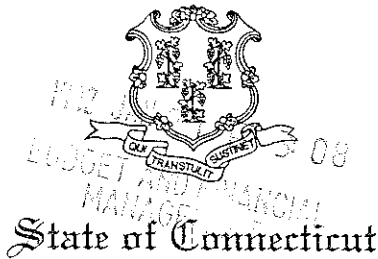


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**STATE EMPLOYEES
RETIREMENT COMMISSION
OFFICE OF THE STATE COMPTROLLER**

55 ELM STREET
HARTFORD, CONNECTICUT 06106
(203) 566-2126

January 23, 1992

Honorable John B. Larson
President Pro Tempore, State Senate
Honorable Richard J. Balducci
Speaker, House of Representatives
State Capitol
Hartford, CT 06106

Dear Senator Larson and Representative Balducci:

On November 25, 1991, you were advised that under Connecticut General Statutes, Section 5-165a(a) the State Employees Retirement Commission had certified, on the basis of an actuarial determination, a funding requirement for the State Employees Retirement Fund (SERF) of \$444,243,379 during fiscal year 1992-1993.

Subsequent to the Commission's action, the State of Connecticut and the State Employees Bargaining Agent Coalition (SEBAC) reached a collective bargaining agreement which, in relevant part, provides as follows:

- a. The pension fund's liability for the early retirement program of 1989 shall be reamortized over a period of forty (40) years with payment to commence in the 1994-95 fiscal year.
- b. The pension fund's liability for the Early Retirement Incentive Program provided by this Agreement shall be amortized over a period of forty (40) years with payment to commence in the 1994-95 fiscal year.
- c. The employer's contribution for past service liability shall be reduced by \$215 million for the 1991-92 fiscal year.
- d. From July 1, 1992 forward, the remaining past service liability shall be amortized on the basis of a level dollars payment per year for a period of forty (40) years. The 1992-93 payments to the pension fund shall be based on this reamortization and not the valuation received in November 1991. Said payments may be modified by mutual agreement of the State and SEBAC as provided in paragraph 2 below.

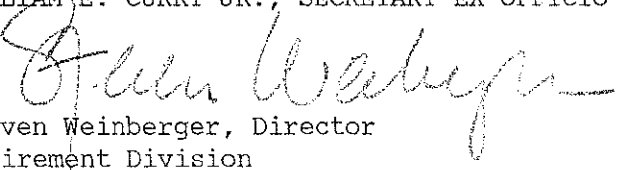
Accordingly, the Commission at its December 19, 1991 meeting voted to obtain from its consulting actuaries, Milliman & Robertson, Inc., a report on the impact of the above-referenced SEBAC provisions on SERF's funding requirement for fiscal year 1992-1993. In that connection, the Commission on January 16, 1992 unanimously accepted from its actuaries the attached report, dated January 13, 1992, which reflects a 1992-1993 employer's contribution to SERF of \$426,338,628.

In the Commission's aforementioned November 25, 1991 letter, it was represented to you that the state will be reimbursed for a portion of SERF's 1992-1993 funding cost by the federal government and state funds other than the General Fund; specifically, \$56,000,000. However, the Accounting Systems Division of the State Comptroller's Office has advised the Commission that the revisions made by the SEBAC agreement in SERF's funding for 1991-1992 will produce a corresponding adjustment to 1992-1993 reimbursements which, as reflected in the attached January 22, 1992 memorandum, it now estimates at \$47,508,859.

Very truly yours,

STATE EMPLOYEES RETIREMENT COMMISSION
WILLIAM E. CURRY JR., SECRETARY EX OFFICIO

BY:


Steven Weinberger, Director
Retirement Division

SW/md

Enclosure

CC: Hon. Joseph H. Harper, Jr.
Hon. William R. Dyson



MILLIMAN & ROBERTSON, INC.

