



# Senate

General Assembly

**File No. 917**

January Session, 2019

Substitute Senate Bill No. 873

*Senate, May 20, 2019*

The Committee on Appropriations reported through SEN. OSTEN of the 19th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

## ***AN ACT STABILIZING THE TEACHERS' RETIREMENT FUND.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective from passage*) (a) There is established the  
2 Connecticut Teachers' Retirement Fund Bonds Special Capital Reserve  
3 Fund, which shall contain any moneys required by law to be deposited  
4 in the fund, including, but not limited to, deposits from the  
5 Connecticut Lottery Corporation in accordance with section 12-812 of  
6 the general statutes, as amended by this act. The purpose of the fund  
7 shall be to provide, and it is determined that such fund does provide,  
8 adequate provision for the protection of the holders of bonds of the  
9 state issued pursuant to section 10-183qq of the general statutes and  
10 any bonds refunding such bonds. The fund shall secure the payment of  
11 the principal of and interest on such bonds and shall be held in trust  
12 for the benefit of the holders of the bonds secured thereby, separate  
13 and apart from other funds of the state. During any period when any  
14 bonds secured by the fund remain outstanding, amounts on deposit in  
15 the fund shall not be commingled with other state funds and the state

16 shall have no claim to or against, or interest in, the fund, except as  
17 hereinafter provided. Amounts in such fund shall be deposited in a  
18 separate account or accounts in a trust company or bank having the  
19 powers of a trust company within the state, which shall serve as the  
20 trustee of the fund. The Treasurer shall enter into an agreement with  
21 such trust company or bank in accordance with the provisions of  
22 sections 1, 7 and 8 of this act and sections 10-183b, 10-183z, 12-801, 12-  
23 806 and 12-812 of the general statutes, as amended by this act.

24 (b) The moneys held in the Connecticut Teachers' Retirement Fund  
25 Bonds Special Capital Reserve Fund, except as provided in this section,  
26 shall be pledged to payment on bonds secured by the fund and shall  
27 be used solely for the payment of the principal of bonds secured by the  
28 fund as such bonds become due by reason of maturity or sinking fund  
29 redemption, the purchase of such bonds, the payment of interest on  
30 such bonds and the payment of any redemption premium required to  
31 be paid when such bonds are redeemed prior to maturity. In the event  
32 the state has not otherwise timely made available moneys to pay  
33 principal or interest due on such bonds, the Treasurer shall direct the  
34 trustee of the fund to transfer from the fund to the paying agent for  
35 such bonds the amount necessary to timely pay such principal or  
36 interest then due. Except for the payment of the principal of bonds  
37 secured by the fund as such bonds become due and the payment of  
38 interest on such bonds, no moneys shall be withdrawn from the fund  
39 in such amount as would reduce the amount on deposit in the fund to  
40 less than the required minimum capital reserve. The pledge made by  
41 the state pursuant to this section shall be valid and binding from the  
42 time when the pledge is made. The lien of such pledge shall be valid  
43 and binding as against all parties having claims of any kind in tort,  
44 contract or otherwise against the state, irrespective of whether the  
45 parties have notice of the claims. Notwithstanding any provision of the  
46 Uniform Commercial Code, no instrument by which such pledge is  
47 created need be recorded or filed. Any moneys so pledged and later  
48 received by the state shall be subject immediately to the lien of the  
49 pledge without any physical delivery thereof or further act and such  
50 lien shall have priority over all other liens. For the purpose of

51 evaluation of such fund, obligations acquired as an investment shall be  
52 valued at market. For purposes of this section, "required minimum  
53 capital reserve" means the maximum amount of principal and interest  
54 becoming due on bonds of the state issued pursuant to section 10-  
55 183qq of the general statutes, and any bonds refunding such bonds  
56 then outstanding, by reason of maturity or a required sinking fund  
57 installment in any succeeding fiscal year.

58 (c) The amounts payable from the Connecticut Lottery Corporation  
59 into such fund as provided in section 12-812 of the general statutes, as  
60 amended by this act, shall be sufficient for the payment of the principal  
61 of and interest on the bonds secured by the Connecticut Teachers'  
62 Retirement Fund Bonds Special Capital Reserve Fund when due,  
63 whether at maturity or by mandatory sinking fund installments.

