NATALIE BRASWELL
Connecticut State Comptroller

FOR IMMEDIATE RELEASE
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COMPTROLLER BRASWELL ANNOUNCES LANDMARK BUDGETARY REFORMS WILL ERASE OVER $11.5 BILLION IN PENSION DEBT

Comptroller Natalie Braswell released an analysis on Thursday that shows budgetary and financial reforms in recent years are now projected to save taxpayers an estimated $11.5 billion by eliminating pension debt.

The analysis was performed by the independent actuarial firm Cavanaugh Macdonald at the request of the comptroller's office. It shows that additional contributions to the State Employees Retirement System (SERS) and the Teachers' Retirement System (TRS) in each of the prior two fiscal years, and additional funds that will be deposited after the close of Fiscal Year 2022, will generate significant reductions in each fund's outstanding liability. The result will be lower annual required payments to the pension funds and lower overall debt, benefiting taxpayers now and in the future.

"The painstaking work of getting Connecticut's fiscal house in order continues to pay off for taxpayers," said **Comptroller Braswell**. "As economic volatility impacts all aspects of everyday life, the state's budgetary situation is increasingly stable and still improving, in stark contrast to the years of sacrifice and chaos following the Great Recession. The reforms that have filled the Rainy Day Fund with a current balance of more than $3.1 billion, and helped pay down pension debt, will also free up resources that can be used to help working families, protect critical services and guard against national economic turmoil."

"By prioritizing paying down the state's pension debt, we're removing an economic anchor that threatened to hold back Connecticut's long-term growth," said **Governor Ned Lamont**. "We're now seeing jobs return across the state and earning a national reputation for our fiscal responsibility. As a result, the working people of Connecticut will not have to endure a repeat of the years of budgetary warfare in the Capitol that led to tax increases and cuts to critical services. This also provides immediate savings that can be invested in our communities and bring relief to taxpayers."

According to a state law originally proposed by former Comptroller Kevin Lembo, excess revenues in particularly volatile categories are automatically deposited into the state's Budget Reserve Fund (commonly referred to as the "Rainy Day Fund"). That fund has currently reached its statutory cap, triggering a provision that directs the remainder of the volatility transfers be used to pay down debt, including in the pension funds. Any budget surplus certified at the close of the fiscal year also gets deposited following the same process.

That policy, and accompanying reforms including raising the maximum cap on the Budget Reserve Fund, have resulted in additional payments into the pension funds of:

- $61.6 million in Fiscal Year 2020;
- $1.6 billion in Fiscal Year 2021;
- and a projected $3.7 billion in Fiscal Year 2022.

The actuarial analysis shows that those contributions, and their corresponding investment returns, are projected to reduce future required payments to the pension funds by hundreds of millions of dollars each year until the current debt schedule is completed in 2048.

In the 1990s, state government transitioned to a model of pension funding akin to a balloon mortgage, where required contributions started small but increased in later years. The state often failed to make even the more modest contributions and debt accumulated as a result. The economic fallout from the Great Recession exasperated the problem, particularly as the pension funds failed to meet their goals for investment returns and the Budget Reserve Fund was drained to cover budget deficits. As recently as 2015, analysts warned that without intervention, lawmakers could need to spend as much as $13 billion per year by 2032 to satisfy minimum pension funding requirement.

A restructuring of existing pension debt, known as re-amortization, in 2017 set the table for consistent and predictable required payments that would retire the existing debt by 2048. The additional contributions made in recent years will now bring down those annual costs, freeing up over $440 million per year as soon as Fiscal Year 2024 that can be used to fund other government services, invest in infrastructure projects or reduce taxes.

Earlier this month, Braswell also announced a new contract award for the state health plan's Medicare Advantage program that will save an additional $400 million over the next three years and reduce the state's Other Post-Employment Benefits (OPEB) liability by approximately $7.5 billion.

