
Comparing Connecticut with Other States on the Handling of the Public Employee Plan Funding Crisis

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CT21

CONNECTICUT REGIONAL INSTITUTE FOR THE 21ST CENTURY

Executive Summary

What Other States are Doing to Address Funding Shortfalls

- Our first piece of analysis was focused on the various types of actions taken by all 50 states in the last 2 ½ years to address their retirement plan funding challenges. The purpose of the analysis was not to just document the types of actions being taken but also to identify any connection between the condition of each state’s retirement plan as it relates to the actions taken.
- We found such a correlation between actions and the degree of impact of the program on the state’s budget if the annual required contribution (ARC) were contributed into the plan. Some states implemented temporary solutions. This was particularly true with respect to the funding of the plans where the employee’s contribution was being raised or the state chose not to pay the total ARC.
- Looking at the chart on the following page and using the other 49 states as a comparison, it is clear that Connecticut has lagged in terms of number and magnitude of actions taken to address its unfunded liability problem.
- Connecticut’s unfunded Pension and Medical liability is \$41.878 billion. This represents a \$17,480 liability per voting age citizen in Connecticut. Our total annual required contribution (ARC) to the pension and medical plans is \$2.968 billion per year. If fully funded this represents 12% of CT’s annual state budget.



Executive Summary

	2008 Total State Expenditures - Capital Inclusive (000)	2008 Voting Age Citizens by State (000)	2008 Pension Unfunded Liability (000)	2008 Pension ARC (000)	2008 Unfunded Pension Liability per Voting Age Citizen	2008 Pension ARC per Voting Age Citizen	2004-2008 Retiree Medical Unfunded Liability (000)	2008 Retiree Medical ARC (000)	2008 ARC per Voting Age Citizen	Total Pension plus Retiree Medical ARC (000)	Total Unfunded Pension and Medical Liability (000)	Total Unfunded Liability per Voting Age Citizen	Total ARC as Percent of Expenditure	Number of Actions Taken
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Hawaii	11,190,000	892	5,188,274	488,770	559	94	10,741,000	922,484	932	1,912,974	11,999,974	13,400	11.7%	1
New Jersey	48,704,000	6,374	34,433,609	3,891,740	540	89	46,497,000	6,222,100	886	6,734,840	10,888,809	17,071	17.6%	14
Connecticut	24,635,000	2,388	15,869,448	1,248,880	662	321	26,016,900	1,718,882	717	2,967,722	41,878,248	17,480	12.1%	9
Delaware	6,821,000	508	129,087	149,814	218	267	3,405,410	484,800	788	64,214	3,988,498	91.98	7.1%	0
Alaska	12,322,000	468	3,539,112	282,668	757	604	4,331,834	568,041	1,193	840,697	7,579,946	16.188	6.8%	3
Michigan	43,982,000	7,178	1,518,989	1,249,909	167	174	39,875,825	3,348,418	660	5,196,325	51,396,824	71.63	11.8%	4
Illinois	48,877,000	8,384	64,385,864	3,729,181	623	429	39,942,988	1,192,338	137	4,921,517	94,331,852	10.863	10.5%	8
Alabama	40,156,000	3,407	9,227,320	1,089,214	273	214	15,545,844	1,313,998	388	2,383,212	24,777,174	7.272	5.9%	0
North Carolina	41,687,000	6,474	508,008	875,704	78	104	28,742,202	2,458,488	380	3,135,173	29,250,207	4.518	7.5%	0
West Virginia	18,710,000	1,388	4,988,829	481,703	353	347	6,106,134	174,842	128	656,545	11,076,763	7.982	3.5%	1
New York	118,056,000	12,355	(1,424,819)	2,648,460	-811	206	56,286,000	4,133,000	321	6,781,450	45,861,381	3.67	5.8%	1
Maine	7,427,000	1,008	2,782,842	305,381	277	304	4,247,882	184,046	183	469,406	7,130,725	7.091	6.3%	2
Louisiana	29,990,000	3,357	1,868,644	1,180,061	381	379	12,542,953	1,188,087	382	2,328,138	24,201,597	7.917	7.8%	6
Maryland	29,796,000	3,523	1,028,410	1,208,497	285	316	14,723,566	1,388,240	284	2,294,737	25,649,976	6.710	7.7%	2
