OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

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Pension Fund Shows Long-Term Strength, Remains One of Nation's Best, Outpacing Investment Benchmark and Market; Nappier Advocates Five-Point Pension Protection Plan

State Treasurer Denise L. Nappier said today that Connecticut's pension fund performance remains strong, despite the recent market downturn. For the three years ending June 30, 2002, the nearly $19 billion state pension fund was in the **top 19% of public pension funds with assets greater than $1 billion, and continued to outpace both its investment benchmark and the market**. Building on that strength, Nappier announced a five-point Pension Protection Plan designed to add greater safeguards to the pension fund.

"The good news is that over the long-term, Connecticut's pension fund is performing well and weathering the storm of a turbulent market," Nappier said. "First and foremost, pension benefits are secure and safe. The downturn in the market will not affect benefits one iota. Second, the pension fund remains one of the best performing funds in the nation – **doing better than 8 in 10 similar funds over the past three years**. Third, we have consistently been taking less risk, and receiving a better return, than other public funds, and have resisted pressure to make riskier investments."

Nappier's Pension Protection Plan follows successful implementation of the Treasury Reform Law of 2000 that Nappier developed to clean-up the Treasury in the wake of the corruption scandal involving her predecessor, who is now in jail. Treasury reform strengthened the role of the independent Investment Advisory Council, ensured greater accountability and transparency, improved checks and balances, and imposed higher ethical standards.

"During much of the '90's, Connecticut's pension fund had an occasional good quarter in the midst of overall weak long-term performance, compared with its peers. Today, it's just the opposite. And we have consistently exceeded both our investment benchmark and the market. For long-term investors, such as public pension funds, it is long-term performance that matters most," Nappier said.

Nappier said over the past three fiscal years, the pension fund return was +.7%, compared with a –2.96% return for the investment benchmark, and a –9.18 return for the S&P 500. Nappier's five-point **Pension Protection Plan** includes:

1. **Advocating that the State's pension system continue as a defined benefit plan.** In recent years, there have been proposals to change the state retirement system to a "defined contribution plan" in which retirement benefits would be tied to returns in the market. This would mean that for the 160,000 plus active and retired members of the state pension system, including teachers, police and firefighters, and public employees,

CONTACT: BERNARD L. KAVALER
DIRECTOR OF COMMUNICATION
(860) 702-3277 FAX (860) 702-3043
BERNARD.KAVALER@PO.STATE.CT.US

their retirement funds would rise and fall with the stock market. In the wake of Enron and other corporate collapses, the potential harm of such a plan has been made apparent, with 401(k) participants being forced back to work to supplement drastically reduced pension benefits in a declining market. Treasurer Nappier will vigorously oppose efforts to replace the current Connecticut defined benefit plan with a defined contribution plan.

2. **Amending the State Constitution to require that the State Teachers' Retirement System be fully funded.** Over the last decade, with the exception of Fiscal Year 2002, only 85% of the funding required each year was appropriated by the Governor and General Assembly to the retirement system. Had the full amount been appropriated, the Teachers' system would have in excess of one billion dollars more in assets. Treasurer Nappier has been an advocate of full funding since the beginning of her current term, and supported legislation in 2001 and 2002 requiring full funding for the Teachers' system. Fully funding annual contributions reduces pressure to make up for dollars not appropriated with riskier investments, helps the State's credit rating and reduces potential adverse impact on taxpayers.

3. **Seeking legislation to give the State Treasurer the option of using unappropriated surplus dollars to either retire State debt or put more money in the retirement system, depending upon market conditions.** When the economy turns around, this will be an essential tool that will enable the State Treasurer to benefit taxpayers and the pension fund by taking advantage of market conditions. Had this authority existed during the past decade when the State enjoyed year after year of surpluses, the State Pension System could be funded at a higher level than it is today. In the end, this will be of enormous advantage to future generations of taxpayers.

4. **Requiring that all State money managers adhere to principles that would separate investment bankers from money managers in multi-service Wall Street firms.** In the last several months we have seen damage to small and large investors alike when the lines blur between those managing money and those putting together financial deals within large Wall Street firms. This is what happened with Enron and WorldCom. Treasurer Nappier is working with colleagues across the country to implement these new, tougher standards in public pension funds, building on efforts she has already initiated to achieve greater corporate accountability.

5. **Amending the State Constitution to require that future candidates for State Treasurer have had at least five years experience in public fund or financial management before seeking the Office of Treasurer.** By law, Connecticut's Attorney General must be a member of the Connecticut bar for at least ten years before qualifying to seek that office. It is clear that the stakes are very high when it comes to the management of the State Treasury. Taxpayers and participants in our pension fund deserve a State Treasurer with the skills and the expertise to work with the State's independent Investment Advisory Council and manage the many very complex financial issues effectively.

"I came into the State Treasury confronting one the worst political scandals in Connecticut history by my Republican predecessor, so I know something about restoring public confidence and the importance of being able to hit the ground running," Nappier said. "When my five-point Pension Protection plan is fully implemented, we will be well on the road to more fully funding our future liability as a state, and providing greater protections for state pension fund assets."