This continued effort to reduce long-term debt has been acknowledged by ratings agencies, including Standard & Poor's (S&P) which elevated the state's general obligation bond outlook from "stable" to "positive" in May. In a report to investors, they wrote in part, "we believe Connecticut has recently demonstrated a commitment to restoring budget reserves during periods of economic and revenue growth that could insulate its finances from recessionary headwinds."

***** END *****

Cavanaugh Macdonald
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June 30, 2022

Honorable Natalie Braswell, State Comptroller
State of Connecticut
Office of the State Comptroller
165 Capitol Avenue,
Hartford, CT 06106-1775

RE: Forecast of Reduction to State of Connecticut Actuarially Determined Employer Contribution (ADEC) Resulting from Past and Future Transfers

Dear Ms. Braswell:

We have been requested to provide a forecast of the reductions to the State's ADEC for both the State Employees Retirement System (SERS) and the Teachers' Retirement System (TRS) resulting from the additional contributions to these System's assets from the Budget Reserve Fund (BRF) and General Fund Surplus. The table below summarizes the amount of these transfers for fiscal years ending 2021, 2022 and 2023.

Past Transfer Amounts and Expected Transfer Amounts for 2022		
Year	**SERS**	**TRS**
2020	$ 61,621,659	$ -
2021	$ 714,663,947	$ 903,642,800
2022	$ 2,781,807,202	$ 903,642,800

Forecast of Impact on SERS ADEC

SERS has received the transfers for 2020 and 2021 as shown above. The $61.6 million transfer made in December of 2020 was treated as a receivable amount in the June 30, 2020 actuarial valuation of SERS. Similarly, two additional transfers were completed in September and December of 2021 which totaled $714.7 million. These were treated as receivable amounts in the June 30, 2021 actuarial valuation equal to the discounted value at June 30, 2021 of $697.0 million. For the purpose of forecasting future reductions to the ADEC, the additional transfers for SERS that are expected to impact the June 30, 2022 actuarial valuation (again, to be treated as receivable on the valuation date), are expected to be $1,739.2 million transferred as of October 1, 2022 and $1,042.6 million transferred as of December 1, 2022 and have a discounted value as of June 30, 2022 of $2,724.4 million. These transfer amounts increase the value of assets in the System's actuarial valuation and effectively have a corresponding decrease in the System's

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Unfunded Actuarial Accrued Liability (UAAL) as of the valuation date. The UAAL is amortized with future payments which reflect an interest and principal component. By reducing the UAAL with each transfer, the future interest payments are reduced. The table below provides the forecast of savings to the State's ADEC due to the past and future transfers.

Connecticut SERS - Projected ADEC Reductions Due to Additional Transfers

		ADEC Reductions			
Valuation Year	**Fiscal Year**	**due to $61,621,659 transferred in 2020**	**due to $714,663,947 transferred in 2021**	**due to $2,781,807,202 transferred in 2022**	**Total ADEC Reductions**
2020	2022	4,893,000	0	0	4,893,000
2021	2023	5,267,000	59,274,000	0	64,541,000
2022	2024	5,267,000	59,274,000	231,684,000	296,225,000
2023	2025	5,267,000	59,274,000	231,684,000	296,225,000
2024	2026	5,267,000	59,274,000	231,684,000	296,225,000
2025	2027	5,267,000	59,274,000	231,684,000	296,225,000
2026	2028	5,267,000	59,274,000	231,684,000	296,225,000
2027	2029	5,267,000	59,274,000	231,684,000	296,225,000
2028	2030	5,267,000	59,274,000	231,684,000	296,225,000
2029	2031	5,267,000	59,274,000	231,684,000	296,225,000
2030	2032	5,267,000	59,274,000	231,684,000	296,225,000
2031	2033	5,267,000	59,274,000	231,684,000	296,225,000
2032	2034	5,267,000	59,274,000	231,684,000	296,225,000
2033	2035	5,267,000	59,274,000	231,684,000	296,225,000
2034	2036	5,267,000	59,274,000	231,684,000	296,225,000
2035	2037	5,267,000	59,274,000	231,684,000	296,225,000
2036	2038	5,267,000	59,274,000	231,684,000	296,225,000
2037	2039	5,267,000	59,274,000	231,684,000	296,225,000
2038	2040	5,267,000	59,274,000	231,684,000	296,225,000
2039	2041	5,267,000	59,274,000	231,684,000	296,225,000
2040	2042	5,267,000	59,274,000	231,684,000	296,225,000
2041	2043	5,267,000	59,274,000	231,684,000	296,225,000
2042	2044	5,267,000	59,274,000	231,684,000	296,225,000
2043	2045	5,267,000	59,274,000	231,684,000	296,225,000
2044	2046	5,267,000	59,274,000	231,684,000	296,225,000
2045	2047		59,274,000	231,684,000	290,958,000
2046	2048			231,684,000	231,684,000
Total		**131,301,000**	**1,481,850,000**	**5,792,100,000**	**7,405,251,000**

