



# THE STATE OF CONNECTICUT

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**The plans:**

Connecticut has two large state-administered pension systems, four smaller state-administered systems, and many locally-administered systems. The state also maintains two retiree health plans. This analysis focuses primarily on the two large state-administered systems – the Connecticut State Employees Retirement System (SERS) and the Connecticut Teachers Retirement System (TRS) – which make up about 80 percent of public plan active membership in the state.

**The impact of the crisis:**

As a result of the economic crisis, the amount required to amortize unfunded liabilities increased for both SERS and TRS. For SERS, it jumped from 13 percent to 22 percent of payroll. For TRS, the jump was similar in magnitude, increasing from 12 percent to 20 percent of payroll. Both systems have been relatively responsible funders. Over the crisis period, SERS has paid 90 percent of the annual required contribution (ARC) on average. TRS took a different approach to the funding challenge by issuing \$2 billion in pension obligation bonds in 2008. Since that time, TRS has paid 100 percent of the ARC. For the state as a whole, the economic crisis increased the share of state and local budgets devoted to pensions from 5.5 percent to 7.0 percent.

**The impact of pension plan reforms:**

In the wake of the crisis, SERS cut benefits for current employees and new hires, while TRS made no changes to benefits for current employees or new hires. For SERS, benefit changes included tightening eligibility requirements and decreasing the cost-of-living adjustment. These changes combined reduce the projected employer's contribution to the normal cost from 9 percent to 7 percent of payroll. A key element in the projected pension costs for SERS and TRS will be their ability to stick with their funding schedule. If both systems adhere to their current funding goals – the full funding date for SERS and TRS is 2032 and 2035 respectively – and assumed returns materialize, the share of state and local budgets devoted to pensions are projected to drop from 7.0 percent today to 2.2 percent by 2046.

**Total state costs:**

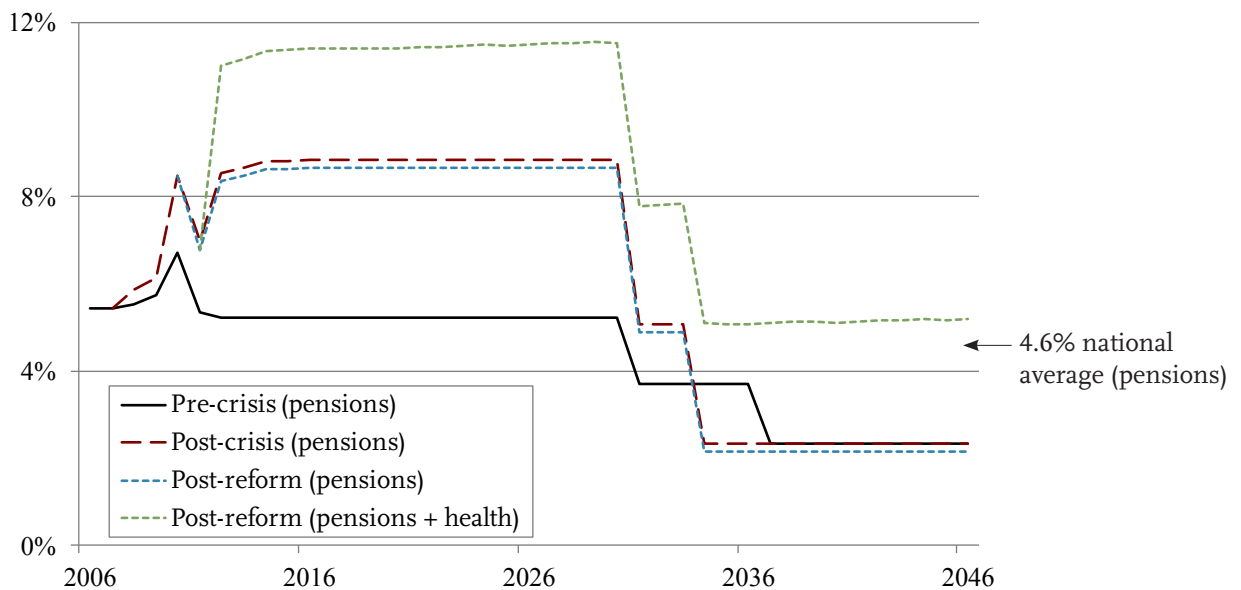
In Connecticut, the state also provides retiree health benefits, which amounted to about 2.7 percent of state and local budgets prior to the crisis and are projected to grow to 3.1 percent by 2046. When retiree health and pension costs are combined, Connecticut's total retirement benefit costs as a percent of state and local budgets equaled 8.2 percent prior to the crisis, increased to 9.7 percent during the crisis, and are projected to drop to 5.3 percent in 2046 after pension reforms.