Kentucky	22,990,000	3,394	2,328,381	869,306	393	278	11,660,884	1,351,372	340	1,910,677	23,989,275	7.755	8.3%	8
Vermont	6,306,000	476	481,660	83,619	970	176	1,614,523	107,608	228	191,085	2,076,113	4.361	3.6%	10
Massachusetts	44,146,000	4,537	21,782,347	1,228,628	477	270	15,031,139	938,700	186	2,065,226	36,793,486	8.111	4.7%	4
Ohio	68,783,000	8,371	1,733,673	2,283,786	199	270	27,025,933	2,717,364	326	4,981,130	43,759,606	5.238	8.8%	0
New Hampshire	4,806,000	994	2,522,076	261,784	256	253	3,054,020	268,848	270	510,612	5,576,095	5.608	10.8%	7
California	194,270,000	21,311	89,513,668	12,378,481	272	567	62,455,753	5,178,788	237	17,555,270	121,973,420	5.592	9.0%	1
Georgia	38,782,000	6,518	8,382,985	1,278,881	990	136	18,344,794	1,583,008	243	2,858,889	24,703,189	3.792	7.8%	4
South Carolina	20,787,000	3,201	2,061,181	902,340	373	262	8,331,936	782,340	238	1,884,680	20,689,116	6.648	8.0%	0
New Mexico	14,790,000	1,301	4,019,147	807,091	394	424	2,544,421	280,538	212	934,229	7,465,568	5.224	6.5%	0
Texas	82,150,000	15,330	3,774,702	1,871,409	918	194	28,610,003	2,230,902	149	4,108,361	42,384,736	2.519	5.0%	7
Washington	31,732,000	4,300	(179,288)	1,545,800	-9	336	7,501,610	302,787	148	2,228,397	7,722,344	1.679	7.0%	1
Nevada	9,240,000	1,715	7,200,310	1,282,750	434	757	2,211,439	207,217	188	1,349,975	9,491,749	5.536	16.8%	6
Pennsylvania	68,896,000	9,210	3,728,988	2,438,488	149	202	9,500,109	923,600	89	3,259,980	23,083,009	2.572	3.0%	0
Rhode Island	7,007,000	762	1,363,637	219,884	578	274	786,180	18,126	61	265,080	5,241,756	6.838	3.7%	7
Arkansas	18,896,000	2,330	2,762,133	666,117	136	202	1,622,241	170,177	84	725,324	4,574,374	2.254	4.3%	3
Montana	4,477,000	723	1,549,928	201,871	213	279	631,918	58,883	81	260,754	2,181,844	3.017	5.8%	0
Missouri	21,176,000	4,325	9,022,924	1,219,871	286	282	2,851,701	282,215	81	1,482,086	11,874,825	2.748	7.0%	7
Virginia	36,330,000	6,313	1,775,984	1,488,788	209	280	2,621,128	541,193	107	2,027,931	13,817,123	2.512	5.7%	7
Iowa	6,930,000	1,348	777,282	768,400	78	244	485,401	45,494	43	301,894	1,261,683	1.203	5.1%	0
Wyoming	4,958,000	389	1,444,065	183,994	374	422	174,161	19,292	50	183,286	1,618,246	4.162	3.7%	3
Wisconsin	38,091,000	4,356	265,460	844,800	93	159	1,707,499	205,118	51	649,916	1,959,998	4.80	2.4%	0
Tennessee	28,324,000	4,533	1,603,073	838,269	354	185	1,747,879	187,787	37	1,008,046	3,349,977	7.99	3.8%	3
Utah	12,420,000	1,788	3,812,075	641,890	203	363	672,824	53,989	31	695,659	4,284,900	2.423	5.6%	4
Colorado	26,128,000	3,374	1,816,441	1,141,081	493	338	1,127,196	81,523	24	1,222,604	17,942,637	5.317	4.9%	6
Mississippi	15,695,000	2,386	7,972,720	882,900	382	321	570,248	43,827	21	706,527	8,542,968	4.138	4.5%	4
Minnesota	28,448,000	3,379	1,770,112	1,038,609	292	282	1,111,400	109,982	30	1,146,481	11,781,512	3.203	4.0%	9
Florida	84,378,000	12,482	(1,785,827)	3,005,387	-144	241	3,081,834	200,973	18	3,206,360	1,285,997	1.03	5.0%	1
Oregon	22,844,000	2,389	1,738,064	707,400	393	263	605,786	87,128	26	774,526	11,347,840	4.220	3.4%	0
Arizona	24,721,000	4,189	7,870,870	1,023,337	188	245	606,771	148,188	35	1,169,535	8,679,441	2.082	4.7%	5
Iowa	18,128,000	2,138	2,895,833	453,980	125	212	404,300	42,991	20	496,971	3,100,133	1.430	3.1%	7
North Dakota	3,697,000	476	548,428	80,928	134	170	81,271	6,085	13	87,013	627,697	1.820	2.4%	1
Kansas	12,886,000	1,928	8,279,975	807,682	430	316	316,640	18,039	8	623,701	8,596,615	4.464	4.9%	1
Oklahoma	19,982,000	2,587	3,173,112	1,245,848	513	485	255,800	48,200	19	1,293,846	13,532,912	5.271	6.5%	3
South Dakota	3,150,000	576	182,613	95,788	317	166	76,406	9,428	18	105,195	259,019	4.50	3.3%	3
Indiana	24,238,000	4,569	9,825,968	1,232,347	215	270	442,288	46,983	10	1,278,310	10,268,236	2.252	5.3%	1
Nebraska	8,712,000	1,264	766,128	189,088	622	135	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	3

