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The Impact of the Early Childhood Education Endowment on Connecticut's Pension Funding and Fiscal Health

An analysis of fiscal tradeoffs, pension funding trajectories, and long-term costs for Connecticut taxpayers

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Executive Summary

Connecticut has made measurable progress in improving its fiscal condition since adopting its fiscal guardrails in 2017 by directing volatile revenues and year-end budget surpluses toward reducing its large unfunded public pension liabilities. These additional contributions have significantly improved the funded status of the State Employees Retirement System (SERS) and the State Teachers' Retirement System (STRS), beginning to reverse decades of underfunding and contributing to multiple credit rating upgrades.

Despite this progress, **Connecticut remains the second most indebted state in the nation on a per-capita basis**, leaving little margin for deviation from its commitment to debt reduction.

In 2025, Connecticut created the Early Childhood Education Endowment (ECEE), mandating that once the Budget Reserve Fund reaches its statutory cap, all future unappropriated General Fund surpluses be redirected away from supplemental pension contributions and deposited into the endowment. **While the immediate fiscal impact is modest, the policy marks a departure from the commitment embedded in the guardrails. It establishes a precedent for diverting surplus resources away from pension debt reduction, even as Connecticut remains among the most indebted states in the nation.**

This paper updates the modeling from the 2024 Reason Foundation and Yankee Institute report, The Case for Connecticut's Guardrails, to quantify the total fiscal savings from supplemental pension contributions under various scenarios and then estimate how much of those savings is forgone when such contributions are reduced or eliminated.

Under pre-endowment funding patterns, the additional contributions enabled by **the guardrails are projected to accelerate full funding of SERS and STRS by up to ten years and reduce cumulative inflation-adjusted pension costs by up to \$10 billion over the next 30 years**, depending on investment returns. These savings result from paying down pension liabilities earlier and allowing assets to compound for longer.

Assuming the ECEE redirects \$300 million per year in year-end surpluses away from pensions, **the diversion delays full funding of both systems by about one year and increases total inflation-adjusted pension costs by \$300–900 million relative to the pre-endowment trajectory**, depending on investment returns.

At the same time, the endowment itself is unlikely to generate spending at the scale implied by current policy goals. Even under optimistic assumptions—including sustained annual contributions of \$300 million—inflation-adjusted annual spending reaches only \$240 million by 2035 and \$370 million by 2045, remaining small relative to Connecticut's existing \$400+ million annual early childhood education budget.

KEY FINDINGS

- FINDING 01** **The guardrails were working.** Supplemental contributions enabled by Connecticut’s fiscal guardrails were on track to accelerate full funding of SERS and STRS by up to 10 years and reduce inflation-adjusted pension costs by up to \$9.5 billion over 30 years — the result of compounding investment returns on faster debt paydown.
- FINDING 02** **The ECEE imposes immediate costs.** Redirecting roughly \$300 million per year away from pension contributions increases total inflation-adjusted pension costs by \$300 million to \$900 million and delays full funding of SERS and STRS by approximately one year, depending on investment return assumptions.
- FINDING 03** **The endowment cannot deliver what is promised.** Even under the most optimistic scenario — \$300M in annual contributions at a 7% return — inflation-adjusted annual spending from the endowment only reaches \$240M by 2035 and \$369M by 2045. Connecticut already spends \$417M+ annually on early childhood education through the regular budget.
- FINDING 04** **Near-term spending is minimal.** In FY 2026, only \$36 million of the initial \$300 million endowment deposit may actually be spent, due to the statutory 12% drawdown cap. Families making decisions based on this program’s promises should understand that meaningful relief will not be immediate.
- FINDING 05** **The precedent risk is the larger concern.** The ECEE creates a mechanism for growing spending outside the capped appropriations process without formally violating the guardrails. If the legislature uses this template again — and there is no structural reason it would not — the cumulative fiscal damage compounds well beyond what this single endowment produces.
- FINDING 06** **Political expectations may amplify costs.** Although the endowment does not create a legal entitlement, it may create a standing political expectation that future lawmakers feel compelled to sustain or expand — potentially further reducing pension funding and increasing long-term costs for Connecticut taxpayers.

“The endowment marks a departure from the commitment made when the guardrails were established: prioritizing critically needed debt reduction and pension funding. It creates a risky precedent for establishing new off-budget mechanisms that can increase spending without violating Connecticut’s spending cap — even as the state remains heavily in debt.”

The Early Childhood Education Endowment (ECEE)

The Early Childhood Education Endowment (ECEE) was established in 2025 to support the state's efforts to provide subsidized childcare and pre-K education in Connecticut. The law requires that, starting in fiscal year 2026, all unallocated General Fund surpluses be transferred to the endowment, provided the state's Budget Reserve Fund is at its statutory cap. Before establishing this endowment, these unallocated surpluses would have continued to be used for additional contributions to Connecticut's underfunded public employee pension systems.

The hope is that the endowment will grow over time and eventually support near-universal access to subsidized childcare and pre-K, allowing all families earning under \$100,000 to pay nothing for infant, toddler, and pre-K care. Families earning above that threshold would pay no more than 7% of their household income.¹ The extent to which this can be fully achieved under current funding rules is, at best, uncertain. See section 3 for the endowment balance and spending growth projections under different scenarios.

Connecticut already had pre-K subsidies prior to the establishment of the endowment. At the state level, a \$417.5 million childhood education budget was approved for fiscal year 2026, and \$443 million for fiscal year 2027 (separate from endowment contributions).² Since Connecticut can increase its spending by only a certain percentage each year (see section 2: The Guardrails), raising pre-K spending as a budget item would require sacrificing other spending. However, doing so through an endowment bypasses this restriction.

"By diverting surplus revenues that were once earmarked to its severely underfunded pensions to this new endowment, Connecticut will slow the pace of pension debt reduction, extend amortization timelines, and increase the overall cost of funding legally binding retirement obligations."

The state has combined three existing programs — the Child Day Care Contracts, School Readiness Grants, and the State Head Start Supplement — into a single program called Early Start CT, which will be supplemented and expanded with available endowment funds.

THE CORE TRADE-OFF

\$31.5 Billion

In combined SERS and STRS unfunded pension liabilities as of 2025. These are legally enforceable obligations — binding claims on future state revenues — that year-end surpluses were previously used to reduce. The ECEE now captures those surpluses instead, prioritizing a discretionary, reversible commitment over a legally binding one.

¹ "Governor Lamont Celebrates Historic Legislative Session Expanding Access to Early Childhood Education," Office of the Governor State of Connecticut, 10 June 2025, <https://portal.ct.gov/governor/news/press-releases/2025/06-2025/governor-lamont-celebrates-historic-legislative-session-for-early-childhood-education> (15 Jan. 2026).

² "Governor Lamont Signs Biennial State Budget for 2026 and 2027," Office of the Governor, State of Connecticut, 30 June 2025, <https://portal.ct.gov/governor/news/press-releases/2025/06-2025/governor-lamont-signs-biennial-state-budget-for-2026-and-2027> (15 Jan. 2026).

1.1 Legal Structure

The long-term policy goal for this endowment is to use both investment earnings and cumulative surplus transfers to finance a gradual, sustainable expansion toward a universal pre-K subsidy contingent on recipient income. Unlike Connecticut's other early childhood programs funded through annual appropriations, the endowment is structured so that most contributions are preserved and invested, while only a portion of the fund's balance is drawn down annually. In the first two years, annual spending is capped at 12% of the Endowment's balance, after which the drawdown is permanently reduced to 10%.³

Period	Annual Spending Cap	Structure Rationale
FY 2026 – FY 2027	12% of balance	Initial phase; higher cap to allow meaningful early spending
FY 2028 and beyond	10% of balance	Permanent cap; designed to preserve and grow the fund long-term

The endowment explicitly states that it shall not be used to replace any existing early childhood care and education spending at the state or local levels. The goal is for it to expand and complement current coverage.⁴

The statute authorizes the State Treasurer to invest endowment assets at their discretion, subject to general fiduciary standards. The bill calls for the State Treasurer to “invest the amounts on deposit in the Early Childhood Education Endowment in a manner reasonable and appropriate to achieve the objectives of the endowment,” keeping in mind risk, return, and the endowment's cashflow needs.⁵

Unlike Connecticut's pension funds, the endowment does not fund legally binding liabilities. Its spending commitments are contingent on available funds, and promises are reversible.

This distinction — between legally binding pension obligations and discretionary endowment spending — is fundamental to the fiscal tradeoff at the heart of this analysis. When surpluses flow to pension funds, they reduce enforceable obligations. When they flow to the endowment, they fund discretionary commitments that can be reduced or eliminated by future legislatures. The state is trading a binding debt reduction for a reversible promise.

1.2 The Fiscal Logic of the Endowment

The endowment is to be funded through transfers from any and all unappropriated General Fund surpluses at fiscal year-end.

