House of Representatives

General Assembly

File No. 4

January Session, 2017

House Resolution No. 8

House of Representatives, January 27, 2017

The House Committee on Appropriations reported through REP. WALKER of the 93rd Dist., Chairperson of the Committee on the part of the House, that the resolution ought to be adopted.

RESOLUTION PROPOSING APPROVAL OF AN AGREEMENT BETWEEN THE STATE OF CONNECTICUT AND THE STATE EMPLOYEES BARGAINING AGENT COALITION.

Resolved by this House:

That the agreement between the State of Connecticut and the State Employees Bargaining Agent Coalition, amending certain terms and conditions governing the state employees retirement system, submitted to this assembly December 19, 2016, for approval, as provided in subsection (b) of section 5-278 of the general statutes, is approved.

APP *House Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 18 $	FY 19 $
State Comptroller - Fringe Benefits (SERS Account)	GF - Savings	154 million	84 million
State Comptroller - Fringe Benefits (SERS Account)	TF - Savings	18 million	10 million
Various	Various - Savings	5 million	3 million

Note: GF=General Fund; TF=Transportation Fund; Various=Various, SERS = State Employees' Retirement System

Municipal Impact: None

Explanation

The provisions of the agreement lower the projected actuarial determined employer contribution (ADEC) by $220 million in FY 18 (an estimated $154 million in General Fund (GF) and $18 million in Transportation Fund (TF)) and $120 million in FY 19 (an estimated $84 million in GF and $10 million in TF), while increasing the unfunded actuarial accrued liability (UAAL) by $6.77 billion (a 45% increase). As summarized in **Table 1.1** on the following page, if the provisions of the agreement are not implemented the FY 18 ADEC will be $1.87 billion (compared to $1.65 billion) and $1.94 billion in FY 19 (compared to $1.82 billion). Further discussion about the impact to the ADEC and the UAAL from the agreement is provided in the following pages.

Table 1.1 ADEC Under Current Schedule Compared to ADEC Under Agreement[1]

($ billions – All Funds)

	ADEC - Current Schedule	ADEC - Under Agreement	Difference
FY 18	1.87	1.65	(0.22)
FY 19	1.94	1.82	(0.12)

The total combined GF and TF portion of the ADEC with the agreement is $1.30 billion in FY 18 and $1.43 billion in FY 19, which reflect approximately 79% of the total ADEC of $1.65 billion and $1.82 billion respectively for the State Employees' Retirement System (SERS).

Impact to the Actuarial Determined Employer Contribution (ADEC)

Table 1.2 on the following page provides a breakout of the impact on the FY 18 and FY 19 ADEC from provisions contained in the agreement and those factors which are not contained in the agreement.

I. FY 18 ADEC

The provisions of the agreement partially offset the $300 million increase between the FY 17 ADEC and the FY 18 ADEC the state will have to pay without the agreement by $220 million; therefore resulting in an increase of $80 million between FY 17 and FY 18.

The recommendation to decrease the discount rate to 6.9% and change the amortization method to entry age normal contained in the agreement increase the ADEC by $220 million ($190 million and $30 million respectively). At the same time, changing the amortization period (e.g. splitting the UAAL into pre-1984 and post-1984, extending the UAAL for the post-1984 portion, and implementing a 25 year layer amortization methodology) reduce the ADEC by $440 million.

Non-agreement demographic changes and actual plan experience account for a $300 million increase between the FY 17 and FY 18 ADEC.

[1] The ADEC under the "current schedule" reflects the FY 18 and FY 19 ADEC including the impact of actual plan experience for the period 2014 to 2016 and the demographic changes implemented based on the June 30, 2015 experience study.

II. FY 19 ADEC

The increase between the FY 18 and FY 19 ADEC is $170 million with the agreement. The change to a level dollar amortization methodology contained in the agreement is being phased in over five years and accounts for $100 million of the increase between the FY 18 and the FY 19 ADEC. FY 19 is the first year this change is reflected in the state's contribution.

Non-agreement demographic changes and expected plan experience account for a $70 million increase between the FY 18 and FY 19 ADEC.

