out of the researcher's budget, with the result that they can hire fewer people to work on sponsored projects. Fewer people means that less work gets done, which means fewer discoveries, fewer inventions, fewer business start-ups, fewer publications, and fewer grant applications going out the next funding cycle. And those grant applications that do go out are less competitive, because the granting agencies know that they will get more research for their money if they give it to another institution.

Another consequence of larding unfunded liability charges onto the fringe rates is that it is making it harder and harder for UConn to attract and retain top researchers. In testimony to the Appropriations Committee on February 19, 2020, then-President Katsouleas pointed out that UConn had recently lost (at least) 16 grant-funded scientists who, due to the high fringe rates, concluded that they could no longer afford to do science at UConn and left for competing institutions (e.g., Georgia Tech). When those scientists left, more than \$16 million in grants left with them; since leaving, those researchers have earned more than \$20 million in additional grant revenue for their new universities.

How much less competitive is UConn for grant funding these days? I do not know of a precise metric, and fortunately the effects have been mitigated somewhat by the General Assembly's efforts to reign in this problem. Still, a comparison with the fringe rates of other, comparable institutions is instructive. According to numbers provided by the CFO's office, the average fringe rate on UConn faculty runs 15 to 20 percentage points higher than it does on average at UConn's peer and aspirant institutions. The average fringe rate on non-faculty professional staff at UConn runs about 20 to 30 percentage points higher than its peers.

Very roughly, then, a grant which supports 3 staff members at UConn would support 4 at one of our competitors and produce proportionally more research work. Granting agencies are aware of this, and it factors into their decision-making. While it is hard to be certain, I would guess that these numbers are a big part of the reason why UConn's grant awards and expenditures were basically flat from 2011 to 2019, after many years of growth.

The impact of all this on the state should be obvious. Inflated fringe rates mean less grant revenue – millions of dollars less per year. Less grant revenue means fewer laboratory jobs for Connecticut residents to fill, fewer patents and business start-ups, and generally less capacity for UConn to serve as an economic engine for the state. The same is true at UConn Health, where the unfunded liability problem is even greater.

In 2020, as temporary, stop-gap measure, former President Katsouleas sought to manage the unfunded liability problem internally. This required diverting funds from other urgent needs to reduce the fringe rate paid by our researchers. The results were striking: UConn faculty brought in nearly \$20 million more in research funding than the year before, giving us the highest total in UConn's history. As expected, the numbers in 2021 were even better, with an increase of nearly \$100 million in research funding.

These numbers give us some indication of what SB 8 could accomplish, were the General Assembly to shift the burden of the state's unfunded liability off of the University and its students and onto the general fund, where they belong. After all, Connecticut as a whole accumulated these gargantuan pension debts which currently weigh us down. For years, every time the state's budget got a little thin, our political leaders (of both parties) shifted costs off of the general fund and onto the pension plans, with early retirement incentives funded by borrowing.

Now those chickens have come home to roost. Through a combination of bad luck and bad policy, Connecticut accumulated a lot of pension debt. There is no easy fix, but at least we could stop shooting ourselves in the foot, which is what the inflated fringe rates are essentially doing. I hope therefore that you will support SB 8 and provide us with a more rational mechanism for managing the state's accrued unfunded retirement liability.

Thank you for all your efforts on behalf of higher education in Connecticut.

Sincerely,



Thomas D. Bontly
Associate Professor of Philosophy
University of Connecticut