64 (d) The Treasurer shall certify to the Governor, the Teachers'  
65 Retirement Board and the president of the Connecticut Lottery  
66 Corporation the amount on deposit in the Connecticut Teachers'  
67 Retirement Fund Bonds Special Capital Reserve Fund when such  
68 amount first equals or exceeds the required minimum capital reserve.  
69 Whenever the amount on deposit in the fund is in excess of the  
70 required minimum capital reserve, the Treasurer may direct the trustee  
71 for the fund to remit to the Treasurer for deposit into the General Fund  
72 any amount in excess of the required minimum capital reserve.

73 (e) The Connecticut Teachers' Retirement Fund Bonds Special  
74 Capital Reserve Fund shall terminate and, upon direction of the  
75 Treasurer, any moneys remaining therein shall be transferred to the  
76 Budget Reserve Fund, established in section 4-30a of the general  
77 statutes: (1) Upon payment in full of the principal and interest on all  
78 bonds secured by the fund; (2) if there has been deposited in an  
79 irrevocable trust for the benefit of the holders of the bonds secured by  
80 the fund either (A) moneys in an amount that shall be sufficient to pay,  
81 when due, the principal of and interest on such bonds, and any  
82 redemption premium required to be paid when such bonds are  
83 redeemed prior to maturity, or (B) noncallable and nonprepayable

84 direct obligations of, or obligations the timely payment of principal of  
85 and interest on which are unconditionally guaranteed by, the United  
86 States of America, the principal of and the interest on which when due,  
87 without reinvestment, will provide moneys that together with the  
88 moneys, if any, deposited with the trustee at the same time, shall be  
89 sufficient to pay when due the principal of and interest on such bonds,  
90 and any redemption premium required to be paid when such bonds  
91 are redeemed prior to maturity; (3) if the amount of the annual  
92 required contribution to the fund for the Connecticut teachers'  
93 retirement system is determined in accordance with the provisions of  
94 subsection (b) of section 10-183l of the general statutes and section 10-  
95 183z of the general statutes, as such sections were in effect on April 30,  
96 2008; or (4) if the Teachers' Retirement Board fails to approve the  
97 credited interest percentage for member accounts and return  
98 assumption in accordance with subsection (a) of section 7 of this act.

99 (f) Pending the use or application of amounts in the fund, moneys in  
100 the fund may be invested and reinvested at the direction of the  
101 Treasurer in such obligations, securities and investments as are set  
102 forth in subsection (f) of section 3-20 of the general statutes and in  
103 participation certificates in the Short Term Investment Fund created  
104 under section 3-27a of the general statutes.

105 (g) The state pledges to the holders of the bonds of the state issued  
106 pursuant to section 10-183qq of the general statutes, and any bonds  
107 refunding such bonds, that the state shall not limit or alter the rights of  
108 such holders under this section or reduce the transfer or deposit of  
109 moneys into the fund pursuant to section 12-812 of the general  
110 statutes, as amended by this act, or section 7 of this act until all such  
111 bonds are fully paid or until provision for the payment of such bonds  
112 has been made as provided in subdivision (3) of subsection (e) of this  
113 section, provided nothing contained in this section shall preclude such  
114 limitation, alteration or reduction if adequate provision is made by law  
115 for the protection of the holders of such bonds.