Table 1.2 Impact of the Agreement on the SERS Actuarial Determined Employer Contribution for FY 18 and FY 19

	Actuarial Determined Employer Contribution (ADEC) ($ in billions - All Funds)
FY 17 ADEC (6/30/14 Valuation)	**1.57**
Provisions of Agreement Impacting the FY 18 ADEC	
Change to Entry Age Normal	0.03
Change in Amortization Period	(0.44)
Change in Economic Assumptions (6.9% Discount Rate)[2]	0.19
Total Agreement Changes	**(0.22)**
Non- Agreement Changes Impacting the FY 18 ADEC	
Actual Experience of the Plan	0.15
Demographic Assumption Changes	0.15
Total Non-Agreement Changes	**0.30**
FY 18 ADEC (6/30/16 Valuation)	**1.65**
Provisions of Agreement Impacting the FY 19 ADEC	
Phase in Level Dollar Amortization Methodology	0.10
Total Agreement Changes	**0.10**
Non- Agreement Changes Impacting the FY 19 ADEC	
Expected Experience of the Plan	0.07
Total Non-Agreement Changes	**0.07**
FY 19 ADEC (6/30/16 Valuation)	**1.82**

[2] Changing the discount rate is a recommendation in the agreement and was adopted by the Retirement Commission, on December 15, 2016.

Impact to the Unfunded Actuarial Accrued Liability (UAAL)

Provisions of the agreement account for $4.57 billion (or 68%) of the total $6.77 billion increase in the SERS UAAL. Specifically, the recommendation to decrease the discount rate from 8% to 6.9% makes up approximately 55% (or $3.70 billion) of the increase in the UAAL. Secondly, changing the amortization method from projected unit credit to entry age normal accounts for 13% (or $870 million) of the increase in the UAAL.

Non-agreement related changes, including demographic changes[3] and actual plan experience, account for $2.20 billion (or 32%) of the increase in the UAAL.

Table 1.3 below provides a breakout of the impact on the UAAL from provisions contained in the agreement and those factors which are not contained in the agreement but have resulted in an increased in the UAAL since the June 30, 2014 valuation

Table 1.3 Impact of Agreement and Non-Agreement Provisions on the SERS UAAL

	Unfunded Actuarial Accrued Liability ($ in billions)
2014 Valuation	**14.92**
Provisions of Agreement	
Change to Entry Age Normal	0.87
Change in Amortization Period	0
Change in Economic Assumptions (6.9% Discount Rate)[4]	3.70
Total Agreement Changes	**4.57**
Non-Agreement Changes	
Actual Experience of the Plan Between 2014 and 2016	0.85
Demographic Assumption Changes	1.35
Total Non-Agreement Changes	**2.20**
2016 Valuation	**21.69**
Total Change from 2014	**6.77**

[3]Demographic changes were adopted by the Retirement Commission based on the SERS experience study for the four year period ending June 30, 2015 and are not included as provisions of the agreement.
[4]Idid. 2

Supplemental Summary Information:

Table 1.4 below provides a comparison of the June 30, 2014 and the June 30, 2016 valuation. The June 30, 2016 valuation incorporates the provisions of the agreement.

Table 1.4 Comparison of June 30, 2014 and June 30, 2016 SERS Actuarial Valuation

	June 30, 2014	June 30, 2016	% Change	Amount Change
Accrued Liability	25,505,636,777	33,616,716,085	31.80%	8,111,079,308
Actuarial Value of Assets	10,584,795,257	11,922,965,860	12.64%	1,338,170,603
Unfunded Liability	14,920,841,520	21,693,750,225	45.39%	6,772,908,705
Funded Ratio	41.50%	35.50%	-14.46%	-
Actuarial Determined Employer Contribution (ADEC)				
Normal Cost	278,812,817	365,570,268	31.12%	86,757,451
Accrued Liability	1,235,654,507	1,282,836,995	3.82%	47,182,488
Total ADEC[1]	1,514,467,324	1,648,407,263	8.84%	133,939,939
Active Members	49,976	50,019	0.09%	43
Retired Members	45,803	48,191	5.21%	2,388
Years Left in Amortization Period[2]	17	25.1	-	-

[1]ADEC for the first year of the valuation (FY 16 and FY 18, respectively).
[2]For June 30, 2016 this reflects the average amortization period remaining.