# PENSION AND RETIREE HEALTH COSTS: PRE- AND POST-CRISIS

## CONNECTICUT: TOTAL PENSION AND RETIREE HEALTH COSTS

FIGURE I. EMPLOYER PENSION AND RETIREE HEALTH COSTS AS PERCENT OF BUDGET: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



Note: Budget = general own source revenues of all Connecticut state/local governments. Retiree health costs assumed pay-as-you-go.

TABLE I. EMPLOYER PENSION AND RETIREE HEALTH COSTS AS PERCENT OF BUDGET, BY PLAN

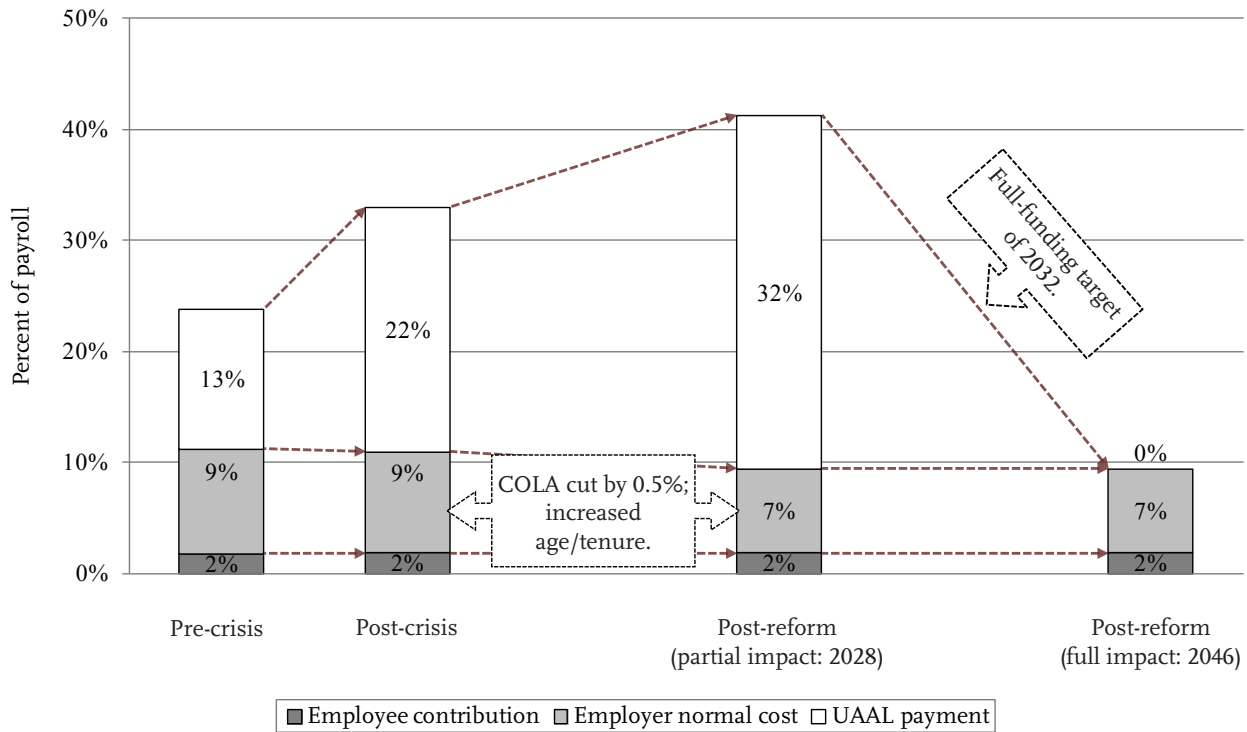
Plan	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Total pensions	5.5 %	7.0%	8.6%	2.2 %
Connecticut SERS	2.8	3.6	4.6	0.9
Connecticut TRS	1.9	2.6	3.2	0.5
Other pension plans <sup>a</sup>	0.8	0.8	0.8	0.8
Total retiree health	2.7	2.7	2.8	3.1
Connecticut state retiree health	2.0	2.0	2.2	2.4
Connecticut TRS retiree health	0.7	0.7	0.6	0.7
Total	8.2	9.7	11.4	5.3