Actuaries and Consultants

Three Corporate Place
Bloomfield, Connecticut 06002
Telephone: 203/243-1138
Fax: 203/286-0564

January 13, 1992

Steven Weinberger
Retirement Division
Connecticut State Employees
55 Elm Street
Hartford, CT 06106

Re: Revisions to the SERS June 30, 1991 Valuation Report

Dear Steve:

At your request, we have reviewed the recently negotiated agreement between the State and SEBAC as it relates to SERS. Several elements of the agreement have an impact on the State's fiscal year 1992-93 SERS contribution developed in our June 30, 1991 valuation. The negotiated agreement changes several elements of our calculations, which are summarized below:

- starting with costs for the 1992-93 fiscal year, the unfunded liability will be amortized over 40 years; the contribution certified in our valuation report dated November 12, 1991 utilized a 30 year amortization.
- no contribution will be made towards the liability for Retirement Incentive Bonus programs until the 1994-95 fiscal year.
- the State's past service contribution for the 1991-92 fiscal year will be reduced by \$215 million.

A related issue is the wage increase assumed to be effective July 1, 1991, reflecting overall merit plus cost of living increases. You give us your best guess on the overall rate; our valuation report dated November 12, 1991 assumed 8% across the board increases. At your direction we have lowered this rate to 5%.

Albany • Atlanta • Boston • Chicago • Cincinnati • Dallas • Denver • Hartford • Houston
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January 13, 1992
Steven Weinberger
Page 2

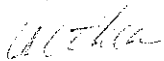
These changes reduce the required contribution for fiscal year 1992-93 from the \$444.2 million we certified in our report dated November 12, 1991 to \$426.3 million. The sources of the overall decrease of \$17.9 million are as follows:

June 30, 1991 valuation contribution projected to July 1, 1992	\$444.2 million
• decrease due to lower assumed salary increases for FY 91/92 (5% vs. 8%)	(14.3)
• decrease due to change in amortization period (40 vs. 30 years)	(11.8)
• increase due to \$215 million shortfall in State's contribution for FY 91/92	20.1
• decrease due to postponement of funding the 1989 Retirement Incentive Bonus program until FY 94/95	<u>(11.9)</u>
Contribution (reflecting negotiations) projected to July 1, 1992	\$426.3 million

We have taken several pages from our valuation report and added a column entitled "Addendum" which reflects these changes. Let us know if you think more supporting information is in order. We can also reissue the June 30, 1991 valuation report, if you desire.

Please call me if you have any questions.

Sincerely,



Althea A. Schwartz, F.S.A.
Consulting Actuary

AAS/wif ltr01132.cse

cc: Gene Kalwarski

**CONNECTICUT STATE EMPLOYEES RETIREMENT SYSTEM
PRINCIPAL RESULTS**

	Addendum	June 30, 1991 Valuation	% Chg
SYSTEM MEMBERSHIP			
1. Active Membership			
- Number of Participants	55,046	55,046	0.00
- Payroll	1,956,585,318	1,956,585,318	0.00
- Average Pay	35,545	35,545	0.00
2. Inactive Membership			
- Number of Vested Deferred Members	727	727	0.00
- Number of Retired Members	23,779	23,779	0.00
- Annual Retired Members Benefits	262,970,516	262,970,516	0.00
- Average Annual Retired Member Benefit	11,059	11,059	0.00
ASSETS AND LIABILITIES			
1. Assets			
- Market Value	3,351,858,611*	3,351,681,110	0.01
- Actuarial Value	3,208,135,557*	3,207,958,056	0.01
2. Liabilities			
- Retired and Deferred Vested	2,795,890,494	2,795,890,494	0.00
- Active Members	3,095,767,881	3,186,796,701	(2.86)
- Total Liability	5,891,658,375	5,982,687,195	(1.52)
- Unfunded Liability	2,683,522,818	2,774,729,139	(3.29)
EMPLOYER CONTRIBUTIONS			
1. Contributions as a Percent of Projected Payroll			
- Normal Cost	8.85%	8.86%	
- Unfunded Liability	11.70%	11.96%	
- Total Contribution %	20.55%	20.82%	
2. Contribution Dollars Projected to the following FY			
- Normal Cost	183,658,575	189,127,218	(2.89)
- Unfunded Liability	242,680,053	255,116,161**	(4.87)
- Total State Contribution	426,338,628	444,243,379	(4.03)

* Change in wage increase assumption affects assets allocated to Newington Children's Hospital.