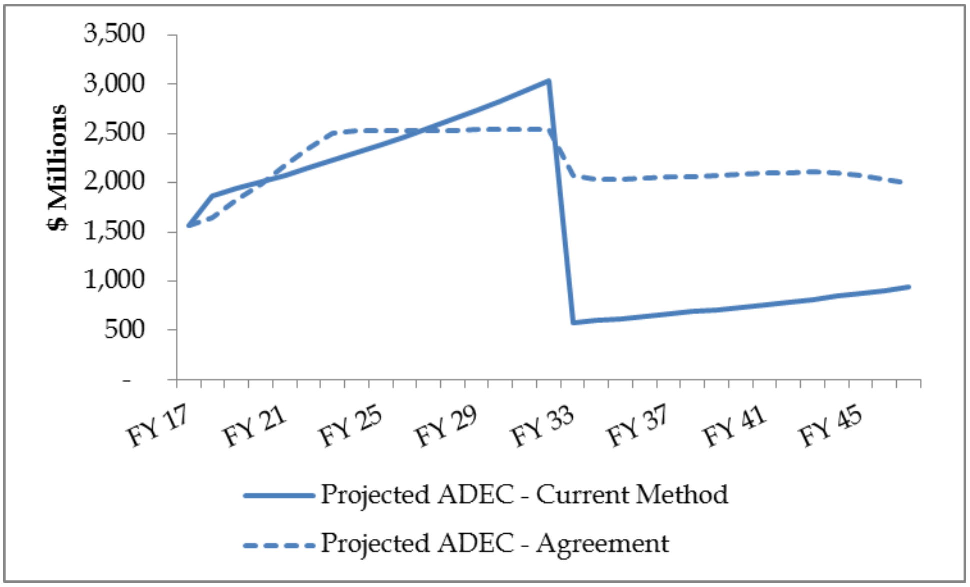
The Out Years

The ongoing fiscal impact will continue into the future. Future SERS ADEC's will be certified every two years in the actuarial valuation for the system. Contributions to SERS under the agreement for the period FY 18 to FY 47 are estimated to be $66.3 billion. After 2047 the cost to the state will include the normal cost and any amortization payment for the actuarial accrued liability which exist under the layered amortization methodology.

Contributions to SERS without the agreement for the same period are estimated to be $47.3 billion, approximately $18.9 billion less than under the agreement. After 2032, the cost to the state will reflect the annual normal cost of the plan.

Figure 1.1 on the following page reflects the projected ADEC if the agreement is not implemented for the period FY 17 to FY 47 and the impact to the projected ADEC if the agreement is implemented.[5]

Figure 1.1 Projected ADEC



[5]The current method is a projection based on the June 30, 2014 SERS valuation and the June 30, 2015 experience study and reflects the estimated impact of demographic and experience changes for the plan between 2014 and 2016.

OFA Bill Analysis

HR 8

RESOLUTION PROPOSING APPROVAL OF AN AGREEMENT BETWEEN THE STATE OF CONNECTICUT AND THE STATE EMPLOYEES BARGAINING AGENT COALITION.

SUMMARY:

The State Employees Retirement System (SERS) is currently funded on an actuarial reserve basis whereby the normal cost and annual payment for any past service liability are calculated in order to determine the state's actuarial determined employer contribution (ADEC, formerly known as the actuarial required contribution (ARC)) (CGS 5-156a). Until the late 1970's, early 1980's SERS was managed as a pay-as-you go system which funded annual retirement benefit payments and did not pre-fund future benefit.

Since 1981, SERS has been a mandatory subject of collective bargaining and is currently provided in accordance with a collective bargaining agreement negotiated between the state and State Employees' Bargaining Agent Coalition (SEBAC) effective until 2022. The proposed agreement makes modifications to actuarial cost methods and assumptions used to calculate the state's ADEC. Provisions pertaining to current employee retirement benefits are unchanged by the proposed agreement and remain governed by the agreement in place until 2022.

The provisions of the proposed agreement are outlined below.

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,

   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%.

EFFECTIVE DATE: Upon Passage

COMMITTEE ACTION

Appropriations Committee

House Favorable

Yea	30	Nay	10	(01/24/2017)