116 Sec. 2. Subdivision (6) of section 12-801 of the general statutes is

117 repealed and the following is substituted in lieu thereof (*Effective from*  
118 *passage*):

119 (6) "Lottery fund" means a fund or funds established by, and under  
120 the management and control of, the corporation, into which all lottery  
121 revenues of the corporation are deposited, from which all payments  
122 and expenses of the corporation are paid and from which transfers to  
123 the General Fund or the Connecticut Teachers' Retirement Fund Bonds  
124 Special Capital Reserve Fund, established in section 1 of this act, are  
125 made pursuant to section 12-812, as amended by this act; and

126 Sec. 3. Subsection (a) of section 12-806 of the general statutes is  
127 repealed and the following is substituted in lieu thereof (*Effective from*  
128 *passage*):

129 (a) The purposes of the corporation shall be to: (1) Operate and  
130 manage the lottery in an entrepreneurial and business-like manner free  
131 from the budgetary and other constraints that affect state agencies; (2)  
132 provide continuing and increased revenue to the people of the state  
133 through the lottery by being responsive to market forces and acting  
134 generally as a corporation engaged in entrepreneurial pursuits; (3) pay  
135 to the trustee of the Connecticut Teachers' Retirement Fund Bonds  
136 Special Capital Reserve Fund, established in section 1 of this act, the  
137 amounts, if any, required pursuant to subsection (c) of section 12-812,  
138 as amended by this act; and [(3)] (4) ensure that the lottery continues to  
139 be operated with integrity and for the public good.

140 Sec. 4. Subsection (c) of section 12-812 of the general statutes is  
141 repealed and the following is substituted in lieu thereof (*Effective from*  
142 *passage*):

143 (c) On a weekly basis, the president shall estimate, and certify to the  
144 State Treasurer, that portion of the balance in the lottery fund which  
145 exceeds the current needs of the corporation for the payment of prizes,  
146 the payment of current operating expenses and funding of approved  
147 reserves of the corporation. The corporation shall transfer the amount  
148 so certified from the lottery fund of the corporation to the General

149 Fund [ ] upon notification of receipt of such certification by the  
150 Treasurer, except if the amount on deposit in the Connecticut Teachers'  
151 Retirement Fund Bonds Special Capital Reserve Fund, established in  
152 section 1 of this act, is less than the required minimum capital reserve,  
153 as defined in subsection (b) of said section, the corporation shall pay  
154 such amount so certified to the trustee of the fund for deposit in the  
155 fund. If the corporation transfers any moneys to the General Fund at  
156 any time when the amount on deposit in said capital reserve fund is  
157 less than the required minimum capital reserve, the amount of such  
158 transfer shall be deemed appropriated from the General Fund to the  
159 Connecticut Teachers' Retirement Fund Bonds Special Capital Reserve  
160 Fund.

161 Sec. 5. Subdivision (2) of section 10-183b of the general statutes is  
162 repealed and the following is substituted in lieu thereof (*Effective on the*  
163 *date the Treasurer certifies, pursuant to section 1 of this act, that the amount*  
164 *on deposit in the Connecticut Teachers' Retirement Fund Bonds Special*  
165 *Capital Reserve Fund equals or exceeds the required minimum capital reserve,*  
166 *as defined in said section):*

167 (2) "Amortization of unfunded liabilities" means: (A) For fiscal years  
168 ending on or before June 30, 2019, a systematic program of annual  
169 payments determined as a level per cent of expected member annual  
170 salaries in lieu of a lump sum payment; and (B) for fiscal years ending  
171 on or after June 30, 2020, a systematic program of annual payments,  
172 transitioning equally over five consecutive fiscal years from a level per  
173 cent of expected annual member salaries to a level payment, in lieu of a  
174 lump sum payment.

175 Sec. 6. Subsection (h) of section 10-183g of the general statutes is  
176 repealed and the following is substituted in lieu thereof (*Effective July*  
177 *1, 2019):*

178 (h) A benefit computed under subsections (a) to (d), inclusive, of  
179 this section and under subsections (a) to (g), inclusive, of section 10-  
180 183aa shall continue until the death of the member. [If]  
181 Notwithstanding the provisions of subsection (a) of section 10-183c, if

182 twenty-five per cent of the aggregate benefits paid to a member before  
183 July 1, 2019, and prior to death, plus fifty per cent of the aggregate  
184 benefits paid to a member on or after July 1, 2019, and prior to death,  
185 are less than such member's accumulated regular contributions,  
186 including any one per cent contributions withheld prior to July 1, 1989,  
187 and any voluntary contributions plus credited interest, the member's  
188 designated beneficiary shall be paid on the death of the member a  
189 lump sum amount equal to the difference between such aggregate  
190 payments and such accumulated contributions plus credited interest  
191 that had been accrued to the date benefits commenced.

