

Teachers' Retirement Board

TRB77500

Permanent Full-Time Positions

| Fund | Actual FY 17 | Actual FY 18 | Appropriation FY 19 | Governor Recommended | | Legislative | |
|--------------|-----------------|-----------------|------------------------|----------------------|-------|-------------|-------|
| | | | | FY 20 | FY 21 | FY 20 | FY 21 |
| General Fund | 27 | 27 | 27 | 27 | 27 | 27 | 27 |

Budget Summary

| Account | Actual FY 17 | Actual FY 18 | Appropriation FY 19 | Governor Recommended | | Legislative | |
|---|----------------------|----------------------|------------------------|----------------------|----------------------|----------------------|----------------------|
| | | | | FY 20 | FY 21 | FY 20 | FY 21 |
| Personal Services | 1,653,278 | 1,569,718 | 1,561,604 | 1,631,971 | 1,722,838 | 1,631,971 | 1,722,838 |
| Other Expenses | 405,352 | 410,925 | 444,727 | 431,727 | 544,727 | 431,727 | 544,727 |
| Other Than Payments to Local Governments | | | | | | | |
| Retirement Contributions | 1,012,162,000 | 1,271,033,000 | 1,292,314,000 | 1,208,783,000 | 1,248,029,000 | 1,208,783,000 | 1,248,029,000 |
| Retirees Health Service Cost | 14,566,860 | 14,554,500 | 14,575,250 | 26,001,300 | 29,849,400 | 26,001,300 | 29,849,400 |
| Municipal Retiree Health Insurance Costs | 5,355,153 | 4,644,673 | 4,644,673 | 5,532,120 | 5,535,640 | 5,532,120 | 5,535,640 |
| Agency Total - General Fund | 1,034,142,643 | 1,292,212,816 | 1,313,540,254 | 1,242,380,118 | 1,285,681,605 | 1,242,380,118 | 1,285,681,605 |

| Account | Governor Recommended | | Legislative | | Difference from Governor | |
|---------|----------------------|-------|-------------|-------|--------------------------|-------|
| | FY 20 | FY 21 | FY 20 | FY 21 | FY 20 | FY 21 |

Policy Revisions

Reduce Contribution to Reflect Changes to Funding Methodology and Benefit Design

| | | | | | | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------|----------|
| Retirement Contributions | (183,400,000) | (189,400,000) | (183,400,000) | (189,400,000) | - | - |
| Total - General Fund | (183,400,000) | (189,400,000) | (183,400,000) | (189,400,000) | - | - |

Background

The Teachers' Retirement System (TRS) is the state's defined benefit plan for approximately 50,000 active and 37,000 retired Connecticut public school teachers. The TRS is currently funded using an actuarial reserve funding methodology, whereby the normal cost and past service liability are calculated in order to establish the state's actuarially determined employer contribution (ADEC). TRS is not collectively bargained but, rather, provided for through statute (CGS Sec.10-183).

PA 07-186, *An Act Concerning Adequate Funding of the Teachers' Retirement System*, authorized state general obligation bonds to fund \$2 billion of the unfunded liability of the TRS and requires the state to make the full actuarial required contribution for the 25-year term of the pension obligation bonds.

PA 17-2 JSS, the FY 18 and FY 19 Biennial Budget, increased teachers' pension contributions from 6% to 7% of their annual salary, effective January 2018, and required the Teachers' Retirement Board (TRB) for FY 20 and each fiscal year after, to assume that teachers' pension contributions are 6% instead of 7% when actuarially determining the ADEC.

Governor

Reduce funding by \$183.4 million in FY 20 and \$189.4 million in FY 21 to reflect the net reduction in the TRS annual required contribution based on a revised 2018 valuation. This valuation was revised after the TRB's adoption of the changes to the funding methodology and benefit design within the confines of the bond covenant. Sections 82 - 90 of PA 19-117, the FY 20 and FY 21 budget, implement changes to the TRS, including those outlined below:

| Account | Governor Recommended | | Legislative | | Difference from Governor | |
|---------|----------------------|-------|-------------|-------|--------------------------|-------|
| | FY 20 | FY 21 | FY 20 | FY 21 | FY 20 | FY 21 |

Funding Methodology

- Reduce assumed rate of return from 8% to 6.9%.
- Re-amortize the unfunded liability over a new 30-year period.
- Transition from level percent of payroll to level dollar amortization over a 5-year period.
- Calculate the ADEC based on the 7% member contribution.

Benefit Design

- 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%.

Legislative

Same as Governor

Establish Municipal Contribution to the TRS**Governor**

The Governor's Recommended Budget requires most municipalities to pay a phased-in contribution for at least one-quarter (25%) of the normal cost paid on its behalf by the state. This is anticipated to result in General Fund revenue of \$23.8 million in FY 20 and \$49.2 million in FY 21. The full 25% of normal cost contribution is required in FY 22, the third year of the phase-in, and is an estimated \$71.5 million. Municipalities with teacher salaries above the statewide median are required to pay a share equal to each percentage point they are above the median. Contributions by distressed municipalities are limited to five percent of their associated normal cost.

Legislative

The municipal contribution to the Teachers' Retirement System is not recommended.

Current Services**Fully Fund Teachers' Pension Based on 2018 Valuation**

| | | | | | | |
|-----------------------------|-------------------|--------------------|-------------------|--------------------|----------|----------|
| Retirement Contributions | 99,869,000 | 145,115,000 | 99,869,000 | 145,115,000 | - | - |
| Total - General Fund | 99,869,000 | 145,115,000 | 99,869,000 | 145,115,000 | - | - |

Background

The June 30, 2018 actuarial valuation set the ADEC for the TRS of \$1,392,183,000 in FY 20 and \$1,437,429,000 in FY 21. Payment of the full contribution is required by both statute (CGS Sec.10-183z) and the bond covenant for the pension obligation bonds, issued pursuant to PA 07-186.

