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Written Testimony of Comptroller Sean Scanlon

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State Comptroller and Miscellaneous Accounts Budget Presentation to the Appropriations Committee

Good afternoon Senator Osten, Representative Walker, Senator Berthel, Representative Nuccio, and members of the Appropriations Committee,

Thank you for the opportunity to testify on Governor Lamont's proposed budget for the Office of the State Comptroller (OSC) and the Miscellaneous Accounts administered by this office. While this proposed budget largely address the operational needs of my office, there are a few items that I would like to highlight:

1. Other Expenses for Core-CT Licensing: The Governor's proposed budget does not include allocations for licensing related to the increase in Core-CT users from the Teacher's Retirement System in FY25.
2. Women's Business Development Council (WBDC) reallocation: The Governor's proposed budget reallocates WBDC funding from OSC to the Department of Economic and Community Development (DECD).

Other Expenses

My agency is currently in the process of a large-scale modernization of the Core-CT system, including migration to the Cloud and implementation of the Teachers' Retirement System (TRS) into Core-CT. Although bond funds cover some of the expense, there are significant operating expenses such as hardware and software maintenance that are not appropriate to bond because they are charged to Operating Expenses. My office will need an additional \$220,000 in FY25 for licensing related to the increase in Core-CT users from the Teacher's Retirement System. This was not included in our original budget request because the TRS implementation to Core-CT had not been approved at the time. My office is happy to provide the committee with documents outlining this need.

I was pleased to see a change in the trend in recent years of not receiving inflationary increases for Core-CT software and hardware maintenance. While the 2.2% increase for FY24 and 1.7% increase for FY25 are less than the documented renewal rates of 4%, fortunately at this time our office projects we will have enough offsetting savings to absorb the difference.

The Governor's proposed budget reallocates WBDC funding from the OSC to the Department of Economic and Community Development (DECD). At the request of the WBDC, I would like to ask that this allocation stay within OSC because the WBDC is a valuable partner in sharing

information related to programs like the Connecticut Retirement Security Program (MyCTSAvings). We rely on their networks to inform Connecticut's small businesses of benefits that could help them succeed, and for that reason would like to keep funding for the WBDC within OSC.

Personal Services

The Personal Services (PS) budget provided is adequate to meet our needs.

OSC Updates

I have several updates to share with the committee about the work my office has done in the past year:

The Connecticut Retirement Security Program (MyCTSAvings)

MyCTSAvings, formally known as the Connecticut Retirement Security Program, was created to provide access to retirement savings to Connecticut workers – nearly 600,000 residents – whose employers do not offer one. The program took some time to get up and running. Last year, as part of the biennium budget, authority for the program was transferred to the Comptroller's office. Under the leadership of a new team, the program is now officially underway and succeeding.

All Connecticut employers with five or more employees—at least five of whom are paid at least \$5,000 or more MyCTSAvings if they don't offer an alternative retirement plan. If they don't offer one, all the business needs to do is provide requested employee information. We then create Roth IRA accounts for each employee and it's up to them whether they want to continue saving or not. We then create Roth IRA accounts for each employee and it's up to them whether they want to continue saving.

MyCTSAvings enrollment has been administered in three waves. Waves one and two opened enrollment to employers with 26-100 workers in 2022. As of last month, we are now in the critical wave three, which is for most businesses in Connecticut: employers with 5-24 employees. As of this week, there are 1,253 businesses enrolled in MyCTSAvings and 8,913 funded accounts, with \$2.42 million dollars in assets. Close to 85% of savers have maintained their retirement savings accounts.

Healthcare Accounts

The OSC continues to work towards more affordable, quality healthcare through several innovative programs such as the Providers of Distinction (POD)/Centers of Excellence (COE) program, Health Enhancement Program (HEP), Prudent Rx, and the Primary Care Initiative. My goal with these programs is to improve healthcare outcomes for all patients while reducing healthcare costs. These programs are proven to increase preventative screenings, increase primary care engagement, and save money on prescription drug costs, all while saving the state money.