192 Sec. 7. Section 10-183z of the general statutes is repealed and the  
193 following is substituted in lieu thereof (*Effective on the date the Treasurer*  
194 *certifies, pursuant to section 1 of this act, that the amount on deposit in the*  
195 *Connecticut Teachers' Retirement Fund Bonds Special Capital Reserve Fund*  
196 *equals or exceeds the required minimum capital reserve, as defined in said*  
197 *section*):

198 (a) The retirement system for teachers shall be funded on an  
199 actuarial reserve basis. The retirement board shall, on or before  
200 December first, annually, certify to the General Assembly the amount  
201 necessary, on the basis of an actuarial determination, to establish and  
202 maintain the retirement fund on such determined actuarial reserve  
203 basis and make such other recommendations with regard to the fund  
204 and its administration as the board deems necessary. [For the fiscal  
205 year ending June 30, 2020, and each fiscal year thereafter, the  
206 retirement board shall, in making such actuarial determination,  
207 assume that the amount of the contributions required to be withheld  
208 under this chapter is six per cent "regular contributions" instead of  
209 seven per cent "regular contributions".] On the basis of each  
210 evaluation, the retirement board shall redetermine the normal rate of  
211 contribution and, until it is amortized, the unfunded past service  
212 liability. The General Assembly shall review the board's  
213 recommendations and certification and shall appropriate to the  
214 retirement fund the amount certified by the retirement board as  
215 necessary, provided said certification is in compliance with this

216 section. On and after the effective date of this section, no public or  
 217 special act of the General Assembly shall reduce such appropriation to  
 218 an amount below such amount certified unless the Governor declares  
 219 an emergency or the existence of extraordinary circumstances, in  
 220 which the provisions of section 4-85 are invoked, and at least three-  
 221 fifths of the members of each chamber of the General Assembly vote to  
 222 reduce such appropriation during the biennium for which the  
 223 emergency or existence of extraordinary circumstances is determined.  
 224 The amount appropriated by the General Assembly shall be deposited  
 225 by the Treasurer into the retirement fund in quarterly allotments on  
 226 July fifteenth, October first, January first and April first.

227 (b) The board shall determine on an actuarial basis (1) a normal rate  
 228 of contribution which the state shall be required to make into the  
 229 retirement fund in order to meet the actuarial cost of current service  
 230 and (2) the unfunded past service liability. In making such  
 231 determination the board shall assume that the annual rate of interest  
 232 earned by the funds of the system invested by the State Treasurer  
 233 pursuant to section 10-183m equals the total assumed rate of return  
 234 adopted by the board under the provisions of section 10-183nn. For the  
 235 first eight years, the funding program for the actuarial reserve basis  
 236 shall consist of the following percentages of the sum of normal cost  
 237 and the amount required for a forty-year amortization of unfunded  
 238 liabilities, provided, if in any such year the amount required to be paid  
 239 by this section is less than the amount which would be required to  
 240 fund the system on a terminal basis and to pay the annual cost of  
 241 benefits payable under subsection (j) of section 10-183g or under other  
 242 prior legislative adjustments to retirement benefits, the state shall pay  
 243 the greater amount:

T1		PERCENTAGE TO BE PAID OF NORMAL COST
T2		PLUS FULL FORTY-YEAR AMORTIZATION
T3	FISCAL YEAR	FROM THE BEGINNING
T4	BEGINNING	OF SUCH FISCAL YEAR
T5	7-1-85	65