In its founding year, FY 2025, a \$300 million transfer was made. In subsequent years, the statute mandates the transfer of all unappropriated budget surpluses—provided that the Budget Reserve Fund (BRF) is maintained at 18 percent of General Fund appropriations. If the BRF is below that threshold, available surpluses must first be used to restore reserves before any endowment contribution is made.⁶

³ Public Act No. 25-93, Sec. 3, An Act Concerning the Early Childhood Education Endowment and Related Programs, Connecticut General Assembly, 2025 Regular Session, www.cga.ct.gov/2025/act/pa/pdf/2025PA-00093-R00SB-00001-PA.pdf (8 Jan. 2026).

⁴ Public Act No. 25-93, Sec. 4, An Act Concerning the Early Childhood Education Endowment and Related Programs, Connecticut General Assembly, 2025 Regular Session, www.cga.ct.gov/2025/act/pa/pdf/2025PA-00093-R00SB-00001-PA.pdf (8 Jan. 2026).

⁵ Public Act No. 25-93, Sec. 13, An Act Concerning the Early Childhood Education Endowment and Related Programs, Connecticut General Assembly, 2025 Regular Session, www.cga.ct.gov/2025/act/pa/pdf/2025PA-00093-R00SB-00001-PA.pdf (8 Jan. 2026).

⁶ Public Act No. 25-93, Sec. 2, An Act Concerning the Early Childhood Education Endowment and Related Programs, Connecticut General Assembly, 2025 Regular Session,

Though maintaining the BRF takes precedence over endowment funding, it is not without its sacrifices. Before the establishment of the endowment, surpluses available after the BRF reached its limit would be directed to Connecticut's severely underfunded public pension funds.

Connecticut's largest public employee pension funds, the Connecticut State Employees Retirement System (SERS) and Connecticut State Teacher Retirement System (STRS), have cumulative unfunded pension liabilities of \$31.5 billion in 2025, which, combined with other state debts, make Connecticut the second-most indebted state in the nation on a per-capita basis (see Section 3).⁷

Pension debt, formally the net pension liability (NPL) or actuarial unfunded liability (UAL), is the gap between the total value of pension benefits earned by public employees and the accumulated assets in their pension fund. Shortfalls occur either when assumptions used to calculate annual pension contributions—such as investment returns, mortality rates, or turnover rates—are overestimated, or when pension benefits are retroactively increased and end up costing more than budgeted.

In Connecticut, the Reason Foundation and Yankee Institute paper, "*The Case For Connecticut's Guardrails*," found that from 2004 to 2023, underestimates of actuarial assumptions were the primary cause of pension debt in Connecticut's largest pension systems, SERS and STRS, adding \$14 billion to the UAL. The second most significant factor was investment returns falling short of expectations, which added \$9.4 billion, and readjustments to labor force demographic assumptions, which added \$5 billion⁸.

Because pension benefits are legally enforceable, unfunded liabilities constitute a binding claim on future state revenues and act as deferred public debt. Pre-funding pension benefits is the safest and most cost-effective approach, as investment earnings generally make up 60% of pension revenue.⁹ By underfunding pensions, governments forgo investment returns and risk sudden increases in costs, which will inevitably be passed down to future taxpayers.

Connecticut just recently began to address its indebtedness through the enactment of fiscal guardrails that directed both volatile revenues above a cap and budget surpluses to pay down its most expensive debt: pension debt. Now, given that budget surpluses are to be directed to the endowment, only above-cap volatile revenues are available to accelerate pension funding.

A majority of the additional pension contributions have come from volatility-cap revenues rather than year-end surpluses. Nonetheless, budget surpluses have played a meaningful supplemental role. In FY 2024 and FY 2023—more typical years prior to the endowment—**budget surpluses accounted for 35% and 27% of total additional pension contributions**. In FY 2025, the first year of the endowment, \$300 million of the surplus was diverted to the endowment, reducing the surplus share of additional pension contributions to just 7.4%. Going forward, budget surpluses will no longer be available to support additional pension contributions.

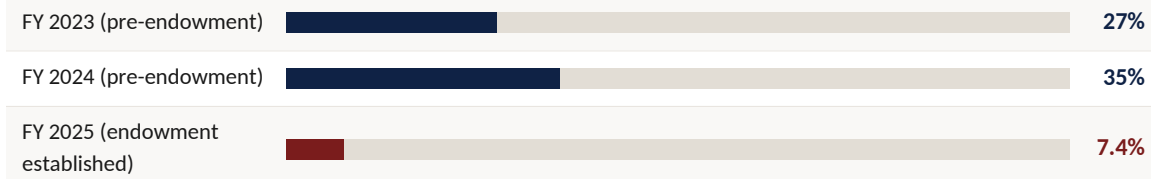
www.cga.ct.gov/2025/act/pa/pdf/2025PA-00093-R00SB-00001-PA.pdf (8 Jan. 2026).

⁷ Office of the State Comptroller, *Connecticut State Employees' Retirement System Actuarial Valuation as of June 30, 2025*, State of Connecticut; and Connecticut Teachers' Retirement Board, *Connecticut State Teachers' Retirement System Actuarial Valuation as of June 30, 2025*, State of Connecticut.

⁸ Mariana Trujillo, Jordan Campbell, Truong Bui, and Steve Vu, "CT Pensions Dashboard," Reason Foundation. www.ct-pensions.reason.org/current-state (15 Jan. 2026).

⁹ "State and Local Pension Plan Investment Return Assumptions," National Association of State Retirement Administrators, June 2025, www.nasra.org/files/Issue%20Briefs/NASRAInvReturnAssumptBrief.pdf (10 Jan. 2026).

Figure 1 — Budget Surplus Share of Additional Pension Contributions (FY 2023–2025)



Source: State Treasurer announcements for FY 2023, 2024, and 2025. Going forward, budget surpluses will no longer contribute to pensions at all.

From 2017-2025, Connecticut has had, on average, \$334M of unappropriated budget surpluses. From 2020-2025, it has averaged \$523M.

As these surpluses are redirected to the endowment rather than being used to make additional contributions to Connecticut’s underfunded public employee pension systems, pension funding slows, debt repayment is postponed, and overall pension costs rise.

1.3 Procedural Concerns

Connecticut already allocates around \$400 million annually for pre-K subsidies through its operating budget.¹⁰ Expanding this funding through an endowment rather than the budget enables the state to increase effective spending without formally raising the spending cap, creating an off-budget mechanism that may weaken the practical effect of the guardrails by allowing spending growth to occur outside the capped appropriations process.

Connecticut’s guardrails exist for a reason. They were put in place by the legislature in 2017 as a pledge to change the state’s financial future. They serve as a legally binding commitment to limit spending growth and focus on reducing debt.

It remains uncertain whether the endowment, as currently established, will grow enough to significantly support pre-K funding in the next twenty years. In the short and medium term, the endowment’s available spending is minimal compared to Connecticut’s current education and pre-K costs. As shown in the modeling in section 5, even under a reasonable best-case scenario—which assumes \$300 million in annual surplus contributions and a 7% return—in about 20 years, annual endowment spending, limited to 10% of the balance, will only reach \$369 million in inflation-adjusted dollars.

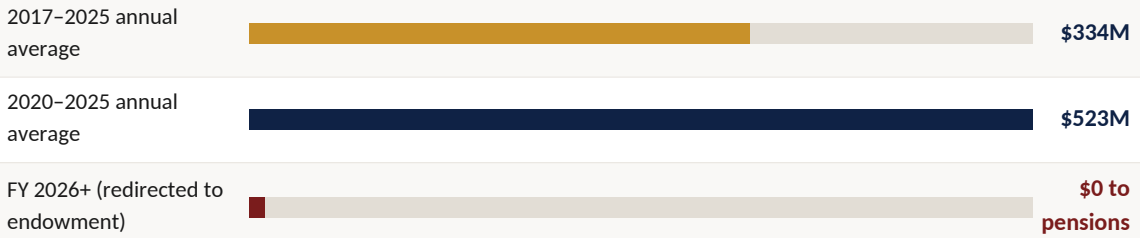
This may create political pressure because the endowment has been advertised as an immediate relief. Some state residents may be engaging in family planning under the assumption that the state can provide childcare at no cost or at reduced rates, even though it seems unlikely that available funds will cover the program’s stated purpose anytime soon.

Therefore, although the endowment does not create a legal entitlement, it may create a standing political expectation. Over time, this expectation may exert political pressure to sustain or expand contributions, perhaps further reducing the pace of pension funding in Connecticut. This would further increase the long-term costs, deteriorate the state’s overall fiscal position, and reintroduce fiscal stress and risk. See the potential impacts of different scenarios in section 4.

¹⁰ “Governor Lamont Signs Biennial State Budget for 2026 and 2027,” Office of the Governor, State of Connecticut, 30 June 2025, <https://portal.ct.gov/governor/news/press-releases/2025/06-2025/governor-lamont-signs-biennial-state-budget-for-2026-and-2027> (15 Jan. 2026).

In this sense, the endowment may create a budget precedent and constituent expectations that generate fiscal risks extending well beyond its immediate budgetary footprint. The potential for the ECEE to serve as a legislative template — enabling additional off-budget endowments using the same surplus-diversion mechanism — is an area that warrants further analysis.