Executive Summary

- Our review identified 19 broadly defined actions that other states have taken to manage their plans. A brief description and a number of actions analysis follows on the next slide. These examples should provide Connecticut leaders with solid ideas that can be implemented in Connecticut.
 - **Eligibility:** A change to participation in the plan. For example, an increase in the minimum compensation or hours to be a participant.
 - **Compensation:** A change in the definition of compensation, such as a cap on compensation increases between plan years, or an increase in the averaging period.
 - **Benefits Cap:** A change in the maximum benefit the plan will pay as a fixed dollar or fixed percent of pay.
 - **Multiplier:** A change in the percent per year of compensation that is used to calculate the final benefit.
 - **Service:** A change to the definition of service or the inclusion of a service gap.
 - **Vesting:** Any change to the minimum service required to be considered for benefits. For example, an increase from five years of service to ten years in order to receive state funded benefits.
 - **Early Retirement:** A change in the definition, minimum requirements, or the benefit reduction factors.
 - **Normal Retirement:** A change in the definition of minimum requirements.
 - **Cost of Living Adjustments:** Any change to the annual benefit increase to which a retiree is entitled.
 - **Pension Obligation Bond:** The issuance of a bond to fund the retirement plan.
 - **Employer Funding:** Any legislative-driven change to the funding of the retirement plan.
 - **Employee Contributions:** Any change to the amount employees must contribute as a condition of participation.
 - **Retirement Incentive Program:** Any program to reduce the state employee workforce by encouraging retirement or early retirement.
 - **Re-employment Rules:** Any change to benefits or any plan prohibition relating to terminated or retired employees who return to work.
 - **Disability:** Any change to the definition of disability or amount paid.
 - **Hybrid:** The creation of, or change in, a plan that has defined benefit and defined contribution type components.
 - **Subsidy:** In the case of a retiree medical plan, a change in the percentage of the retiree premium paid by the state.
 - **Other:** Any other change to the plan affecting the amount or availability of benefits not previously categorized.

CT21

CONNECTICUT REGIONAL INSTITUTE FOR THE 21ST CENTURY

Executive Summary

Number of Actions Taken by Type			
Pension Plans	Actions	Retiree Medical Plans	Actions
Eligibility	6	Eligibility	5
Compensation	12	Subsidy	4
Benefits Cap	3	Service	1
Multiplier	10	Vesting	1
Service	5	Employer Funding	5
Vesting	5	Employee Contributions	6
Early Retirement	12	Other	1
Normal Retirement	12	Retirement Incentive Program	4
Cost of Living Adjustments	13		
Pension Obligation Bond	2		
Employer Funding	17		
Employee Contributions	16		
Retirement Incentive Program	10		
Re-employment Rules	16		
Disability	3		
Other	3		
Hybrid	6		
Total Actions – Pensions	151	Total Actions – Retiree Medical	27

Source: Developed by Hooker & Holcombe from the reports below on the NCSL Website
 1.National Conference of State Legislatures: State Pensions and Retirement Legislation 2008
 2.National Conference of State Legislatures: State Pensions and Retirement Legislation 2009
 3.National Conference of State Legislatures: State Pensions and Retirement Legislation, September 2010