T6	7-1-86	70
T7	7-1-87	75
T8	7-1-88	80
T9	7-1-89	85
T10	7-1-90	90
T11	7-1-91	95
T12	7-1-92	100

244 Commencing with the fiscal year [beginning July 1, 1992] ending June  
 245 30, 1993, and through the fiscal year ending June 30, 2019, the  
 246 unfunded liability shall be amortized over a period of forty years.  
 247 Commencing with the fiscal year ending June 30, 2020, the unfunded  
 248 liability as of June 30, 2018, shall be separately amortized over a closed  
 249 period of thirty years and future actuarial gains and losses shall be  
 250 amortized over separate closed periods of twenty-five years, beginning  
 251 the year each separate base is established. The phrase "fund the system  
 252 on a terminal basis" means contribution by the state of such moneys as  
 253 are certified by the Teachers' Retirement Board as necessary, according  
 254 to the mortality table adopted yearly, for the full reserve for pensions  
 255 for retiring teachers provided under sections 10-183f, 10-183j and 10-  
 256 183aa, but not such moneys as are necessary to make payments under  
 257 subsection (j) of section 10-183g or under other prior legislative  
 258 amendments to retirement benefits.

259 (c) No act liberalizing the benefits of the retirement system shall be  
 260 enacted by the General Assembly until the assembly has requested and  
 261 received from the retirement board a certification of the unfunded  
 262 liability created by such change and the cost of such change under the  
 263 actuarial funding basis adopted by section 10-183b, as amended by this  
 264 act. [and this section using full normal cost plus thirty-year  
 265 amortization.] Any unfunded liability created by such change shall be  
 266 amortized over a period [of thirty years] consistent with actuarial  
 267 recommendations approved by the retirement board.

268 (d) The funds of the teachers' retirement system, except the expense  
 269 fund, shall not be reduced or used for other than the purposes of said

270 system.

271       Sec. 8. (NEW) (*Effective from passage*) (a) Not later than fourteen  
272 business days after the last action necessary to make effective a state  
273 budget act for the biennium ending June 30, 2021, subject to the  
274 approval of the Teachers' Retirement Board, the credited interest  
275 percentage for member accounts shall be not more than four per cent  
276 per annum and the return assumption shall be six and nine-tenths per  
277 cent per annum. Notwithstanding the provisions of section 1 of this act  
278 and sections 12-801, 12-806 and 12-812 of the general statutes, as  
279 amended by this act, if the board fails to revise such percentage and  
280 adopt such return assumption: (1) No moneys shall be deposited in the  
281 Connecticut Teachers' Retirement Fund Bonds Special Capital Reserve  
282 Fund, established in section 1 of this act; (2) the Treasurer's duties and  
283 obligations under section 1 of this act shall terminate; and (3) the  
284 pledges made in section 1 of this act shall not be in effect.

285       (b) If the board revises such percentage and adopts such return  
286 assumption in accordance with subsection (a) of this section, the board  
287 shall, on or before July 1, 2019, and notwithstanding the provisions of  
288 subsection (a) of section 10-183z of the general statutes, as amended by  
289 this act: (1) Request a revised actuarial valuation for the fiscal years  
290 ending June 30, 2020, and June 30, 2021, based on changes to the  
291 benefit program, amortization period and the systematic program of  
292 annual payments applied to determine the amortization of unfunded  
293 liabilities of the Connecticut teachers' retirement system as provided in  
294 subdivision (2) of section 10-183b of the general statutes, as amended  
295 by this act, and section 10-183z of the general statutes, as amended by  
296 this act; and (2) certify to the General Assembly for such fiscal years  
297 the amount necessary, based on such revised actuarial valuation, to  
298 maintain the Teachers' Retirement Fund on an actuarial reserve basis.

299       Sec. 9. (*Effective from passage or upon approval by the Teachers'*  
300 *Retirement Board of the credited interest percentage for member accounts and*  
301 *return assumption in accordance with subsection (a) of section 8 of this act,*  
302 *whichever is later*) The sum of \$380,901,255 is appropriated to the State