<sup>a</sup> Includes three small state-administered plans to cover general assembly and judges, one state-administered municipal plan – Connecticut Municipal Employees Retirement System – as well as all the locally-administered plans within Connecticut.

Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances* and *State and Local Public-Employee Retirement Systems*.

CONNECTICUT STATE EMPLOYEES RETIREMENT SYSTEM (SERS)

FIGURE 2. PENSION COSTS AS PERCENT OF PAYROLL: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



KEY FACTS

Structure of retirement system

- Social Security coverage
- Defined benefit
- Defined contribution/hybrid

Funding method and history

- Set by statute
- Actuarially determined

Pre-crisis, averaged 100 percent of the GASB-required ARC. Post-crisis rate has averaged 92 percent, with a low of 80.3 percent in 2010.

Plan design changes

- Cut COLA: all employees
- Increased employee contribution
- Increased age/tenure eligibility: all employees
- Increased average salary period
- Reduced benefit factor
- None

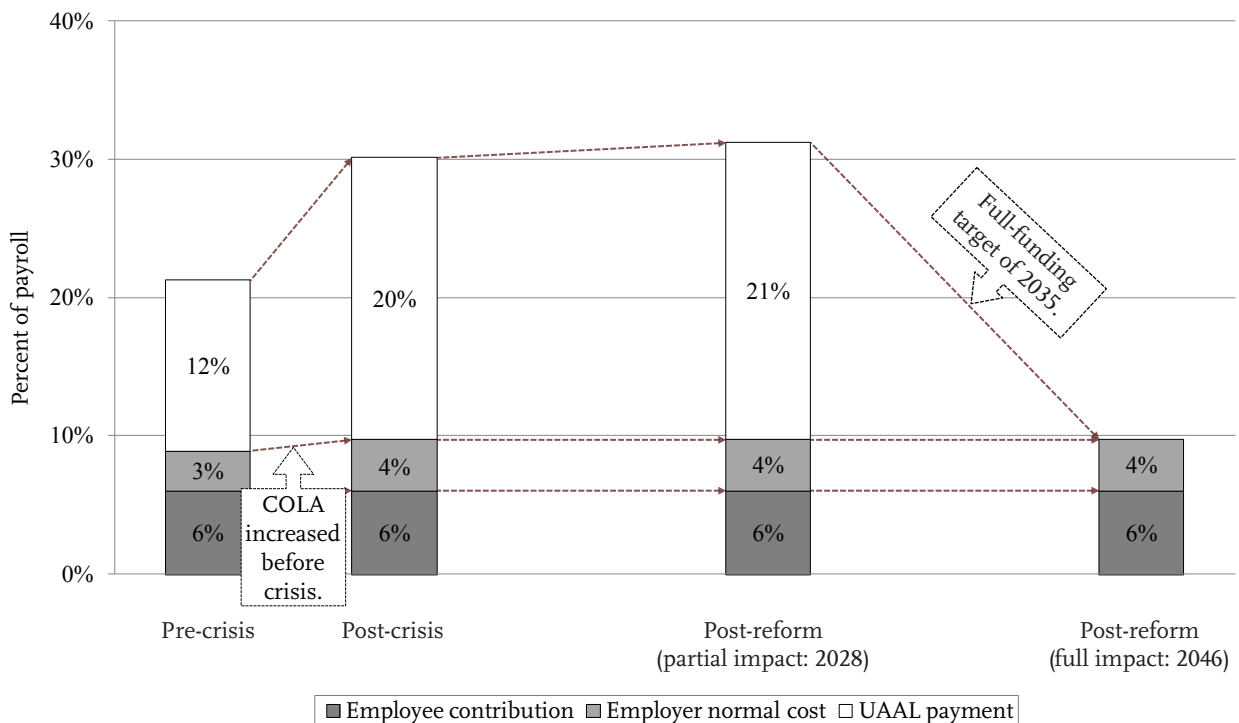
TABLE 2. PENSION FINANCES AND ACTUARIAL ASSUMPTIONS

Item	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
<b>Plan finances</b>				
Funded ratio	53.6 %	44.4 %	-	-
Employer ARC rate	22.0	31.1	39.3	7.5
Percent of ARC paid	100.0	100.0	100	100
<b>Assumptions</b>				
Discount rate	8.50	8.25	8.00	8.00
Payroll growth	5.0	4.0	3.8	3.8
Amortization period	24 yrs.	19 yrs.	3 yrs.	0 yrs.

