OFFICE OF LEGISLATIVE RESEARCH
Objective Research for Connecticut's Legislature

Issue Brief

Funding the State Employees Retirement System

What Is SERS?

The State Employees Retirement System (SERS) is the pension system for the large majority of state employees. It is a defined benefit pension plan administered by the Office of the Comptroller and the State Employees Retirement Commission.

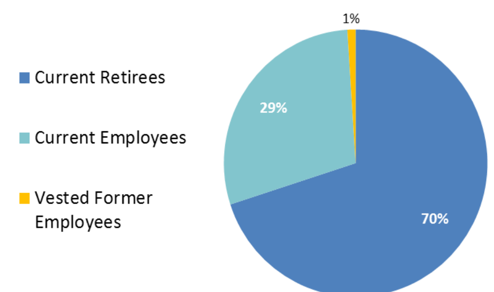
State employees covered by SERS fall into one of four different "tiers" within the system based on when they began working for the state. Tier I covers employees hired before July 1, 1984; Tier II covers employees hired from July 1, 1984 through June 30, 1997; Tier IIA covers employees hired from July 1, 1997 through June 30, 2011; and Tier III covers employees hired since July 1, 2011.

Each tier has different eligibility requirements and benefit terms.

How Is the Pension Fund Doing?

According to November 2014 actuarial valuation, as of June 1, 2014 SERS had a total actuarial accrued liability of roughly $25.5 billion. This is the estimated total amount that will have to be paid to current retirees, current state employees, and vested former employees who have not yet begun collecting benefits over the course of their (and their beneficiaries') lives. The breakdown of the total liability for the three groups is as follows:

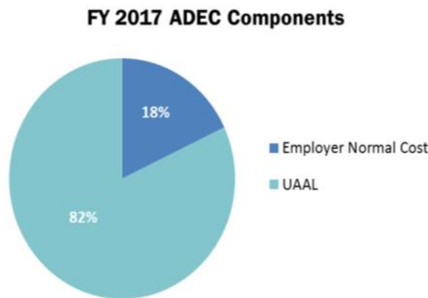
- Current retirees: $17.9 billion
- Current employees: $7.4 billion
- Vested former employees: $225.8 million



To meet the $25.5 billion total liability, SERS has $10.6 billion in actuarially valued assets. Thus, $14.9 billion remains as an unfunded actuarial accrued liability (UAAL), leaving a 41.5% "funding ratio." (The 2014 valuation is the most recent available; the release of the 2016 valuation was postponed in November and has not yet been rescheduled.)

How Is SERS Funded?

SERS is funded with contributions from the state and employees plus any investment returns (or minus any losses) generated by the pension fund's assets. Most employees contribute 2% of their salary to the fund, although hazardous duty employees contribute 4% or 5% of their salary, depending on their tier, and Tier II's non-hazardous duty employees make no contributions to the fund.



The annual amount that the state must contribute to the fund to ensure that all future pension obligations can be met is called the actuarially determined employer contribution (ADEC). It consists of two parts: (1) the "employer normal cost," which is the amount needed to pre-fund the benefits earned by active employees that year, minus employee contributions, and (2) an amortized payment towards the UAAL.

According to the 2014 valuation, the state's ADEC for FY 17 will be roughly $1.6 billion. Of this amount $287 million is for the employer normal cost and $1.3 billion is for the amortized payment for the unfunded liabilities. Under the current amortization schedule, the amortized payment for the unfunded liabilities will increase each year through 2031. After 2031, the unfunded liability will have been eliminated and the state's ADEC will only be its employer normal cost.

Why Is SERS Underfunded?

According to the November 2015 report by Boston College's Center for Retirement Research, SERS' UAAL stems from a combination of the following:

- **legacy costs** - the unfunded liabilities created when, from the late 1930s through the early 1970s, the state promised its employees retirement benefits but did not pre-fund their benefits by putting aside money while the employees were working;
- **inadequate contributions** - the years, from the early 1970s through the mid-1980s and numerous other years since then, that the state did not make the full amortization payment needed to keep the initial unfunded liability from growing;
- **actuarial experience** - instances when actuarial estimates underestimated the system's future liability (particularly because of the five early retirement incentive programs that caused deviations in retirement patterns from those used in actuarial assumptions); and
- **investment returns** - instances when the system's actual investment returns did not match its assumed returns.

What Is the Legislature's Role?

By law, the state (represented by the Office of Policy and Management's Office of Labor Relations) and the State Employee Bargaining Agents Coalition (a coalition of unions known as SEBAC) must collectively bargain over any changes to SERS. The current collective bargaining agreement (SEBAC 2011) is effective through June 30, 2022. When SEBAC and the state reach an agreement, the legislature can approve it as a whole by a majority vote of each house or reject it as a whole by a majority vote of either house. However, the agreement is deemed approved if the legislature takes no action on it within 30 days after it is filed with the legislature. Once an agreement is approved, the legislature must appropriate the funds needed to comply with it (CGS § 5-278).

Learn More

"OLR Backgrounder: The State Employees Retirement System," OLR Report 2016-R-0287

"Connecticut State Employees Retirement System: Report of the Actuary on the Valuation Prepared as of June 30, 2014," Cavanaugh Macdonald Consulting, LLC

"Final Report on Connecticut's State Employees Retirement System," Center for Retirement Research at Boston College (2015)

"State Employees Retirement Commission," OLR Report 2010-R-0406

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Analyst: Lee Hansen
Connecticut General Assembly
860-240-8400 | www.cga.ct.gov/olr