Executive Summary

Connecticut's Pension Tiers

- We then looked at the retirement benefits available to the different employee tiers described in the Connecticut State Employees Plan and asks the question, “Does the transition from Tier I benefits to the current Tier IIa benefits solve the future funding issues Connecticut will need to address in future taxes and budgets?”
- When benefit programs are trimmed in some manner, many states will create a new “tier” of eligible employees. Usually the new tier will be made up of future employees and employees that are not yet eligible for benefits at the time the plan was amended.
- The rationale for this approach generally rests with the state law. Some states have constitutional protections that prohibit the state from diminishing a state employee's benefits that would be payable under the plan's terms in effect as of the date the employee first became eligible to participate in the plan.

Status of Benefits Provided to State Employees¹

- For Connecticut there is no explicit constitutional protection for public pension benefits. Statutory protection exists for vested employees who satisfy eligibility requirements by becoming eligible to receive benefits. Courts have also recognized that the state's statutory pension scheme establishes a property interest entitled to protection from arbitrary legislative action under the due process provisions of the state constitution. See *Pineman v. Oechslein*, 488 A.2d 803 (1985).
- Municipal pensions are protected by CT Stat. § 7-148 which provides that the “rights or benefits granted to any individual under any municipal retirement or pension system shall not be diminished or eliminated.”

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¹Source: NCPERS - State Constitutional Protections for Public Sector Retirement Benefits – 3/15/2007

Executive Summary

Our Recommendation Relative to Pension Tiers is That:

- It would appear that Connecticut does not have constitutional prohibitions to modify the benefit program. Connecticut has followed a practice of grandfathering future benefits for current employees and thus the tiered benefit structures in the plan.
- States like Michigan and Hawaii follow ERISA type rules that only protect benefits that have accrued as of the date of the plan change – benefits for all employees can be changed prospectively.
- Whether there is a legal requirement to grandfather protection for both past and future benefits is unclear. Michigan, Hawaii, and some other states protect benefits that have been earned to-date (i.e., past benefits) and leave open the possibility that future benefits will be different. This approach has been used by the private sector and was codified in ERISA.
- Protecting only benefits earned to date affords the state the opportunity to provide both protection for employees and across the board solutions in managing its workforce and costs.

Executive Summary

Considerations for a Defined Contribution (DC) Plan

- We also conducted a review of how future employees would fare if Connecticut were to implement a defined contribution arrangement for future participants. Currently the State only has a Defined Benefit (DB) plan.
- Currently there are 13 states with employee retirement programs that have included a defined contribution type arrangement as a part of the retirement benefits.
- These programs are either patterned after DC offerings in private industry (e.g., Alaska and Michigan) or in a private industry type hybrid form such as Nebraska or with an employee choice between the a DB plan or DC plan.
- There is a growing debate in the public sector about the benefits of offering defined contribution plans in lieu of the defined benefit plans that are currently in place.
- We believe that a defined contribution plan should become a part of Connecticut’s pension strategy. There are many examples of states that have implemented these programs. The implementation of these programs will reduce the risk borne by Connecticut taxpayers for defined benefit plans.

States with DC or Hybrid Plans	
Alaska	DC
Colorado	DB/DC Choice
Georgia	Hybrid
Florida	DB/DC Choice
Indiana	Hybrid
Michigan	DC
Montana	DB/DC Choice
Nebraska	Hybrid
North Dakota	DB/DC Choice
Ohio	DB/DC Choice
Oregon	Hybrid
South Carolina	DB/DC Choice
Washington	Hybrid



Executive Summary

Retiree Medical

- The last component looks at what states have been doing in their retiree medical programs to reduce or control costs.
- Connecticut has one of the highest retiree medical unfunded liabilities in the nation when looked on a per capita basis. It also has one of the highest ARCs on a per capita basis at \$717 per voting age CT citizen.
- The amount of the ARC directly relates to the number of state employees and beneficiaries covered, the amount of time they are covered, the richness of the benefits, and the amount the state subsidizes the program verses what the retirees and employees pay.
- Given these liabilities and to manage future exposure, Connecticut must put in place measures to manage medical benefits. Eligibility, employee contribution, and managed care provisions must be evaluated and implemented.