Figure 2 — Average Annual Unappropriated Budget Surpluses Available for Pension Contributions



Source: CT Comptroller FY 2020 Year in Review; State of CT GO Bonds 2025ABA Investor Presentation.

Connecticut's Fiscal Guardrails

*This section is adapted from the 2024 Reason Foundation and Yankee Institute paper, *The Case for Connecticut's Guardrails*.*

In 2017, several significant fiscal reforms came about from a lengthy biennial budget negotiation in Connecticut's General Assembly. These reforms included spending caps and mandatory revenue-saving measures, which became known as Connecticut's fiscal guardrails. They included:

Spending Cap

Limits overall budget growth to either the average five-year personal income increase or the inflation rate. This ensures that state spending stays within sustainable limits tied to the economy's actual performance.

Revenue Cap

Restricts the amount of General Fund and Special Transportation Fund appropriations to a percentage of revenue, directing funds to the Budget Reserve Fund ("rainy day fund") and serving as a cushion against economic and tax revenue declines.

Revenue Volatility Cap

Allocates collections from unpredictable revenue sources exceeding a set threshold into the Budget Reserve Fund (BRF) and pension funds, helping to stabilize state finances by managing volatile income streams such as capital gains and bonus income.

Bond Lock

A contractual obligation not to redefine or modify the fiscal guardrails by incorporating them into bond covenants. Prevents waiving these requirements unless three-fifths of the legislature and the governor agree. Violating bond covenants would greatly hinder Connecticut's ability to raise funds through bonds.

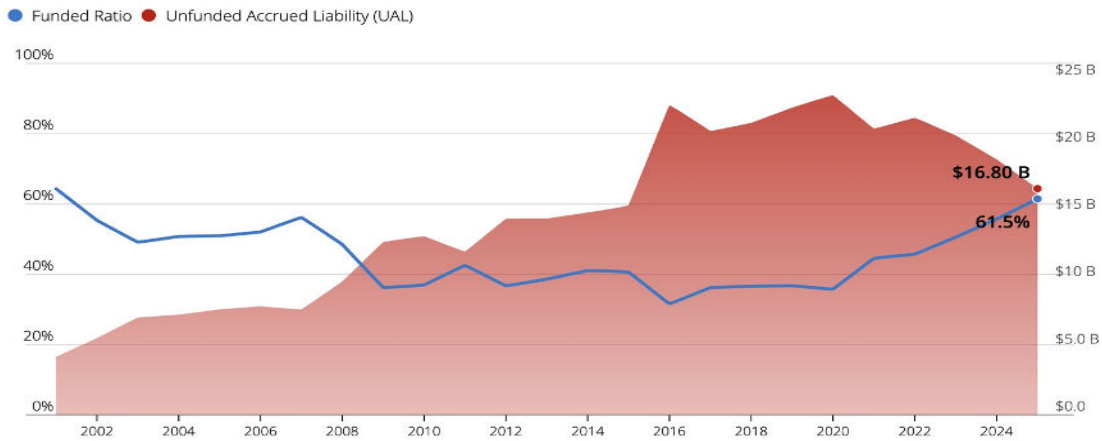
The BRF is capped at 18% of the net General Fund. Once the BRF reaches this limit, any excess funds are allocated to reduce the unfunded liabilities of the Connecticut State Employee Retirement System (SERS) and the Connecticut State Teachers Retirement System (STRS), which are in a critical condition and decades away from full funding.

Since 1971, the state has been required to fully fund its plans through the Actuarially Determined Employer Contribution (ADEC), which mandates full payment of normal pension costs and the amortization of unfunded liabilities. However, both plans have become increasingly underfunded each year. This is mainly due to collective bargaining agreements that have changed pension valuations, leading to a chronic underestimation of current costs and persistent underfunding.

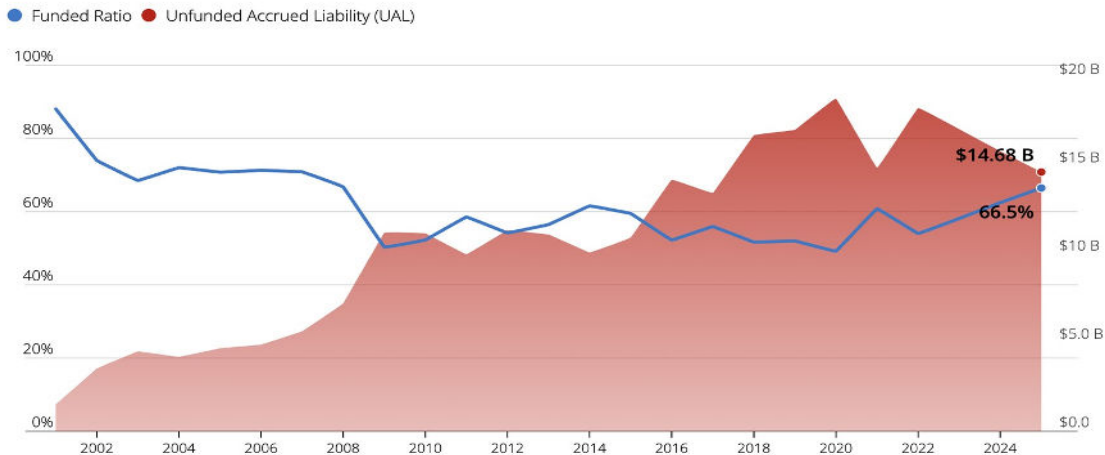
A 1992 agreement with the State Employees Bargaining Agent Coalition (SEBAC) extended the amortization period from 30 to 40 years, postponing payments and increasing long-term liabilities. A later 1997 agreement with SEBAC shifted from "level dollar" to "level percent of payroll" funding, leading to lower initial payments but larger future obligations. These changes were meant to ease short-term financial pressure and satisfy interest groups by deferring costs to the future—a future the state faces. Recent additional contributions to SERS and STRS have set both plans on track to address decades of underfunding and clear their unfunded liabilities. Since 2017, the state government has made lump-sum payments in addition to ADEC. SERS's funded ratio has risen from 32% in 2016 to 62% in fiscal year 2025,

while STRS’s funded ratio has increased from 52% in 2016 to 67% in 2025—reversing their prior declining trend.¹¹

Connecticut SERS



Connecticut STRS



These fiscal reforms and responsible funding strategies have resulted in multiple credit rating upgrades from S&P Global Ratings (from A+ to AA-), Fitch (from AA- to AA), and Moody’s (from Aa3 to Aa2), reflecting the positive impact of the fiscal guardrails and ensuring a more stable financial future for Connecticut.^{12 13}

Despite improvements since the enactment of the fiscal guardrails, Connecticut remains one of the most indebted states in the nation.

¹¹ Office of the State Comptroller, *Connecticut State Employees’ Retirement System Actuarial Valuation as of June 30, 2025*, State of Connecticut; and Connecticut Teachers’ Retirement Board, *Connecticut State Teachers’ Retirement System Actuarial Valuation as of June 30, 2025*, State of Connecticut.

¹² “Governor Lamont Announces Connecticut Receives Credit Rating Increase From S&P,” State of Connecticut, 21 Nov. 2025, https://portal.ct.gov/governor/news/press-releases/2022/11-2022/governor-lamont-announces-connecticut-receives-credit-rating-increase-from-sp?language=en_US (20 Jan. 2026).

¹³ “Governor Lamont and Treasurer Russell Announce Connecticut Receives Credit Rating Increases From Moody’s and Fitch,” State of Connecticut, 10 Sep. 2025, <https://portal.ct.gov/governor/news/press-releases/2025/09-2025/governor-lamont-and-treasurer-russell-announce-connecticut-receives-credit-rating-increases> (22 Jan. 2026).

The Fiscal Status of Connecticut's State and Local Governments

Connecticut's state and local governments rank second in the country in per capita long-term debt—with about \$35,000 per resident, more than double the national average of \$15,000—and rank second in terms of pension debt per capita, with about \$13,000 per resident.¹⁴

<p>LONG-TERM DEBT PER RESIDENT</p> <p>\$35,000</p> <p>More than double the \$15,000 national average. CT ranks 2nd among state and local governments nationwide.</p>	<p>PENSION DEBT PER RESIDENT</p> <p>\$13,000</p> <p>2nd in the nation in pension debt per capita, behind only Illinois.</p>
<p>STATE GOVERNMENT DEBT RANK</p> <p>#1</p> <p>Among all state governments nationwide in long-term debt per capita — the most indebted state government in the U.S.</p>	<p>COMBINED SERS + STRS UNFUNDED</p> <p>\$31.5B</p> <p>In unfunded pension liabilities as of 2025 — legally binding claims on future state revenues.</p>

Connecticut stands out as an extreme outlier in both pension debt and total long-term debt per capita, far exceeding national norms.

Despite its large size, pension debt—that is, the unfunded portion of public employees' pension benefits—only represents less than half of Connecticut's total long-term debts.