303 Treasurer, for Debt Service, from the General Fund, for the fiscal year  
 304 ending June 30, 2019, for deposit in the Connecticut Teachers'  
 305 Retirement Fund Bonds Special Capital Reserve Fund established in  
 306 section 1 of this act.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	New section
Sec. 2	<i>from passage</i>	12-801(6)
Sec. 3	<i>from passage</i>	12-806(a)
Sec. 4	<i>from passage</i>	12-812(c)
Sec. 5	<i>on the date the Treasurer certifies, pursuant to section 1 of this act, that the amount on deposit in the Connecticut Teachers' Retirement Fund Bonds Special Capital Reserve Fund equals or exceeds the required minimum capital reserve, as defined in said section</i>	10-183b(2)
Sec. 6	<i>July 1, 2019</i>	10-183g(h)
Sec. 7	<i>on the date the Treasurer certifies, pursuant to section 1 of this act, that the amount on deposit in the Connecticut Teachers' Retirement Fund Bonds Special Capital Reserve Fund equals or exceeds the required minimum capital reserve, as defined in said section</i>	10-183z
Sec. 8	<i>from passage</i>	New section

Sec. 9	<i>from passage or upon approval by the Teachers' Retirement Board of the credited interest percentage for member accounts and return assumption in accordance with subsection (a) of section 8 of this act, whichever is later</i>	New section
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**APP**      *Joint Favorable Subst.*

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 19 \$	FY 20 \$	FY 21 \$
Treasurer, Debt Serv.	GF - Cost	380,901,255	None	None
Teachers' Retirement Bd.	GF - Savings	None	183,400,000	189,400,000

Note: GF=General Fund

**Municipal Impact:** None

**Explanation**

**Summary**

The bill establishes the Teachers' Retirement Fund Bonds Special Capital Reserve Fund (TRF-SCRF). There is a cost to the General Fund of \$380.9 million based on the FY 19 appropriation to the TRF-SCRF in Section 9 of the bill. Additionally, the Reserve Fund is secured by revenues of the Connecticut Lottery Corporation, in the event that the Reserve Fund is ever depleted. Capitalizing and securing the TRF-SCRF will serve to fulfill the adequacy provision for holders of Pension Obligation Bonds (POBs) by further securing the payment of the principal and interest of the bonds issued in 2008. Making adequate provision for bondholders allows changes to the funding methodology used in the development of the actuarially determined employer contribution (ADEC).

The bill also makes various changes (described below) to the actuarial funding methodology and benefit design of the Teachers' Retirement System (TRS). The net impact of all these changes lowers the projected ADEC by \$183.4 million in FY 20 and \$189.4 million in FY 21, while increasing the unfunded actuarial accrued liability (UAAL) by \$3.5 billion (a 26% increase).

**Detail by Section**

The bill makes in the following changes:

**Sections 1 - 4** establish the TRF-SCRF and define the “minimum capital reserve” amount as the highest remaining annual payment for the POBs (\$380.9 million in FY 32, the last year of scheduled repayment). The initial capitalization of the fund is appropriated in Section 9 of the bill.

If the level of the fund falls below the minimum capital reserve amount, the bill authorizes the Treasurer to direct certain revenues of the Connecticut Lottery Corporation to the TRF-SCRF instead of directing such revenues to the General Fund. The fund will terminate when the POBs have been fully repaid.

In the event that the Treasurer fails to make required debt service payments on the POBs, there would be a loss of revenue to the General Fund equal to the amount of unpaid debt service. However, it is expected that the State will continue to fulfill its debt service obligations and there will be no fiscal impact from these provisions.

The bill allows certain investment of monies in the fund, including participation in the Short Term Investment Fund. If investment gains occur, there will be a revenue increase to the TRF-SCRF.

Effective Date: Upon Passage

**Section 5** transitions the amortization methodology for the TRS from a level percentage of payroll to a level dollar amortization over a five-year period and the impact is reflected above.

Effective Date: On the date the Treasurer certifies that the amount on deposit in the TRF-SCRF equals or exceeds the required minimum capital reserve.

**Section 6** changes the percentage reduction which is used in calculating member account balances from 25% to 50%. This

determines the partial refund death benefit a member's beneficiary receives when applicable. Under the State Employee Retirement System, a member's account is reduced by 100% of the amount received in pension benefits. The impact is incorporated into the net savings reflected in the summary above and impacts retirees as of July 1, 2019.

