# Connecticut Economy

## Business and Political Leaders Say Aetna Departure Could Be Devastating for Hartford and the State

Insurance giant Aetna, a Hartford icon for more than 150 years, has not told top political and business leaders that it has any imminent plans to move its headquarters out of Connecticut.

"The move from Hartford will initially involve several hundred top corporate jobs moving to a new home base in Manhattan," blogger Kevin Rennie reported. Rennie — who writes a weekly column for The Courant and is a former legislator — offered no on-the-record attribution for his report.

"You can't overstate the importance of a headquarters at a company the size of Aetna and the reputation that Aetna has not only within the health insurance world, but within the corporate world generally," said R. Nelson "Oz" Griebel, head of the MetroHartford Alliance, a business group. "They're a very, very important employer and obviously if they decide to move their headquarters to New York or elsewhere, the next goal would be to ensure that the vast majority of the employees who are here today stay here."

"You also worry about things regarding what their long-term views on their real estate would be and the impact that could have on the city's grand list, " Griebel said. "They'e a very, very important company for multiple reasons, and your hope is they will ultimately decide to keep the headquarters here and if not, that a large number of their employment base will remain here in Hartford."

Aetna, a Hartford icon for 164 years, has been quietly searching for a new headquarters outside Hartford for the last year as concerns over the state's economic future have grown. Earlier this year Massachusetts officials said the company had been looking at real estate in Boston.

Aetna has about 6,000 workers in Connecticut, the heaviest concentration in its Hartford headquarters.

An Aetna departure would come a year after General Electric, in a much-publicized decision, shifted its headquarters from Fairfield to Boston, citing a highly educated and young workforce and the city's reputation as a technology and innovation hub.

GE and Aetna, along with other business leaders, have been critical of Connecticut's economic and tax climate and an overall failure to get state finances in order. Connecticut faces a $2 billion deficit in coming years.

Aetna is Hartford's fourth largest taxpayer, paying nearly $8 million last year, a third for personal property such as computers.

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"You can't even put it into words," said House Majority Leader Matt Ritter. "It's a pillar. It is so critical to the city. It's so critical to the suburban towns around it."

### Aetna CEO Mark Bertolini telegraphed HQs move years ago

Aetna CEO Mark Bertolini doesn't grant many interviews to local media, but in Dec. 2010 he talked with the Hartford Business Journal, which named him a Hartford region executive to watch in 2011 — his first full year as CEO.

In that interview, Bertolini said he liked Malloy and had high hopes for his administration. But he also described Connecticut's business climate as "not a very good one," and said if the situation didn't change it could impact Aetna's future workforce decisions.

"We are committed here as long as it's a fair and competitive business climate, and we are prepared to act if it does not become a fair and competitive business climate," Bertolini told HBJ in 2010.

That interview, which occurred a few weeks before Malloy was inaugurated to his first term, sent a clear and early warning shot across the bow of the Democratic governor's administration.

So what's happened to the Bertolini-Malloy relationship since then? We don't know what has gone on behind the scenes, but we can point to a few seminal moments that likely frayed the relationship.

In his first year in office, Malloy signed into law one of the largest tax increases in state history — $1.5 billion — to balance a budget deficit and announced a $51 billion aid package to Bloomfield-based Cigna Corp.

Cigna, of course, is a health insurer and competitor to Aetna, which couldn't have been thrilled its nearby rival was getting support from the state to add jobs and renovate its campus.

General Electric, which recently moved its headquarters to Boston from Fairfield, also didn't have the coziest relationship with Malloy and there were reports the company wasn't pleased that its jet-engine competitor, United Technologies Corp., received millions in state aid in 2014 in exchange for investments in its Connecticut operations.

It's a clear signal that government's role in picking private-sector winners and losers can have unintended consequences.

Fast-forward to 2015, when the legis-

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lature adopted another major tax hike including $700 million in new or additional business taxes. The budget prompted an unprecedented public display of dissatisfaction from major employers including GE, Aetna and Travelers, which put out statements condemning the tax hikes.

"We strongly believe this will undermine the competitiveness of Connecticut-based businesses and will lead to an exodus of jobs and business from the state," Aetna said at the time. "Connecticut is in danger of damaging its economic future by failing to address its budget obligation in a responsible way. Such an action will result in Aetna looking to reconsider the viability of continuing major operations in the state."

Lawmakers eventually rolled back some of those tax hikes, but the damage was already done and the state remains mired in its fiscal crisis.

Meantime, Aetna confirmed for the first time this week that it is headquarters shopping. The company, which also is no fan of Connecticut's own U.S. Sen. Richard Blumenthal, who vocally opposed Aetna's blocked merger with Humana, is expected to announce in the weeks ahead where it will choose to locate its headquarters and top executives. New York City is the front runner, but Boston also remains in the mix.

### Connecticut Employment Recovery Worst in the Northeast

Connecticut has the slowest economic recovery rate in the Northeast, according to the Connecticut Department of Labor.

In its latest economic digest, the state Department of Labor highlights the state's job growth since the Great Recession, during which time Connecticut has regained only 74 percent, or 91,200, of the 119,100 jobs lost.

That's more than 23 percentage points below its nearest Northeast competitor, the state of Maine, according to CTDOL and the U.S. Bureau of Labor Statistics. Connecticut, which had 1.7 million jobs at peak employment in March 2008, had more than 1.6 million jobs as of Feb. 2017, according to the report.