Of Connecticut's long-term debt, 41.4% is Net Pension liability (unfunded pension liabilities), 21% is unfunded Other Post Employment Benefits (OPEB) for public employees, and 36% is bonds, loans, and notes.

Debt Category	Share of Total	Nature of Obligation
Net Pension Liability (SERS + STRS unfunded)	41.4%	Legally enforceable; cannot be reduced without benefit cuts
Other Post-Employment Benefits (OPEB)	21.0%	Legally enforceable; healthcare and other retiree benefits
Bonds, Loans, and Notes	36.0%	Contractual; subject to credit rating risk

Four Connecticut cities rank among the 50 most indebted municipalities per capita: **Hamden (12th, \$20,819)**; **New Haven (17th, \$18,144)**; **Waterbury (46th, \$14,952)**; and **Bridgeport (47th, \$14,894)**.

This fiscal context is essential to understanding the stakes of the ECEE policy. Connecticut is not a state with excess fiscal capacity — it is the most indebted state government per capita in the nation, still in the early stages of correcting decades of pension underfunding. Any mechanism that diverts surplus resources from pension contributions carries amplified risk in this environment. The margin for error is narrow.

¹⁴ Mariana Trujillo and Jordan Campbell, "Report: State and local governments have \$6.1 trillion in debt," Reason Foundation, 23 Oct. 2025, <https://reason.org/transparency-project/gov-finance-2025/> (20 Jan. 2026).

The Impact of the Pre-K Endowment on Pension Funding in the Next 30 Years

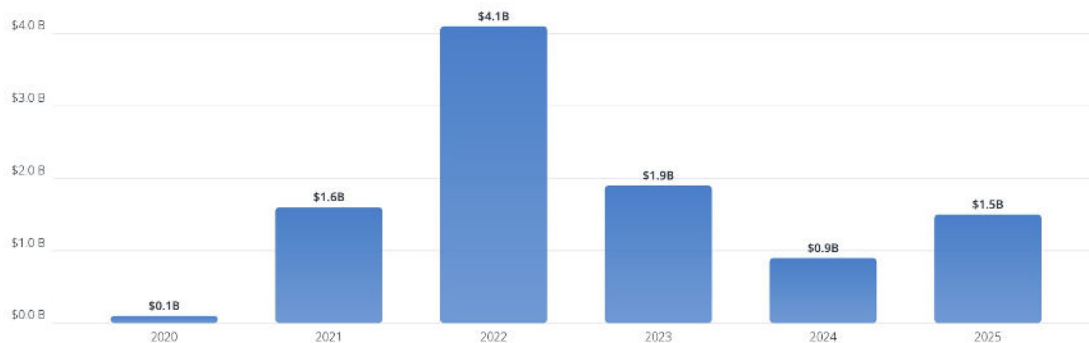
This section quantifies the fiscal tradeoff created by redirecting year-end General Fund surpluses from pension debt reduction to the Early Childhood Education Endowment.

Using historical contribution patterns prior to the endowment as a baseline, we model how diverting surplus revenues alters the funding trajectories of SERS and STRS. The analysis isolates the effect of reduced discretionary pension contributions while keeping actuarial assumptions constant, allowing for a direct comparison of outcomes across different contribution, return, and recession scenarios.

The results demonstrate that even modest, sustained reductions in additional pension contributions materially delay full funding and increase cumulative pension costs, particularly under lower-return or recessionary conditions.

Before the creation of the endowment, from 2017 to 2025, on average, \$1.7B was annually contributed to both STRS and SERS.

Supplemental Pension Contributions FY 2020–FY 2025



This projection assumes the available contributions are split as 45% going to STRS and 55% to SERS, as is customary for the Treasurer to do.¹⁵

All actuarial assumptions not explicitly stated — such as demographic, mortality, retirement, and turnover assumptions — are assumed to remain constant and are taken directly from plan actuarial valuations. If actual results differ from these assumptions and require readjustment, as has happened many times in the past, it could affect funding trajectories and delay reaching full funding beyond the scenarios modeled here.

¹⁵ “Treasurer Russell Deposits \$1.487 Billion into State Pension Funds Total Extra Deposits Reach \$10 Billion,” State of Connecticut, 18 Nov. 2025, <https://portal.ct.gov/ott/newsroom/news/news-releases/russell-deposits-1487-billion-into-state-pension-funds-total-extra-deposits-reach-10-billion> (16 Jan. 2026).

Key Terms

Term	Definition
Additional Contributions	Discretionary supplemental payments made to SERS and STRS above actuarially determined employer contributions. Three scenarios modeled: \$1.8B, \$1.5B, and \$0 — adjusted to grow by 2.5% inflation annually.
Rate of Return	SERS and STRS assume a 6.9% long-term rate of return. A lower 6.0% return scenario is also modeled.
Funded Ratio	The ratio of the market value of assets to accrued liabilities, measuring the share of promised benefits covered by current assets.
Unfunded Market Liability	The dollar value of pension liabilities not covered by assets, measured on a market-value basis, reported in inflation-adjusted dollars.
All-In Government Costs	The inflation-adjusted cumulative total of contributions paid through 2053 plus any remaining unfunded liability.
Stress Test	A downside scenario incorporating one economic recession over the next 30 years to evaluate pension funding resilience.

Funding Progression Without Additional Contributions

This scenario examines the expected financial trajectories of SERS and STRS over the next 30 years if they received no additional contributions and were funded solely through established public employee and government employer contributions.

Under the plan’s 6.9% assumed rate of return, assuming no recessions, SERS would reach full funding by 2045, and STRS would reach full funding by 2046. The total all-in cost would be \$62.7 billion.

Still under a no-recession scenario, if the plans achieve only a 6% investment return rate, they will not achieve full funding in the next 30 years. SERS would reach 87% and STRS 92% by 2053. The total all-in cost would be \$85.43 billion.

If, however, both plans experience one recession in the next 30 years, SERS will only be 87% funded and STRS 92% by 2053. The total cost for both is \$100.7B.

Figure 5 — SERS Funded Ratio Projection | Scenario 1 (No Additional Contributions)

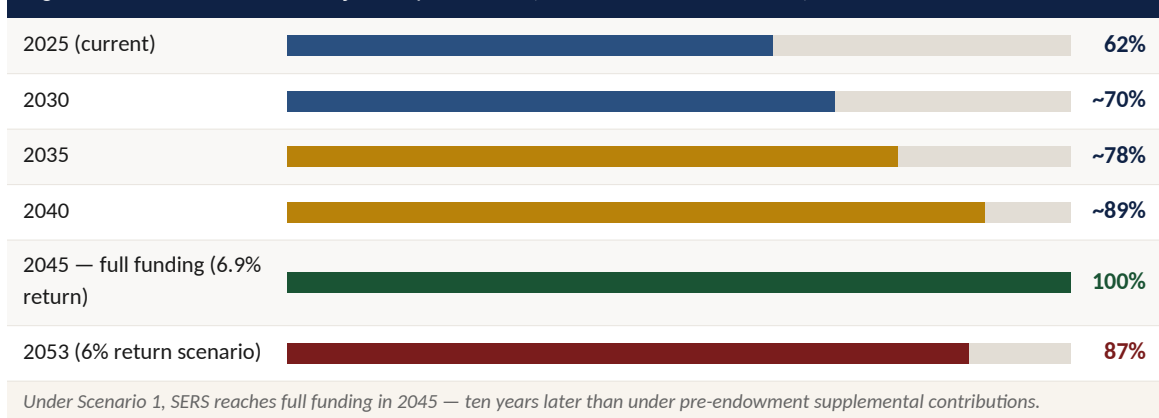


Figure 6 — SERS Employer Contribution (% of Payroll) | Scenario 1

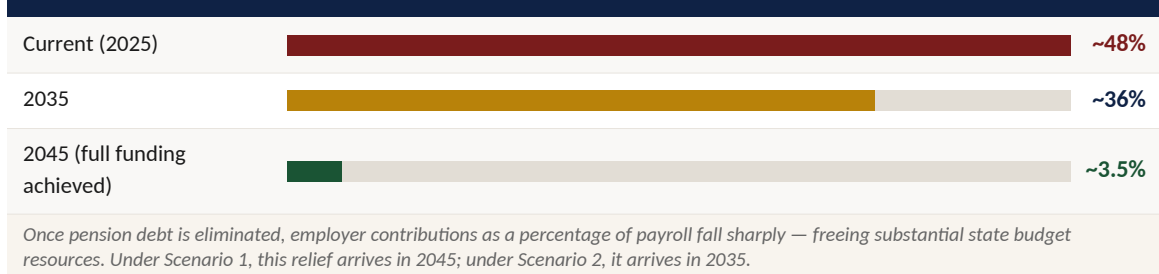
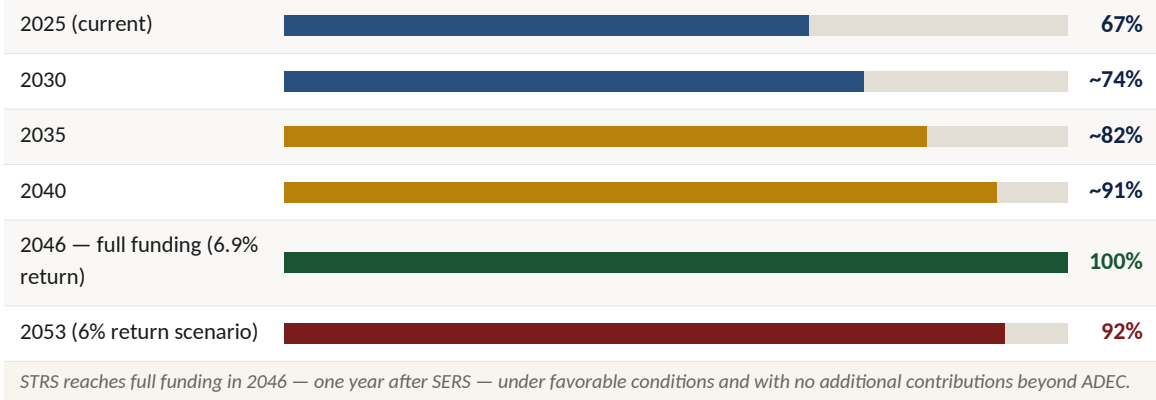


