

**Proposed Substitute
Bill No. 873**

LCO No. 7635

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) (1) On a weekly basis, the president shall estimate, and certify to
144 the State Treasurer, that portion of the balance in the lottery fund
145 which exceeds the current needs of the corporation for the payment of
146 prizes, the payment of current operating expenses and funding of
147 approved reserves of the corporation. The corporation shall transfer
148 the amount so certified from the lottery fund of the corporation to the
149 General 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, as amended by this act; and (2) certify
296 to the General Assembly for such fiscal years the amount necessary,
297 based on such revised actuarial valuation, to maintain the Teachers'
298 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 7 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 7 of this act, whichever is later</i>	New section