Massachusetts has a recovery rate of 293 percent, and New York's recovery rate is the highest in the region at 307 percent, statisticians found. Overall, the U.S. has a 184 percent recovery rate.

Despite these challenges, continued growth in Connecticut is expected over the next two years, state labor officials say. Short term, overall employment is projected to increase by eight-tenths of a percent through the second quarter of 2018.

The mix of growth also is changing, with more opportunity in the manufacturing sector and less in the health and education sectors, the report said.

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### Connecticut Faces Today's crisis Vs. Tomorrow's

The question about Connecticut's ability to weigh future costs against immediate needs comes as the state's cash-starved benefits system, as well as its impending deficit, are drawing unprecedented harsh reactions from Wall Street.

#### 'We can't have incremental changes'

"I think we have to have unprecedented scrutiny over the changes that are being proposed," said Joseph F. Brennan, president and CEO of the Connecticut Business and Industry Association. "This is a very critical time for the state of Connecticut, and we can't have incremental changes around the margins. We have to have major structural change if we're going to pull the state out of the doldrums."

That has been a business demand for months. R. Nelson "Oz" Griebel, chief executive officer of the MetroHartford Alliance, told The Mirror during a mid-February interview that any deal should include a 401(k)-style benefit in lieu of a pension for future state workers.

Defined-benefit programs are essentially gone for everybody in the private sector, while public sector benefits continue to be funded by the private sector. This is a legitimate philosophical question, Griebel said.

With about $34 billion in unfunded liabilities, Connecticut has one of the worst-funded retirement benefit packages for state employees in the nation. Connecticut has enough assets to cover 35 percent of the long-term obligations in its pension fund for state employees. And earlier this year it struck a deal to shift $14 billion to $21 billion in pension contributions until after 2032.

The fund to pay retiree health is in far worse shape with assets equal to less than 1 percent of its long-term obligations to retirees and current workers.

Connecticut currently saves less than one-fourth of the funding it should reserve annually to cover the retirement health care of present-day workers. That is scheduled to improve to just under one-half next fiscal year. But the rest of this benefits' cost for present-day workers would be borne by future taxpayers.

### Need for immediate labor savings grows

Three of the four major credit-rating agencies on Wall Street downgraded the state's bond rating. And while all three cited the retirement program debt, they also called for Connecticut to address the growing deficit in its next budget.

Due to rapidly eroding state income tax receipts, the potential shortfalls now approach $2.3 billion, or 12 percent, in 2017-18, and $2.8 billion or 14 percent the year after that.

Concessions at the level sought by Malloy would close about 30 percent of the updated, projected gaps.

Even with those concessions savings assumed, budget proposals from Malloy and from legislative leaders rely on hundreds of millions of dollars in new tax revenue and municipal aid cuts to balance the books.

The top Republicans in the House and Senate, Themis Klarides of Derby and Len Fasano of North Haven, have called repeatedly in recent years for major "structural change" to curb labor costs, including not guaranteeing benefits contractually to future workers.

That won't be accomplished under either the current benefit contract or — according to sources — under the modifications being negotiated.

### For Now CT ranks # 2 in U.S. In millionaire RESIDENTS

With a growing concentration of high earners holding a quarter of the nation's liquid wealth, Connecticut again ranked second nationally for high percentages of millionaire households, according to the 2016 Phoenix Wealth & Affluent Monitor.

Last year, 7.4 percent of all households in Connecticut were millionaire households, a statistic exceeded only by the state of Maryland, with 7.55 percent, according to the Monitor. Connecticut held that same ranking in 2015.

The number of millionaire households in the United States has grown by more than 800,000 over the past five years and by more than 1.3 million since 2006, before the financial crisis, PMI reports.

The report comes out as Connecticut is facing calls from labor unions and others to raise taxes on the state's wealthiest residents to help close billion-dollar deficits in each of the next two years. Governor Malloy didn't heed those calls in his two-year budget proposal, arguing higher taxes on wealthy residents would encourage people to flee the state.

Approximately 70 percent of the wealth and affluent market is comprised of Americans age 52 or older who have at least $100,000 in investable assets. Baby Boomers account for more than half (55 percent) of the market, while the older Silent Generation represents 15 percent. Millennials aged 36 or younger comprise about 13 percent of the market at age 36 or younger. Generation X, which makes up the remaining 17 percent of the market, faces financial challenges of aging parents and education costs for their children, the report stated.

# Local Leadership Breakfast

From right to left: Steve Temkin, Executive Officer of HBA of Northwest CT, Thomas Carey, Thomas Custom Builders; Litchfield, Bantam, Northfield First Selectman Leo Paul; Thomaston First Selectman Edmond V. Mone and Tim Bobroske, President of HBA of Northwest Connecticut.

L-R Greg Ugalde 2nd Vice chair of NAHB, First Selectman Emond V. Mone, Thomaston and Tom Carey from Thomas Custom Builders and HBA of Northwest Connecticut

L-R: Eugene Farley, Torrington Mayor Elinor Carbone, Executive Officer of HBA oF Northwest Ct Steve Temkin, Winsted Mayor Candy Perez, Andrew Ugalde T & M Building Co. Inc. Roselle Fanelli at podium

Greg Ugalde, 2nd Vice Chair of NAHB with New Hartford/Pine Meadow First Selectman Daniel V. Jerram.