Figure 7 — STRS Funded Ratio Projection | Scenario 1 (No Additional Contributions)



Scenario 1 — All-In Government Costs (SERS + STRS Combined)

Return Assumption	Recession Assumption	All-In Cost (SERS + STRS)
6.9% (plan assumption)	No recessions	\$62.7 billion
6.0% (conservative)	No recessions	\$85.4 billion
6.9% (plan assumption)	One recession	\$100.7 billion

Funding Progression with Additional Contributions Before the Pre-K Endowment (\$1.8B/Year)

This scenario examines the expected financial trajectories of SERS and STRS over the next 30 years, based on contributions observed before the creation of the endowment. We assume a combined \$1.8B in additional contributions each year (which grow at a 2.5% annual inflation rate), divided between \$990M for SERS and \$810M for STRS.

Under the plan’s 6.9% assumed rate of return, assuming no recessions, SERS would reach full funding by 2035, and STRS would reach full funding by 2036. The total all-in cost would be \$53.2 billion. In comparison to Scenario 1, under these assumptions, the additional contributions accelerate full funding by 10 years and decrease all-in costs by \$9.5 billion.

Still under a no-recession scenario, if the plans achieve only a 6% investment return rate, they will not achieve full funding in the next 30 years. Both pensions would have funded ratios of 96–99% starting in the mid-2030s. The total all-in cost would be \$77.9 billion. In comparison with Scenario 1, under these assumptions, the additional contributions reduce all-in costs by \$7.5 billion.

If, however, both plans experience one recession in the next 30 years—despite receiving \$1.8 billion dollars in additional contributions—SERS will only be 95% funded and STRS 98% by 2053. The total cost for both is \$94 billion. In comparison to Scenario 1, under these assumptions, the additional contributions reduce all-in costs by \$6.8 billion.

Figure 8 — SERS Funded Ratio Projection | Scenario 2 (Pre-Endowment \$1.8B/Year)

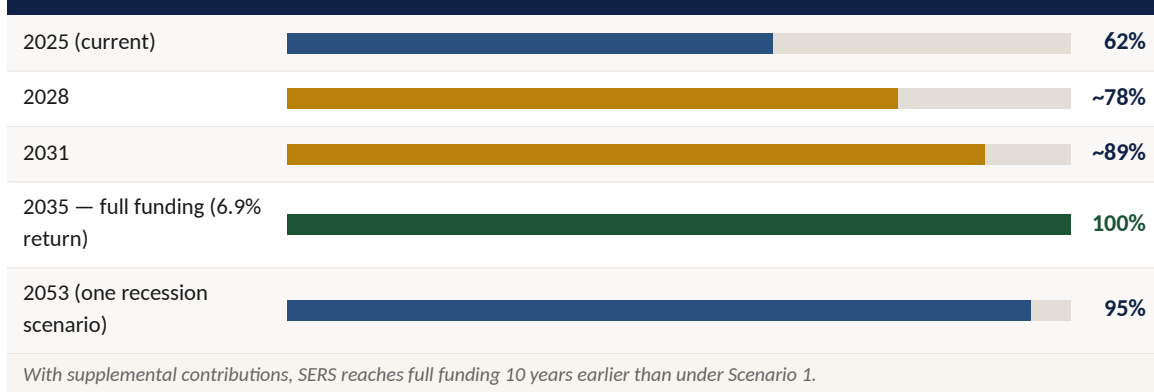


Figure 9 — SERS Employer Contribution (% of Payroll) | Scenario 2

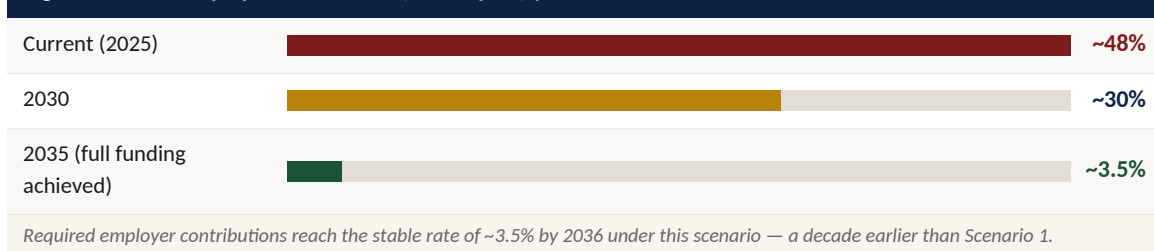
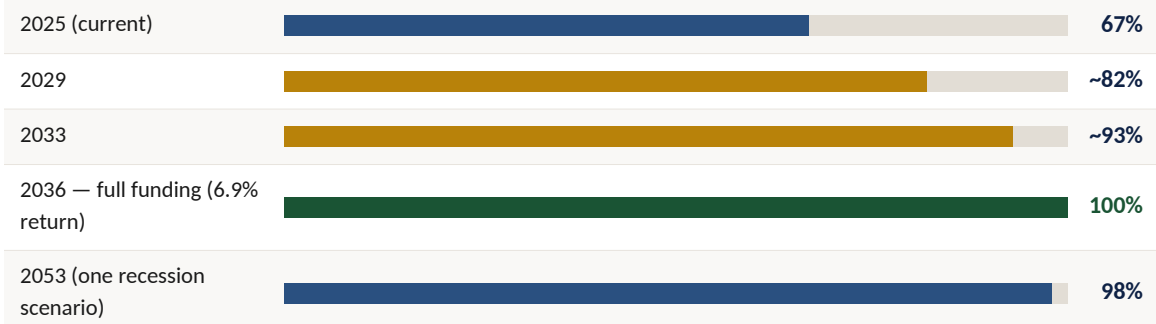


Figure 10 — STRS Funded Ratio Projection | Scenario 2 (Pre-Endowment \$1.8B/Year)



STRS with \$810M in annual additional contributions reaches full funding in 2036 — ten years ahead of the no-contribution baseline.

Scenario 2 — All-In Government Costs (SERS + STRS Combined)

Return Assumption	Recession	All-In Cost	vs. Scenario 1
6.9% (plan assumption)	No recessions	\$53.2 billion	Saves \$9.5B
6.0% (conservative)	No recessions	\$77.9 billion	Saves \$7.5B
6.9% (plan assumption)	One recession	\$94.0 billion	Saves \$6.8B

Funding Progression with Additional Contributions After the Pre-K Endowment (\$1.5B/Year)

This scenario examines the expected financial trajectories of SERS and STRS over the next 30 years, based on contributions expected after the endowment’s creation. We assume a combined \$1.5B in additional contributions (a \$300M reduction by year), which grows at a 2.5% yearly rate of inflation. The additional contributions are divided as \$825M for SERS and \$675M for STRS.

Under the plan’s 6.9% assumed rate of return, assuming no recessions, SERS would reach full funding by 2036, and STRS would reach full funding by 2037. The total all-in cost would be \$54.1 billion. In comparison to Scenario 2, under these assumptions, a \$300 million reduction in annual additional contributions delays funding by 1 year and increases all-in costs by \$870 million.

Still under a no-recession scenario, if the plans achieve only a 6% investment return rate, they will not achieve full funding in the next 30 years. SERS would reach 94% and STRS 97% by 2053. The total all-in cost would be \$78.3 billion. In comparison to Scenario 2, under these assumptions, a \$300 million reduction in annual additional contributions increases all-in costs by approximately \$330 million.

If, however, both plans experience one recession in the next 30 years, SERS will only be 94% funded and STRS 98% by 2053. The total cost for both is \$94.8 billion. In comparison to Scenario 2, under these assumptions, a \$300 million reduction in annual additional contributions increases all-in costs by approximately \$800 million.