In summary for SERS, the total amounts transferred to SERS over the three years will total $3,558.1 million but will result in a reduction to the total ADECs through fiscal year ending 2048 of $7,405.3 million.

Forecast of Impact on TRS ADEC

TRS received the $903.6 million transfer for 2021 from the table above on page 1, however, TRS has actuarial valuations performed biennially and therefore, this transfer will be first recognized in the June 30, 2022 actuarial valuation. The additional transfer expected by October 1, 2022 of $903.6 million, will be treated as a receivable in the June 30, 2022 actuarial valuation equal to the discounted value of $888.5 million. The table on the following page provides the forecast of savings to the State's ADEC due to the past and future transfers.

Connecticut TRS - Projected ADEC Reductions Due to Additional Transfers

		ADEC Reductions		
Valuation Year	**Fiscal Year**	**due to $903,642,800 transferred in 2021**	**due to $903,642,800 transferred in 2022**	**Total ADEC Reductions**
2022	2024	73,823,000	72,587,000	146,410,000
2023	2025	78,730,000	77,413,000	156,143,000
2024	2026	83,230,000	81,838,000	165,068,000
2025	2027	83,230,000	81,838,000	165,068,000
2026	2028	83,230,000	81,838,000	165,068,000
2027	2029	83,230,000	81,838,000	165,068,000
2028	2030	83,230,000	81,838,000	165,068,000
2029	2031	83,230,000	81,838,000	165,068,000
2030	2032	83,230,000	81,838,000	165,068,000
2031	2033	83,230,000	81,838,000	165,068,000
2032	2034	83,230,000	81,838,000	165,068,000
2033	2035	83,230,000	81,838,000	165,068,000
2034	2036	83,230,000	81,838,000	165,068,000
2035	2037	83,230,000	81,838,000	165,068,000
2036	2038	83,230,000	81,838,000	165,068,000
2037	2039	83,230,000	81,838,000	165,068,000
2038	2040	83,230,000	81,838,000	165,068,000
2039	2041	83,230,000	81,838,000	165,068,000
2040	2042	83,230,000	81,838,000	165,068,000
2041	2043	83,230,000	81,838,000	165,068,000
2042	2044	83,230,000	81,838,000	165,068,000
2043	2045	83,230,000	81,838,000	165,068,000
2044	2046	83,230,000	81,838,000	165,068,000
2045	2047	83,230,000	81,838,000	165,068,000
2046	2048	83,230,000	81,838,000	165,068,000
Total		**2,066,843,000**	**2,032,274,000**	**4,099,117,000**

In summary for TRS, the total amounts transferred to TRS over the two years will total $1,807.3 million but will result in a reduction to the total ADECs through fiscal year ending 2048 of $4,099.1 million.

The undersigned are members of the American Academy of Actuaries and meet the qualification standards to provide the opinion contained herein.

Please let us know if you have any questions.

Sincerely,

John J. Garrett, ASA, FCA, MAAA
Principal and Consulting Actuary

Edward J. Koebel, EA, FCA, MAAA
Chief Executive Officer