Sources: Actuarial valuation and CRR calculations.

## CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM (TRS)

FIGURE 3. PENSION COSTS AS PERCENT OF PAYROLL: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



### KEY FACTS

#### Structure of retirement system

- Social Security coverage
- Defined benefit
- Defined contribution/hybrid

#### Funding method and history

- Set by statute
- Actuarially determined

Pre-crisis, averaged 85 percent of the GASB-required ARC. In 2008, \$2 billion in bond proceeds were deposited into the fund. Since then, TRS has paid 100 percent of the ARC.

#### Plan design changes

- Cut COLA
- Increased employee contribution
- Increased age/tenure eligibility
- Increased average salary period
- Reduced benefit factor
- None

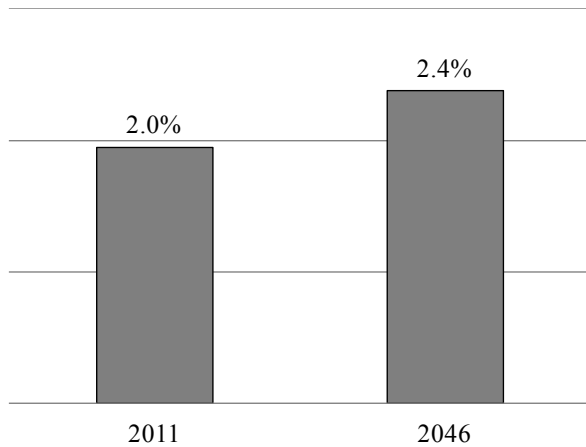
TABLE 3. PENSION FINANCES AND ACTUARIAL ASSUMPTIONS

Item	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
<b>Plan finances</b>				
Funded ratio	65.4 %	61.4 %	-	-
Employer ARC rate	15.3	24.1	25.2	3.7
Percent of ARC paid	96.9	100.0	100	100
<b>Assumptions</b>				
Discount rate	8.5	8.5	8.5	8.5
Payroll growth	4.0	3.75	3.75	3.75
Amortization period	27 yrs.	22 yrs.	6 yrs.	0 yrs.

Sources: Actuarial valuations and CRR calculations.

## STATE OF CONNECTICUT OTHER POST-EMPLOYMENT BENEFITS PROGRAM

RETIREE HEALTH AS PERCENT OF BUDGET

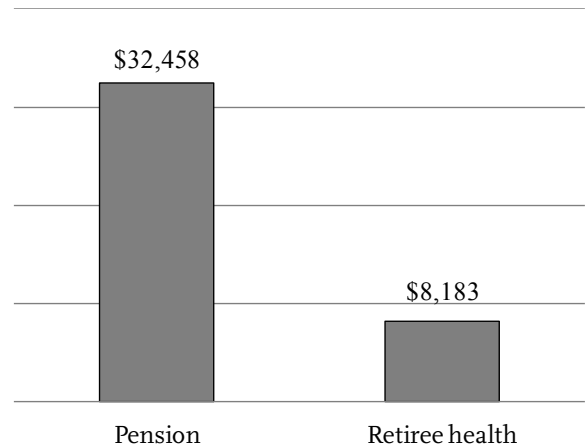


Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances*.