Figure 11 — SERS Funded Ratio Projection | Scenario 3 (Post-Endowment \$1.5B/Year)

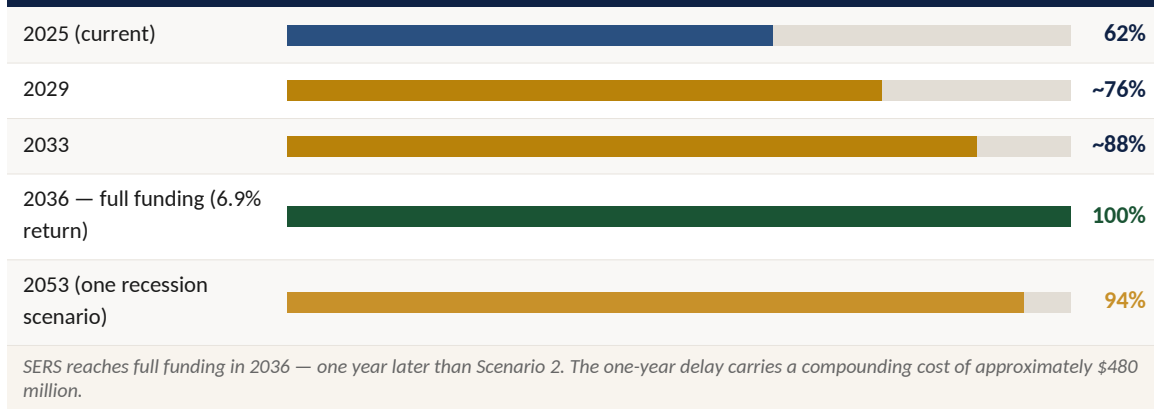


Figure 12 — SERS Unfunded Market Liability (Inflation-Adjusted) | Scenario 3

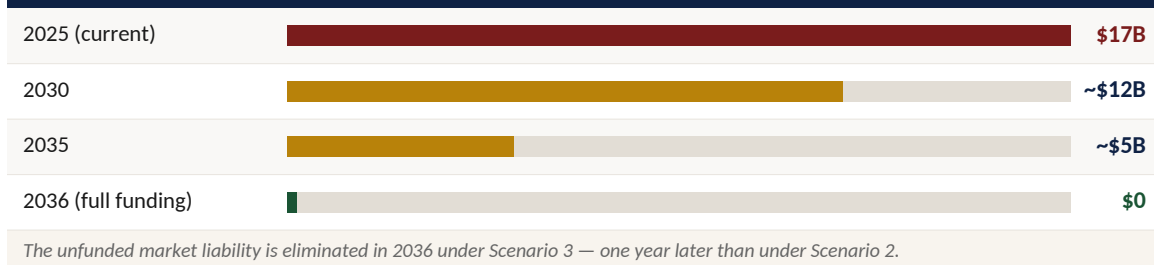
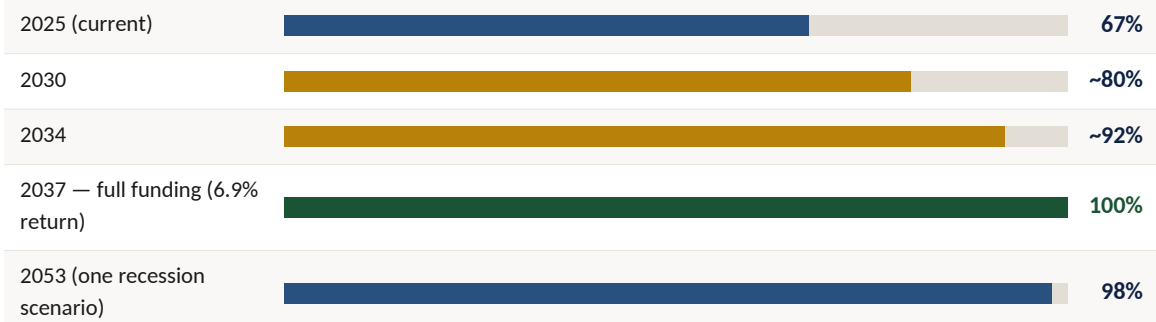


Figure 13 — STRS Funded Ratio Projection | Scenario 3 (Post-Endowment \$1.5B/Year)



STRS reaches full funding in 2037 under Scenario 3 — one year later than Scenario 2, nine years earlier than Scenario 1.

Scenario 3 — All-In Government Costs (SERS + STRS Combined)

Return Assumption	Recession	All-In Cost	vs. Scenario 2
6.9% (plan assumption)	No recessions	\$54.1 billion	+\$870 million
6.0% (conservative)	No recessions	\$78.3 billion	+\$330 million
6.9% (plan assumption)	One recession	\$94.8 billion	+\$800 million

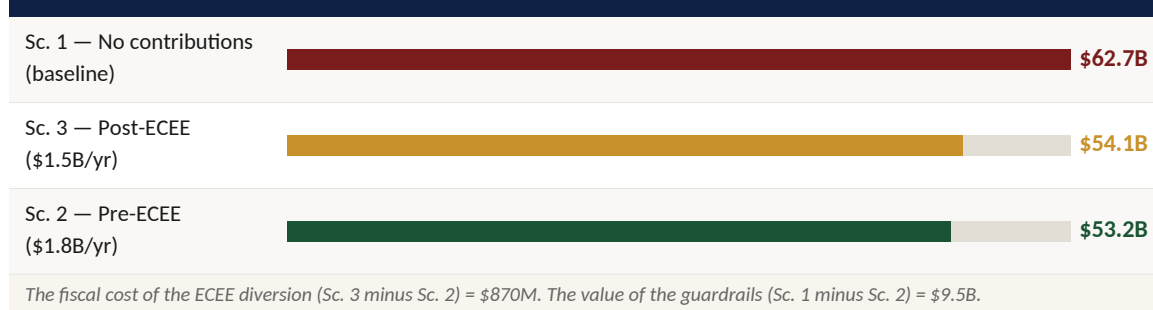
The \$300M annual diversion to the ECEE increases total pension costs by \$300M to \$900M across scenarios. While modest in any single year, this represents a permanent reduction in pension momentum — and the compounding effect grows over time.

Scenario Comparison: The Fiscal Cost of the ECEE Diversion

The three scenarios together illustrate the full fiscal arc: what full funding costs without supplemental contributions (Scenario 1), what supplemental contributions save (Scenario 2), and what the ECEE diversion costs by reducing those contributions (Scenario 3).

Metric	Sc. 1—No Contributions	Sc. 2—Pre-ECEE \$1.8B	Sc. 3—Post-ECEE \$1.5B
SERS full funding	2045	2035	2036
STRS full funding	2046	2036	2037
All-in cost (6.9%)	\$62.7B	\$53.2B	\$54.1B
All-in cost (6.0%)	\$85.4B	\$77.9B	\$78.3B
All-in cost (recession)	\$100.7B	\$94.0B	\$94.8B
vs. baseline	Baseline	Saves up to \$9.5B	+\$300M+-\$870M

Figure 14 — All-In Government Costs Comparison: ECEE Diversion (6.9% Return, No Recession)



“Under pre-endowment funding patterns, the guardrails are projected to accelerate full funding of SERS and STRS by up to ten years and reduce cumulative inflation-adjusted pension costs by up to \$9.5 billion. The ECEE diversion gives back \$300–\$870 million of those hard-won savings — permanently.”

These results are driven by the compounding benefit of earlier debt reduction. When pension liabilities are paid down faster, the fund earns investment returns on a larger asset base for more years — creating a self-reinforcing cycle of improved funding. This is the mechanism the guardrails were designed to exploit. The ECEE interrupts it.

Pre-K Endowment Growth and Spending Capacity in the Next 30 Years

Connecticut has big hopes for this endowment. It is intended to fund free childcare options for families enrolled in Early Start CT earning under \$100,000/year and sliding-scale contributions (up to 7%) for families enrolled in Early Start CT earning more than \$100,000/year.¹⁶

In Fiscal year 2026, only \$36 million of the \$300 million in the endowment can be spent. As a point of comparison, Connecticut spends approximately \$7B in education every year (25% of total appropriations)¹⁷, and has a separate \$417.5 million childhood education budget for fiscal year 2026.¹⁸

Because the endowment's near-term spending capacity is small relative to existing appropriations, the central question is how quickly its balance—and therefore its annual available spending—can grow to meet the hopes placed on it. This section models endowment growth over the next 20 years under three contribution and return assumptions.

YEAR ONE REALITY CHECK

\$36M

Of the \$300M initial endowment deposit, only 12% (\$36M) may be spent in FY 2026 due to the statutory drawdown cap — a fraction of the \$417M+ Connecticut already spends annually on early childhood education through the regular operating budget.