Effective Date: July 1, 2019

**Section 7** replaces the existing amortization schedule with a new 30-year schedule for the unfunded liability as of June 30, 2018, and allows future gains or losses to be amortized over new 25-year periods. This serves to eliminate the projected spike in the State's ADEC under the current closed amortization schedule. The projected ADEC in 2032 is estimated at \$3.4 billion based upon current assumptions and actual returns of 6.9% compared to \$1.8 billion under the provisions of the bill, a projected savings of \$1.5 billion.

It deletes the language that required the ADEC to be based on members paying a 6% contribution. This allows the ADEC to be calculated based on the actual member contribution (7%), which is the standard practice in actuarial valuations. The savings associated with this change is approximately \$40 million in both FY 20 and FY 21 and is incorporated in the net savings reflected above.

The section also adds language that mirrors language in the Pension Obligation Bond covenant. It states that the General Assembly shall not reduce the ADEC unless the Governor declares an emergency or extraordinary circumstance and at least three-fifths of the members of each chamber votes for a reduction for the biennium for which the emergency is declared.

Effective Date: On the date the Treasurer certifies that the amount on deposit in the TRF-SCRF equals or exceeds the required minimum capital reserve.

**Section 8** specifies that no moneys are to be deposited in the TRF-

SCRF and that other provisions of Section 1 shall not be in effect until the following actions are approved by the Teachers' Retirement Board (TRB):

1. The credited interest percentage for members' accounts shall be changed from the current actuarially determined amount to not more than 4% annually.
2. The return assumption shall be reduced from the current rate of 8% to 6.9%.
3. The June 30, 2018 actuarial valuation, which establishes the ADEC for FY 20 and FY 21, is revised.
4. The revised ADEC for FY 20 and FY 21 is certified to the General Assembly.

Effective Date: Upon Passage

**Section 9** appropriates \$380.9 million in FY 19 to debt service to be deposited in the TRF-SCRF in order to demonstrate adequate provision to bondholders of the TRS pension obligation bonds. This does not result in any spending cap impact as debt service is exempt from the cap.

Effective Date: Upon passage or upon approval by the TRB of the credited interest percentage for member accounts and return assumption set forth in section 8 of the bill.

***The Out Years***

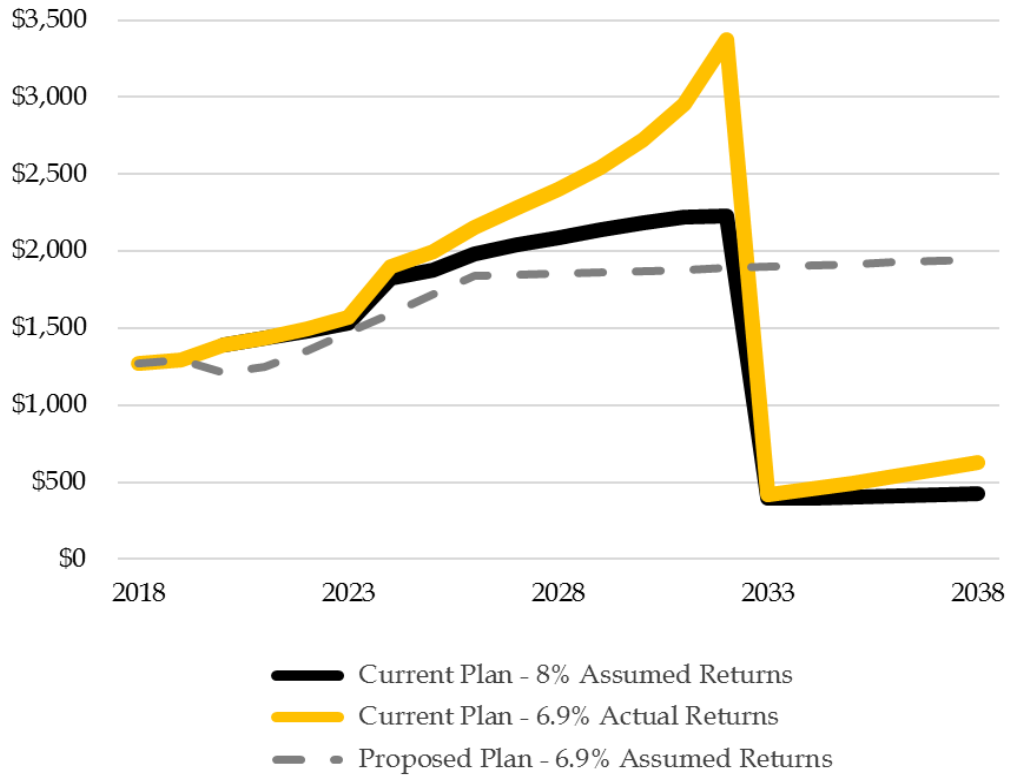
Future TRS ADEC's will be certified every two years in the actuarial valuation of the system. Contributions to TRS under the established 30-year amortization period from FY 20 to FY 49 are estimated to be \$55.5 billion. After 2049 the cost to the state will include the normal cost and any amortization payment for the actuarial accrued liability which exist under the layered amortization methodology. Contributions to TRS without the changes in the bill for the same