*Retiree health funding and costs*

- Funding method: Pay-as-you-go with 3 percent contribution by active employees.
- Medical inflation rate: 8.5 percent, drops to 5 percent.
- Employer contribution: Retirees to pay portion of premium for healthcare benefits. In 2011, the average retiree contribution was \$341 for medical benefits and \$320 for dental benefits.

AVERAGE ANNUAL BENEFIT



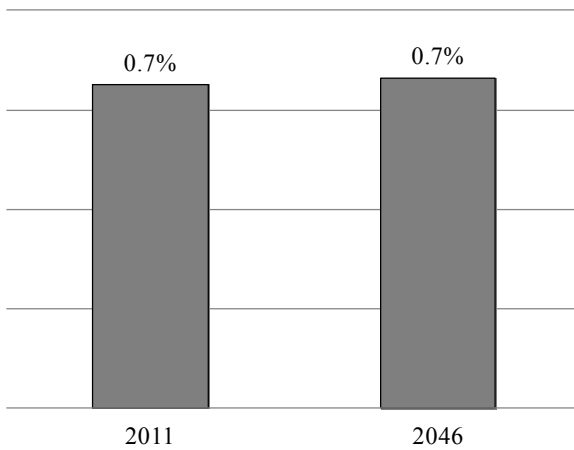
Source: CRR calculations from plan actuarial valuations.

*Benefits and membership*

- Benefit eligibility: Retiree must be receiving a normal, early, disabled, or pre-retirement survivor pension from one of five state-administered pension systems.
- Benefits for Medicare-eligible retirees: Secondary coverage provided by the plan.
- Active employees: 56,968
- Beneficiaries: 64,860
- Most recent actuarial valuation: 6/30/11

## CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM RETIREE HEALTH INSURANCE PLAN

RETIREE HEALTH AS PERCENT OF BUDGET

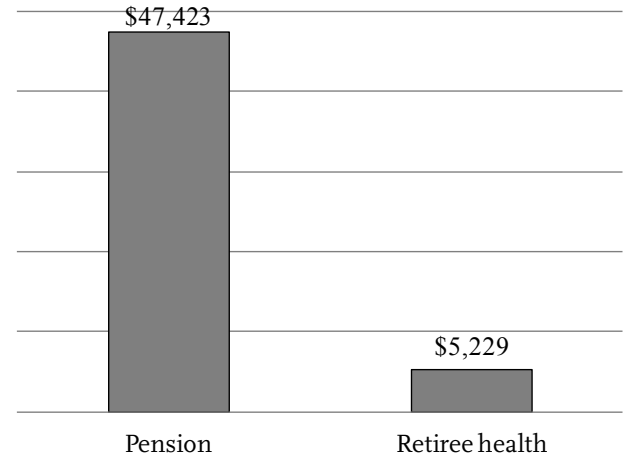


Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances*.

### Retiree health funding and costs

- Funding method: Pay-as-you-go with 1.25 percent contribution made by active employees on salaries in excess of \$500,000.
- Medical inflation rate: 7 percent, drops to 5 percent by 2017.
- Employer contribution: As of 2011, the state subsidizes \$110 to \$220 of monthly premium based on plan selection and eligibility.

AVERAGE ANNUAL BENEFIT



Source: CRR calculations from plan actuarial valuations.

### Benefits and membership

- Benefit eligibility: Any member currently receiving a retirement or disability benefit.
- Benefits provided for Medicare-eligible retirees: Secondary coverage provided by the plan.
- Active employees: 49,808
- Beneficiaries: 35,215
- Most recent actuarial valuation: 6/30/2011