Term	Definition
Yearly Contributions	The annual deposit into the endowment from year-end budget surpluses (assumed at \$200M or \$300M, depending on the scenario). Adjusted to grow by a 2.5% rate of inflation every year.
Rate of Return	The annual investment return earned on endowment assets. We model a conservative return of 4.5% and a higher, equity-like return of 7.0%.
Annual Available Spending	The inflation-adjusted dollar amounts available to be spent from the endowment each year, modeled as the statutory maximum of 12% for FY 2026–2027, and 10% thereafter.
Balance	The end-of-year value of the endowment, reported in inflation-adjusted dollars using an assumed 2.5% annual inflation rate.

¹⁶ “Early Childhood Education Endowment and Supporting Bills,” Connecticut Office of Early Childhood, https://www.ctoec.org/wp-content/uploads/2025/09/Early-Childhood-Education-Endowment_Listening-Sessions-1.pdf (8 Jan. 2026).

¹⁷ “Connecticut State Budget FY 26 - FY 27,” Office of Fiscal Analysis Connecticut General Assembly, https://www.cga.ct.gov/ofa/Documents/year/BB/2025BB-20250827_FY%2026%20and%20FY%2027%20Connecticut%20Budget.pdf (18 Jan. 2026).

¹⁸ “Governor Lamont Signs Biennial State Budget for 2026 and 2027,” Office of the Governor, State of Connecticut, 30 June 2025, <https://portal.ct.gov/governor/news/press-releases/2025/06-2025/governor-lamont-signs-biennial-state-budget-for-2026-and-2027> (15 Jan. 2026).

\$300M Annual Contributions | Conservative 4.5% Investment Return

Under these assumptions, adjusted for inflation, the endowment balance is projected to reach approximately **\$2.2 billion by 2035** and **\$3 billion by 2045**. Annual available spending would be **\$213 million by 2035** and **\$304 million by 2045**.

Figure 15 — Endowment Balance Growth | Scenario 1 (\$300M / 4.5%)

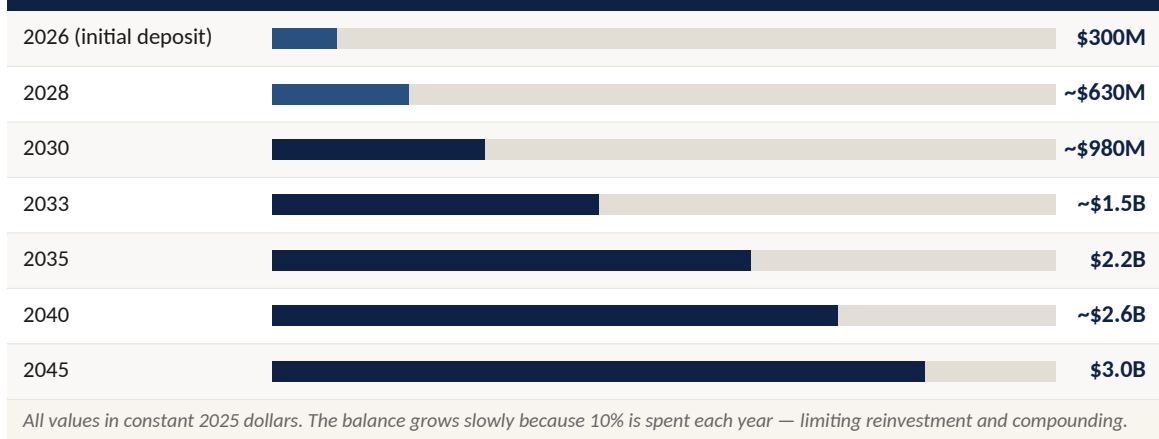
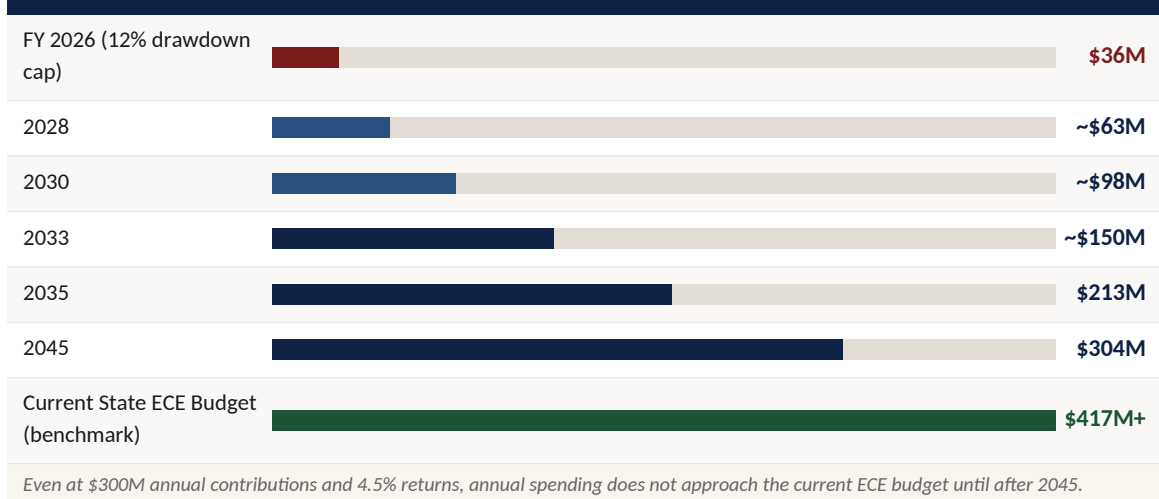
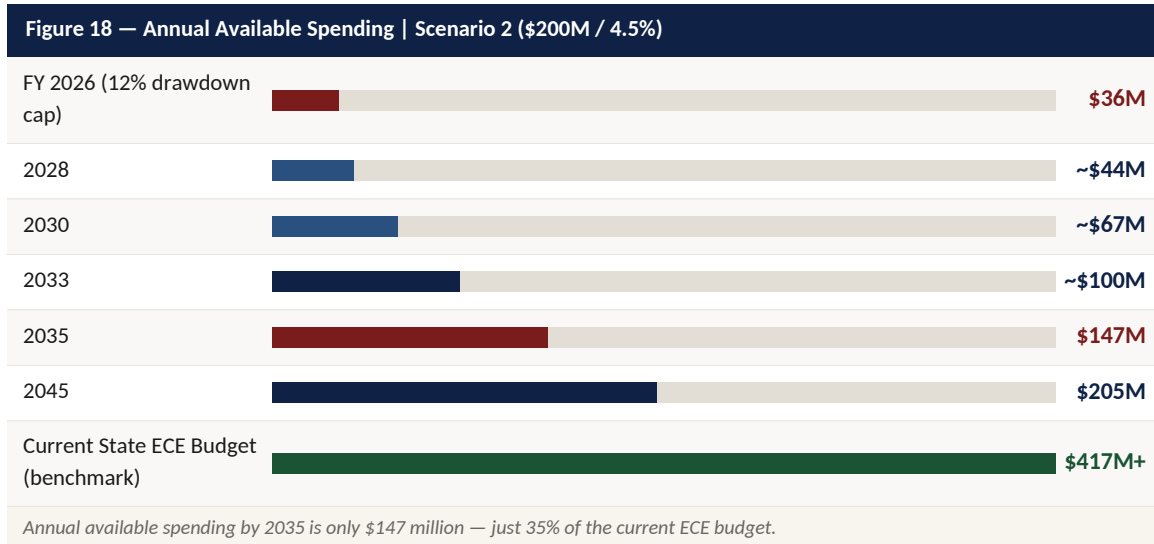
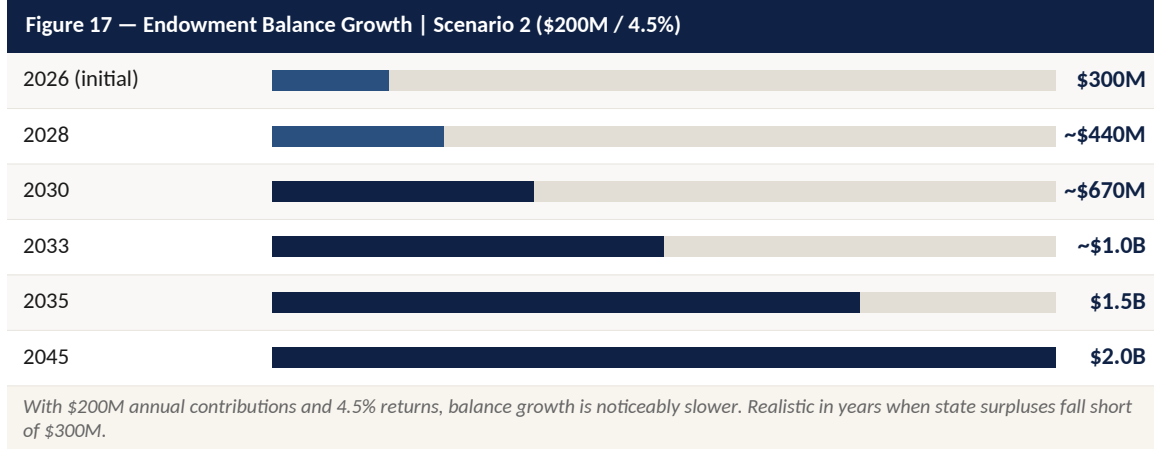


