



# News Release

## Connecticut House Republicans

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FOR IMMEDIATE RELEASE

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### Malloy's Projected State Pension Plan Savings Vanish Budget Experts Say

HARTFORD - Independent state budget analysts today said the projected pension fund savings touted by Gov. Malloy in the deal he struck with state unions fall more than \$3 billion short of what was announced just five months ago.

Over the 20-year horizon anticipated in the so-called SEBAC pension component, Malloy said it would save \$4.8 billion, but the Office of Fiscal Analysis today put that number at \$1.7 billion. House Republican Leader Lawrence F. Cafero said the union agreement savings is proving to be "fiction."

"Just as in the other areas of the SEBAC deal concerning health care and other built-in savings, the pension fund savings are just one-third of what was budgeted. This is just more bad news," Cafero said. He noted that a week ago Connecticut's credit rating was downgraded because of skyrocketing pension and health care costs.

"We continue to struggle to meet our obligations despite the fact that Democrats put in place the biggest tax hike in state history," Cafero said.

Just two days earlier OFA announced that not only was the state surplus gone just five months into the fiscal year, but Connecticut was actually in a \$145 million deficit hole. Cafero said Democrats cannot continue to deny what non-partisan budget experts and fiscal analysts at Moodys Investment Services have found: Connecticut's financial health is still shaky.

OFA said one reason for the loss of savings to taxpayers was that the individual components of the pension plan such as increases in employee contributions and the creation of a new tier of employees with less attractive different benefits did not add up to the aggregate savings Gov. Malloy announced.

Cafero said, "The legislature has to regain control over the state's finances in the coming legislative session. We, as lawmakers, have to reclaim our responsibility to voters to rein in spending and get Connecticut back on track."

# Connecticut General Assembly



## OFFICE OF FISCAL ANALYSIS

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To: Representative Lawrence Cafero, House Minority Leader

From: Alan Calandro

Subject: State Employees Retirement System (SERS) Valuation Questions

You asked the following questions:

1. In the analysis of savings related to state employee pensions in last year's SEBAC agreement, how much did the Malloy administration and union officials project would be saved over the next 20 years?
2. In the draft analysis of savings related to state employee pensions in last year's SEBAC agreement, how much does the state-contracted actuary project will be saved over the next 20 years?
3. In light of the fact that the state-contracted actuaries who completed the draft analysis are the same actuaries who worked with the Malloy administration and union officials to develop the initial pension savings projections, could you offer an explanation for the discrepancy between the initial projections and the latest projections in the draft analysis if such discrepancy exists?

Our responses appear below in the order of the above.

1. A total reported savings of \$4.8 billion was attributed to the changes to the SERS pension plan provisions as contained in the Revised SEBAC 2011 Agreement. Changes to the SERS pension plan provisions as contained in the Revised SEBAC 2011 Agreement and associated reported savings are outlined in the table below.

ARC Savings as Reported with the Revised 2011 SEBAC Agreement			
SERS-Related Pension Provisions (in millions)	FY 12 \$	FY 13 \$	20-Yr \$
Pensionable Salary Cap	2.4	2.5	62.0
Pension Savings from Wage Freeze	69.3	71.2	- (no 20-year)
Minimum and Maximum COLA Change	32.5	34.3	1,342.0
Increase Early Retirement Reduction Factor	8.9	8.5	~165.5
Increase Normal Retirement Age	22.0	22.0	677.0
New Tier III	-	9.6	2,982.0
Adjust Pension Break Point	-	-	(458.0)
<b>SERS ARC Savings Total</b>	<b>135.1</b>	<b>148.1</b>	<b>4,770.5</b>

- The draft valuation<sup>1</sup> does not clearly indicate the savings attributable to the SEBAC Agreement. It does, however, provide a derivation of the experience gain/(loss) in accrued liabilities which has occurred during the valuation period. In other words, the valuation highlights areas in which actual experience differs from assumed experience. In the revised preliminary valuation, the three significant areas of difference lie in a higher-than expected number of retirements (a \$112.5 million loss), adjustments for plan changes (a \$644 million gain), and investment income (a \$447.1 million gain). It is assumed the retirement loss and plan changes gain are attributed to the Agreement, for a net impact to the fund's actuarial accrued liabilities of \$531.5 million over the 20-year amortization period. As this present value information is used to calculate the ARC, we use this to estimate the compounded ARC impact of the Revised 2011 SEBAC Agreement (*discussed further below*).

Beyond showing the ARC savings in the biennium, the preliminary revised valuation does not provide a revised schedule for the state's next 20 year's worth of ARC payments. This schedule appears to have been issued, however, by the Governor's office during a press conference held on January 23, 2012. If we compare this revised payment schedule to a baseline schedule included in supplemental actuarial information provided after the SEBAC negotiations, we arrive at a 20-year savings of \$3.6 billion.

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<sup>1</sup> The latest preliminary revised SERS valuation was completed to update the annual required contribution (ARC) for FY 12 and FY 13 as previously determined by the June 30, 2010 actuarial valuation. It should be noted that this valuation and its results are not deemed official until approved by the State Employees Retirement Commission and until then, changes to the valuation could still take place. The preliminary revised valuation incorporates assumption changes to the SERS plan provisions as contained in the Revised SEBAC 2011 Agreement as well as FY 11 market impacts and was prepared as of June 30, 2011. Additional data pertaining to retirements that occurred between June 30, 2011 and October 1, 2011 (largely attributed to the SEBAC Agreement) were also included in the valuation.

However, the \$3.6 billion in savings cannot be fully attributable to the Revised SEBAC 2011 Agreement since investment returns are a significant factor unrelated to the pension changes.

In an attempt to isolate the SEBAC Agreement savings, we have applied a percentage based on the preliminary revised valuation's break-out of the various experience gains and losses to the fund's accrued liabilities during the valuation period.

Age/Service Retirements & Adjustments for Plan Changes*	531.5 million = 47.8%
Investment Income	447.1 million = 40.2%
Other	132.4 million = 11.9%
Composite Gain (or Loss)	1,111.0 million

*\*Net impact attributed to the Revised SEBAC 2011 Agreement*

Therefore, we estimate that approximately \$1.7 billion of the \$3.6 billion ARC savings over the 20-year amortization period is attributed to the Revised SEBAC 2011 Agreement. This compares to the \$4.8 billion reported ARC savings for an estimated shortfall of \$3.1 billion over the 20-year amortization period.

3. It is our understanding that the reported agreement's savings figures were estimated individually, i. e. on a stand-alone basis. Therefore, at least a portion of the savings shortfall can be attributed to that fact that interrelated provisions were mutually exclusive.

If you have any questions, please contact me.