period are estimated to be \$39.9 billion<sup>1</sup>, approximately \$15.6 billion less than under the revised assumptions.

Figure 1 below presents a graph of the combined impact of the actuarial and benefits changes. The dashed line represents the projections based on the changes in the bill, the dark solid line represents the current projections based on the 8% return being achieved and the light solid line is based on maintaining current assumptions while actual investment returns are 6.9% annually.

Fig. 1 Teachers' Retirement System (TRS)  
Actuarially Determined Employer Contribution (ADEC)  
In Millions



It is anticipated that the \$380.9 million deposited to the TRS-SCRF will not be spent, but will remain in the TRS-SCRF until the 2008 pension obligation bonds are retired, not later than 2032. No later than

<sup>1</sup>Based on current actuarial assumptions and 6.9% actual returns.

FY 33, these funds will be transferred directly to the Budget Reserve Fund.

*Sources: Cavanaugh Macdonald Consulting, LLC Actuarial Estimates provided to OPM  
Cavanaugh Macdonald Consulting, LLC Study of Economic Assumptions for Use  
in Actuarial Valuations*

**OFA Bill Analysis****sSB 873*****AN ACT STABILIZING THE TEACHERS' RETIREMENT FUND.*****SUMMARY:**

The bill establishes the Teachers' Retirement Fund Bonds Special Capital Reserve Fund (TRF-SCRF) and appropriates \$380.9 million in FY 19 to the Treasurer's Debt Service account for deposit to the TRF-SCRF. Additionally, the bill secures the Reserve Fund with revenues of the Connecticut Lottery Corporation, in the event that the Reserve Fund is ever depleted.

Capitalizing and securing the TRF-SCRF will serve to fulfill the adequacy provision for holders of Pension Obligation Bonds (POBs) by further securing the payment of the principal and interest of the bonds issued in 2008. The POBs covenant included a requirement that the state pay annually the actuarially determined employer contribution (ADEC) based on a closed amortization period ending in 2032. Making adequate provision for bondholders allows for the implementation of changes to the Teachers' Retirement System (TRS) funding methodology that are similar to those adopted in 2017 for the State Employees Retirement System.

The bill details the following changes to the actuarial funding methodology and benefit design of the TRS:

- Reduce assumed rate of return from 8% to 6.9%.
- Re-amortize the unfunded accrued actuarial liability (UAAL) over a new 30-year period and allow future gains or losses to be amortized over new 25-year periods.

- Transition from a level percent of payroll to level dollar amortization method over a 5-year period.
- Calculate the ADEC based on the actual 7% member contribution rather than a 6% member contribution as currently required.
- Set the credited interest percentage on member contributions to 4% from the current actuarially determined rate of return calculation.
- Change the percentage reduction to members' accounts as benefits are received from 25% to 50%. This impacts the partial refund death benefit a TRS member's beneficiary may receive under the Plan N payment option.

Please refer to fiscal note for additional details.

EFFECTIVE DATE: Various, see fiscal note detail.

**COMMITTEE ACTION**

Appropriations

Joint Favorable Substitute  
Yea 30 Nay 18