Figure 16 — Annual Available Spending | Scenario 1 (\$300M / 4.5%)



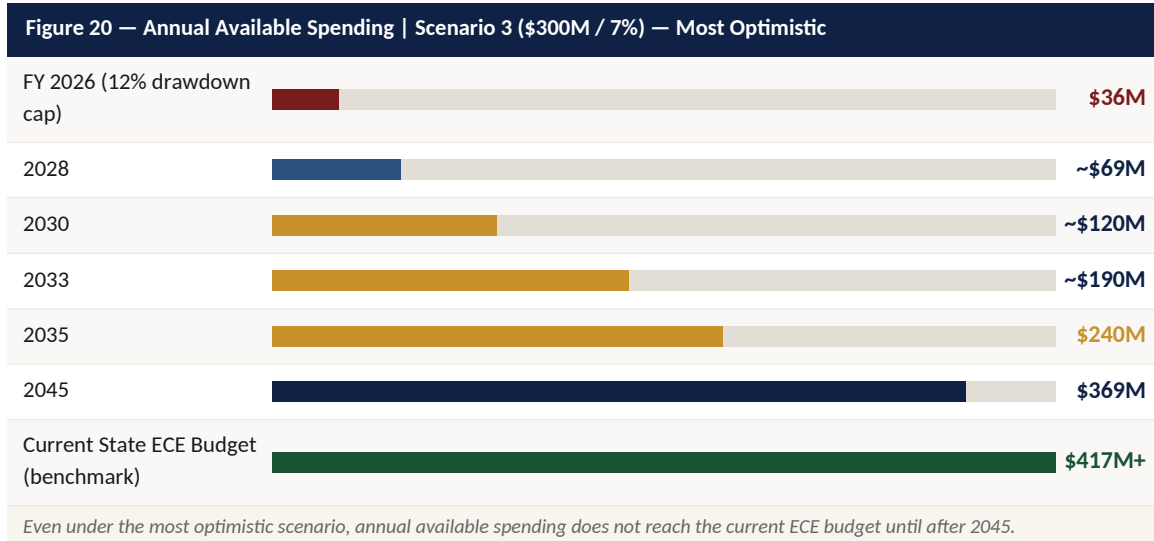
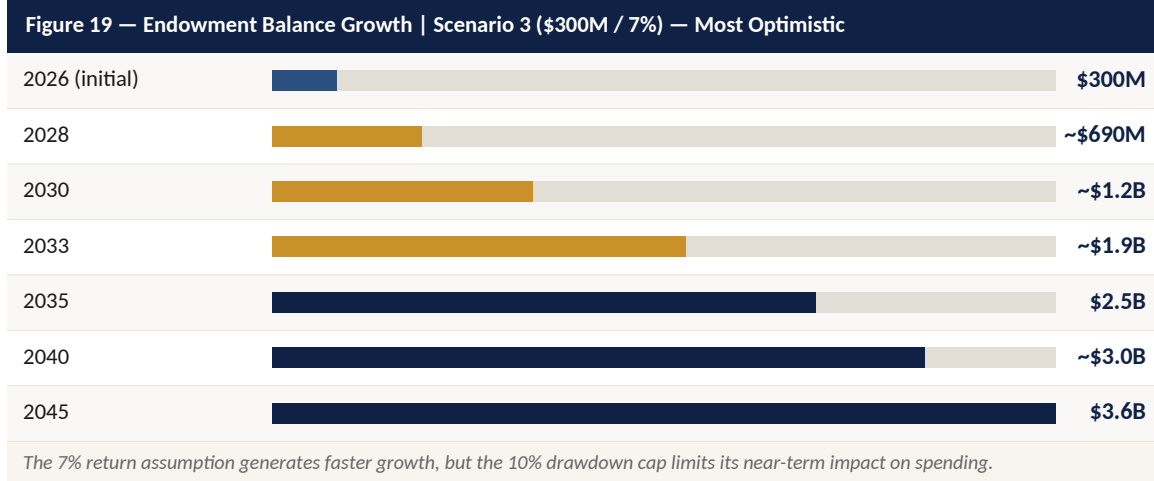
\$200M Annual Contributions | Conservative 4.5% Investment Return

Under these assumptions, adjusted for inflation, the endowment balance is projected to reach approximately **\$1.5 billion by 2035** and **\$2 billion by 2045**. Annual available spending would be **\$147 million by 2035** and **\$205 million by 2045**.



\$300M Annual Contributions | Market-Rate 7% Investment Return

Under these assumptions, adjusted for inflation, the endowment balance is projected to reach approximately **\$2.5 billion by 2035** and **\$3.6 billion by 2045**. Annual available spending would be **\$240 million by 2035** and **\$369 million by 2045**.



Endowment Spending Capacity Across All Scenarios

The three endowment scenarios together reveal a consistent pattern: regardless of whether Connecticut achieves conservative or optimistic investment returns, or whether surplus contributions run at \$200M or \$300M annually, the endowment’s spending capacity in the near and medium term remains well below the state’s existing early childhood education appropriations.

Year	Sc. A: \$300M/4.5%	Sc. B: \$200M/4.5%	Sc. C: \$300M/7%
FY 2026	\$36M	\$36M	\$36M
2028	~\$63M	~\$44M	~\$69M
2030	~\$98M	~\$67M	~\$120M
2035	\$213M	\$147M	\$240M
2040	~\$262M	~\$177M	~\$305M
2045	\$304M	\$205M	\$369M
Current ECE Budget (FY 2026)	\$417.5M	\$417.5M	\$417.5M

Source: Governor Lamont Signs Biennial State Budget for 2026 and 2027, June 2025. Endowment figures in constant 2025 dollars, 2.5% discount rate.

“In every modeled scenario, the endowment’s annual spending capacity remains below Connecticut’s current \$417M early childhood education operating budget until after 2045 — nearly two decades after the endowment’s creation. The fiscal sacrifice is immediate; the benefit arrives slowly and remains capped.”

Conclusion

The endowment growth projections show that, even under highly favorable assumptions—a 2.5% rate of inflation, \$300 million in consistent annual surplus contributions, and sustained 7% investment returns—the endowment’s inflation-adjusted spending capacity grows slowly and remains limited relative to both Connecticut’s existing early childhood education budget and the scope of the program’s stated goals. At best, by 2035, annual available spending reaches \$240 million in real terms, rising to roughly \$369 million by 2045. In a less favorable scenario, by 2035, annual available spending reaches \$147 million, and by 2045, \$205 million.

This spending amount is material but not transformative. It is likely insufficient to finance near-universal childcare at the scale implied by current policy messaging, particularly when compared with a baseline early childhood education budget already exceeding \$400 million annually.

At the same time, the opportunity cost of funding the endowment through diverted surpluses is immediate and cumulative. As shown in Section IV, redirecting roughly \$300 million per year away from supplemental pension contributions increases total pension costs by \$300–\$900 million in inflation-adjusted terms and delays full funding of SERS and STRS by approximately one year, depending on investment return assumptions.

Under pre-endowment funding patterns, the additional contributions enabled by the guardrails are projected to accelerate full funding of SERS and STRS by up to ten years and reduce cumulative inflation-adjusted pension costs by up to \$10 billion over the next 30 years, depending on investment returns. These savings result from paying down pension liabilities earlier and allowing assets to compound for longer.

“Perhaps most importantly, the endowment marks a departure from the commitment made when the guardrails were established: prioritizing critically needed debt reduction and pension funding. It creates a risky precedent for establishing new ‘funds’ and ‘endowments’ that can increase spending without violating Connecticut’s spending cap.”

While the endowment itself does not create a legal entitlement, it risks creating durable political expectations that future lawmakers may feel compelled to satisfy—particularly if endowment spending falls short of its stated goals. Over time, this dynamic could place renewed pressure on surplus allocation decisions, further slow the pace of pension debt reduction, and erode the fiscal framework that has underpinned Connecticut’s recent credit improvements. In this sense, the endowment’s most consequential risk is not its immediate budgetary footprint, but the precedent it sets.

This is not an argument against early childhood education. Connecticut already invests more than \$400 million annually in this mission through the regular budget. The question is whether the mechanism chosen — a permanent off-budget endowment funded by diverting the surpluses that have driven Connecticut’s fiscal recovery — serves residents well. Our modeling shows it does not, on two fronts: it imposes real and cumulative pension costs, and it promises families a level of support

the fund cannot realistically deliver within any near or medium-term horizon.

The more Connecticut creates off-budget mechanisms to grow spending outside its guardrails, the less fiscal flexibility it retains for the residents who depend on state services — and the more it risks the credit trajectory that has taken eight years to build.

The guardrails, along with Connecticut's legislative commitment to pension solvency, have been vital in stabilizing and improving the state's budgetary and pension position. Their continuation — and their integrity against off-budget workarounds — is essential for achieving the long-term financial health and sustainability goals for SERS and STRS, benefiting not only the pensioners who rely on these plans but also the state's present and future taxpayers.

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