Governor

Provide funding of \$99,869,000 in FY 20 and \$145,115,000 in FY 21 to fully fund the state's annual required contribution to the TRS.

Legislative

Same as Governor

Provide Funding for Retiree Health at Statutorily Required Level

| | | | | | | |
|------------------------------|-------------------|-------------------|-------------------|-------------------|----------|----------|
| Retirees Health Service Cost | 11,426,050 | 15,274,150 | 11,426,050 | 15,274,150 | - | - |
| Total - General Fund | 11,426,050 | 15,274,150 | 11,426,050 | 15,274,150 | - | - |

Background

The TRB is required to offer one or more health plans to retired TRS members who are participating in Medicare. The TRB health plan is funded on a self-insured basis. CGS Sec.10-183t provides a cost sharing arrangement which requires that retirees, the state, and the TRB health fund each pay one-third of the total cost for the basic plan. The TRB health fund is supported by active teachers' 1.25% contributions. PA 17-2 JSS, the FY 18 and FY 19 Biennial Budget, reduced the state share of the TRB health plan cost to the flat-funded

| Account | Governor Recommended | | Legislative | | Difference from Governor | |
|---------|----------------------|-------|-------------|-------|--------------------------|-------|
| | FY 20 | FY 21 | FY 20 | FY 21 | FY 20 | FY 21 |

FY 17 level of appropriation. This resulted in a state share of approximately 16% in FY 17 and 14% in FY 18. The TRB basic plan is changing from the Medicare Supplement Plan to a Medicare Advantage Plan administered by Anthem effective July 1, 2018. PA 18-81, the Revised FY 19 Budget, transferred \$16.1 million from the Budget Reserve Fund to the retired teachers' health insurance premium account. This transfer, when combined with the FY 19 appropriation in the retirees health service cost account, reflects approximately one-third of the TRB retiree health basic plan estimated expenditure for FY 19.

Governor

Provide funding of \$11,426,050 in FY 20 and \$15,274,150 in FY 21 to fully fund the state's statutorily required one-third share of the TRB retiree health plan.

Legislative

Same as Governor

Provide Funding for Municipal Health Subsidy at Statutorily Required Level

| | | | | | | |
|--|----------------|----------------|----------------|----------------|----------|----------|
| Municipal Retiree Health Insurance Costs | 887,447 | 890,967 | 887,447 | 890,967 | - | - |
| Total - General Fund | 887,447 | 890,967 | 887,447 | 890,967 | - | - |

Background

The municipal subsidy is provided to those retirees and dependents with health insurance through their last employing board of education. The amount that eligible retirees receive is statutorily set at \$110 per month for most members and \$220 per month for members who are 65 or older, not Medicare eligible and paying more than \$220 per month for health insurance. The state is required to pay one-third of the cost of the subsidy according to CGS.10-183t. PA 18-81, the Revised FY 19 Budget, transferred \$16.1 million from the Budget Reserve Fund to the retired teachers' health insurance fund. This transfer, when combined with the FY 19 appropriation in the municipal retirees health service cost account, reflects approximately 33% of the TRB municipal retiree health insurance subsidy estimated expenditure for FY 19.

Governor

Provide funding of \$887,447 in FY 20 and \$890,967 in FY 21 to fully fund the municipal health subsidy account.

Legislative

Same as Governor

Provide Funding for Wage Increases

| | | | | | | |
|-----------------------------|---------------|----------------|---------------|----------------|----------|----------|
| Personal Services | 70,367 | 161,234 | 70,367 | 161,234 | - | - |
| Total - General Fund | 70,367 | 161,234 | 70,367 | 161,234 | - | - |

Background

The Governor's FY 20 and FY 21 Budget provides funding of \$70.3 million in FY 20 and \$165.9 million in FY 21, across seven appropriated funds, for state employee wages and collective bargaining increases.

Governor

Provide funding of \$70,367 in FY 20 and \$161,234 in FY 21 to reflect this agency's increased wage costs.

Legislative

Same as Governor

Adjust Funding for Other Expenses to Reflect Required Actuarial Services

| | | | | | | |
|-----------------------------|-----------------|----------------|-----------------|----------------|----------|----------|
| Other Expenses | (13,000) | 100,000 | (13,000) | 100,000 | - | - |
| Total - General Fund | (13,000) | 100,000 | (13,000) | 100,000 | - | - |

Background

Each year the TRB requires the services of a consulting actuary which is funded by the Other Expenses account.

Governor

Reduce funding by \$13,000 in FY 20 and increase funding by \$100,000 in FY 21 to reflect the resources required to provide actuarial services for the TRB.

| Account | Governor Recommended | | Legislative | | Difference from Governor | |
|---------|----------------------|-------|-------------|-------|--------------------------|-------|
| | FY 20 | FY 21 | FY 20 | FY 21 | FY 20 | FY 21 |

Legislative

Same as Governor

Totals

| Budget Components | Governor Recommended | | Legislative | | Difference from Governor | |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|--------------------------|-------|
| | FY 20 | FY 21 | FY 20 | FY 21 | FY 20 | FY 21 |
| FY 19 Appropriation - GF | 1,313,540,254 | 1,313,540,254 | 1,313,540,254 | 1,313,540,254 | - | - |
| Policy Revisions | (183,400,000) | (189,400,000) | (183,400,000) | (189,400,000) | - | - |
| Current Services | 112,239,864 | 161,541,351 | 112,239,864 | 161,541,351 | - | - |
| Total Recommended - GF | 1,242,380,118 | 1,285,681,605 | 1,242,380,118 | 1,285,681,605 | - | - |