Last year, OSC conducted a competitive bidding process for the state's Medicare Advantage contract, and selected Aetna as the plan's new administrator starting January 1, 2023. The successful negotiations created savings of over \$400 million for the state while ensuring quality

coverage for retirees. Additionally, the savings are estimated to reduce the state's unfunded Other Post-Employment Benefits (OPEB) liability by approximately \$7.5 billion.

However, due to lingering effects from the COVID-19 pandemic, the healthcare industry is struggling with rising costs, staffing shortages, and increased utilization. The Partnership Plan was not immune to these industry-wide challenges and ended FY22 with a Medical Loss Ratio (MLR) of 106%. Thankfully, according to claims data, we are seeing improvements and project a FY23 MLR of 98%. The Partnership Plan remains an invaluable resource to thousands of municipal public servants, and my office has several recommendations for improving the plan than can be found in the Partnership Plan's Annual Report.

Core-CT Modernization Project

The Core-CT modernization project is underway and will continue through 2024. The modernization project has a focus on improving infrastructure, security, and business functionality. The major milestones of the project include moving the Core-CT infrastructure to a cloud service provider, upgrading the software stack to the latest versions and adding additional functionality in the areas of process automation and self-service. Core-CT is used by over 50,000 state employees and processes over 2 million payments per year.

The modernization project also includes replacing the software stack of the Teachers' Retirement System (TRS) and migrating it to the cloud along with Core-CT. The TRS contains approximately 100,000 active and retired teachers in total and is expected to go live in October of 2024.

Retirement Surge & Agency Vacancies

Over the last two years, the OSC worked hard to prepare for the anticipated retirement surge both internally and across the state. We deployed an automated self-service retirement calculator to approximately 12,000 employees, established modernized-automated retirement auditing and payroll implementation to bolster the agency's ability to respond to high volume, conducted live webinars for employees, and continued direct agency-by-agency engagement to identify enhanced communication channels in order to process retirement paperwork and aid those considering retirement. In a typical 12-month period, we expect approximately 2,130 retirements. From August 1, 2021, to July 1, 2023, there were 5,607 retirements.

As for the OSC, 43 employees retired since we testified last year. We currently have 40 vacant positions of which 22 are in the process of being filled. The office has made good progress in strategic hiring, training, and investing in technology to streamline processes to ensure our office could handle the increase in retirements.

Fiscal & Budgetary Accountability

As the state's fiscal watchdog, I would like to commend the legislature for continuing the fiscal guardrails put in place in 2017 that are largely responsible for turning this state's finances around. Four years of General Fund budget surplus, with a fifth year underway; a full Rainy Day Fund to protect the state from an economic downturn; increased credit ratings making borrowing cheaper for the state; and historic payments to reduce the state's unfunded pension liabilities are a reality no one thought was possible a few years ago. But here we are. I applaud the commitment to fiscal responsibility and hope we can continue to build on this progress.

While significant progress has been made toward improving the state's financial position, Connecticut's unfunded pension liabilities remain some of the highest in the country. This is due to years of neglect, increasing costs for future taxpayers. Any decisions made to reduce revenues or increase spending should be driven by sustainable, long-term planning. Economic conditions are changing, and federal dollars have expired, changing the landscape of the state budget. But if we continue to make smart, long-term decisions, Connecticut will be well prepared to handle future challenges.

Conclusion

The Office of the State Comptroller stands committed to increasing government transparency, reducing costs for the 300,000 Connecticut residents covered by our health plans, and continuing the fiscal progress of the past few years.

Our team has worked with the legislature and state agencies to respond to a once-in-a-generation pandemic through Premium Pay. As the payments are being processed, OSC is closely monitoring the funds necessary to meet the needs of the program. In the event that there are not enough funds, OSC will work with OPM through the traditional deficiency process to make sure every eligible applicant receives their payment.

This budget, along with our suggestions, will ensure that the Office of the State Comptroller can continue to administer both statewide projects and routine services at a high level of efficiency and responsiveness.

I look forward to our continued cooperation in service of the residents of this state.

A handwritten signature in black ink, appearing to read "Sean Scanlon". The signature is fluid and cursive, with the first name "Sean" and last name "Scanlon" clearly distinguishable.

Sean Scanlon
State Comptroller