Over the past three years, the Connecticut fund is in the 19th percentile, outperforming 81% of similar funds. During the past three years, the fund has paid out $1.6 billion in pension benefits, net of contributions. Additionally, for three consecutive years, the fund has **outperformed the investment benchmark** endorsed by the independent Investment Advisory Council and most representative of the fund's diversified holdings: by 282 basis points (2.82%) in FY2000, 469

Contact: Bernard L. Kavaler
Director of Communication
(860) 702-3277 FAX (860) 702-3043
BERNARD.KAVALER@PO.STATE.CT.US

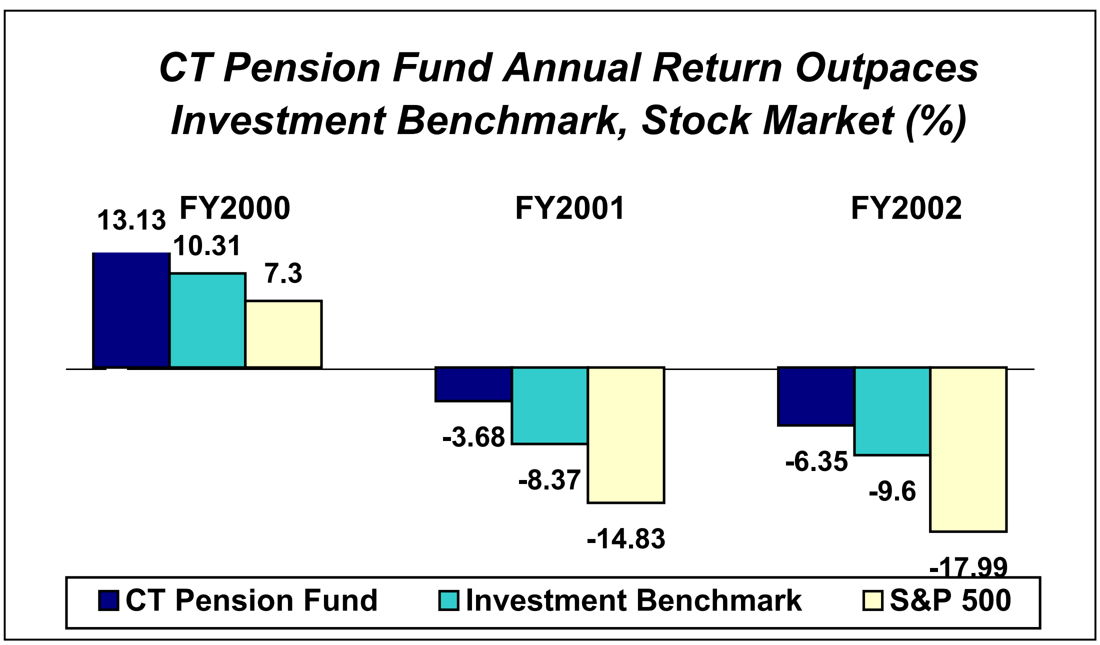
basis points (4.69%) in FY2002, and 325 basis points (3.25%) in FY2002. The value of that outperformance, in dollar terms, was $559 million, $1.03 billion, and $669 million in each of those years respectively, for an average annualized outperformance value of $760 million, net of fees. (If the pension fund performance had been at its benchmark, rather than exceeding it, in each of those years, it would have achieved an average of $760 million less in value each year.)

While the S&P 500 dropped by 17.99% during the past year, the domestic equity portion of the pension fund portfolio dropped by only 14.93% and the entire portfolio by only 6.35% from a year ago. As of June 30, 2002, the pension fund ranked in the 25th percentile for the previous two-year period (-4.85% return, including fees), the 60th percentile for the previous year (-6.27% return), and the 65th percentile for the most recent three-month period (-5.37% return). The pension fund performance data are based on the Trust Universe Comparison Services (TUCS), which is a comparison of public pension funds with assets greater than $1 billion.

"Our long-term performance has been strong, despite some of the toughest market conditions in more than a decade," Nappier said. "While some may focus on the short-term for political expediency, as an experienced manager of public pension dollars, I understand that what's important is long-term performance. Today, that's the strength of Connecticut's pension fund, as the numbers clearly show."

Nappier noted, for example, that for the three-year period ending in June 1998, during previous administrations, the Connecticut pension fund performed better than only 30% of its peers. For the three years ending in June 2002, however, the pension fund is performing better than 80% of similar funds.

Regarding the proposal to require Treasury candidates to have public fund or financial management experience, Nappier said "having served as Hartford City Treasurer for almost 10 years, I was prepared to deal immediately with the complex, technical issues facing the Treasury and develop a comprehensive and effective Treasury reform plan. The people of Connecticut, and our retirees, deserve expertise at the helm -- especially given the growing complexities of public pension fund management."



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