# OFFICE OF FISCAL ANALYSIS

## Connecticut General Assembly

**Room 5200, Legislative Office Building**
**Hartford, CT 06106 – (860) 240-0200**
**E-Mail: ofa@cga.ct.gov**
**www.cga.ct.gov/ofa**


2016OFA-1470 December 20, 2016

FROM: Holly Williams

SUBJECT: Summary of 2016 Agreement Between the State and SEBAC for SERS

You asked for a summary of the recent agreement between the state and the State Employees' Bargaining Agent Coalition (SEBAC) regarding various changes to actuarial assumptions for the State Employees' Retirement System (SERS).[1]

For reference, the state is required to fund SERS on an actuarial basis whereby the normal cost and past service liability are calculated in order to determine the state's annual determined employer contribution (ADEC)(CGS 5-156a). Prior to adopting this funding methodology, the state funded SERS on a pay-as-you-go-basis; annually paying retirees their pension benefits and not prefunding benefits for future retirees.

The 2016 agreement contains the following provisions:

1. Unfunded liability will be computed using entry age normal (EAN). Currently, SERS uses projected unit credit (PUC). In general,
    a. EAN creates level contributions throughout an employee's career; and
    b. PUC attempts to fund benefits as they accrue, creating lower costs at the beginning of an employee's career and increasing contributions as the employee nears retirement and presumably salary increases.
2. Pension funding method will be level dollar (LD). This method will be phased in over five years. Currently, SERS uses level percentage of payroll (LPP). In general,

---

[1] Sources: State Employee Retirement System Actuarial Valuation as of 6/30/14 and Government Accounting Standards Board (GASB).

Reviewer: RJW

   a. LD requires equal dollar amounts to be paid over a given number of years (the amortization period/payoff term); and
   b. LPP calculates amortization payments as a constant percentage of projected payroll over a given number of years (the amortization period/payoff term).
3. Unfunded accrued liability (UAL) as of 1984 will be paid off by the end of the current amortization period in 2032.
   a. The UAL as of 1984 is approximately $4.3 billion; and
   b. The total SERS UAL is $14.9 billion as of 6/30/14.
4. The balance of the UAL, approximately $10.6 billion, will be paid off in 2047.
   a. An additional 15 years is being added to the current amortization period for the portion of the UAL attributed to the period after 1984.
5. Actuarial gains and losses will be amortized using a 25 year layered amortization approach.
6. Recommend the Retirement Commission adopt an investment rate of return assumption of 6.9%.
   a. The Retirement Commission voted to adopt 6.9% at the commission meeting on 12/15/16.
   b. The SERS investment rate of return was previously 8%.

As previously stated, the most recent SERS actuarial valuation (6/30/14) reported a UAL of $14.9 billion. We are awaiting the next SERS valuation which is anticipated to reflect the impact of the agreement and will include the ADEC for FY 18 and FY 19.

I hope that you find this information helpful. Please contact me if you have any questions or need further assistance.