** Includes payment for Retirement Incentive Bonuses.

SYSTEM LIABILITIES

	ADDENDUM	JUNE 30, 1991 VALUATION
1. Liability for Retired Members	\$2,780,344,628	\$2,780,344,628
2. Liability for Deferred Vested Members	<u>15,545,866</u>	<u>15,545,866</u>
3. Total Inactive Liability	\$2,795,890,494	\$2,795,890,494
4. Active Members Actuarial Liability	<u>3,095,767,881</u>	<u>3,186,796,701</u>
5. Total System Actuarial Liability	<u>\$5,891,658,375</u>	<u>\$5,982,687,195</u>
6. Actuarial Value of Assets	3,208,135,557	3,207,958,056
7. Total System Unfunded Actuarial Liability	<u>\$2,683,522,818</u>	<u>\$2,774,729,139*</u>

* Does not reflect liability for the 1989 Retirement Incentive Bonuses.

**PROJECTED UNIT CREDIT UNFUNDED LIABILITY
TO JULY 1, 1992**

	ADDENDUM	JUNE 30, 1991 VALUATION
1. Unfunded Actuarial Liability 7-1-91	\$2,683,522,818	\$2,774,729,139*
2. One Year's Interest at 8½%	228,099,440	235,851,977
3. Normal Cost (FY 1991-92)	180,005,022	180,005,022
4. Interest on Normal Cost	6,909,493	6,909,493
5. Less State Payments	(149,378,194)	(376,236,846)**
6. Less Federal Payments (expected)	(55,000,000)	(55,000,000)
7. Less Employee Contributions	(33,809,953)	(33,809,953)
8. Less Interest on Contributions	<u>(9,142,852)</u>	<u>(17,850,821)</u>
9. Unfunded Actuarial Liability 7-1-92	<u>\$2,851,205,774</u>	<u>\$2,714,598,011*</u>

* Does not reflect liability for the 1989 Retirement Incentive Bonuses. (These monthly payments of \$988,211 will be paid for a three year period with a total outlay of about \$35.6 million or \$11.9 million on an annual basis.)

** Assumes the full FY 1991-92 contribution will be made.

**PROJECTED UNIT CREDIT TOTAL COSTS
TO JULY 1, 1992**

	ADDENDUM	JUNE 30, 1991 VALUATION
1. Unfunded Actuarial Liability 7-1-92	\$2,851,205,774	\$2,714,598,011
2. Amortization Period	40 years	30 Years
3. Amortization Payment	242,680,053	243,257,509
4. Employer Normal Cost	183,658,575	189,127,218
5. Adjustment for Retirement Incentive Bonus	<u>0</u>	<u>11,858,852</u>
6. Total Required Employer Contribution for Fiscal Year beginning 7-1-92	<u>426,338,628</u>	<u>444,243,379</u>
7. Projected Payroll	\$2,074,383,636	\$2,133,651,858
8. Total Employer Cost %	20.55%	20.82%

To: Bernard McLoughlin
Chief Administrative Officer
Office of the State Comptroller
55 Elm Street Hartford, Connecticut 06106

From: Robert W. Kinnin, Assistant Director
Accounting Systems Division
Office of the State Comptroller
55 Elm Street Hartford, Connecticut 06106

Date: January 22, 1992

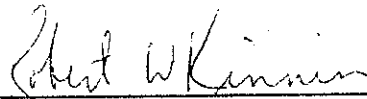
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The 1992-93 net General Fund appropriation for the State Employees Retirement System has been calculated at \$300,980,960. The detailed computation is shown on the attached worksheets.

This projection is based on certain facts and assumptions. Any changes to these facts and assumptions will impact the net requirement. The facts and assumptions used in the calculation are as follows:

1. This projection assumes full funding of the \$426,300,000 certified to the Retirement Commission by Milliman & Robertson, Inc., on January 13, 1992. This amount is to be considered the 1993 funding requirement per the current SEBAC agreement.
2. The 1992-93 SERS cost recovery rate of 20.59% is based on the calculation method being proposed by the federal government as a result of the recent SEBAC agreement. This method uses 1992-93 budget requests, 1992-93 estimated personal service expenditures and the roll-forward adjustment calculated using 1990-91 costs to project a 1992-93 fringe benefit cost recovery rate. The computation is detailed on the attachments. Any changes to the data used by whatever action will effect the rate computation.
3. The contribution reimbursement, based on 1992-93 budget, requested personal service appropriations with the exception of the offset labeled Federal Reimbursements. The personal service expenditure estimate for Federal Reimbursement is based on prior years experience. The estimated percentage of personal service expenditure subject to SERS reimbursement is based on the prior fiscal year's experience. Any changes to these estimates or to the level of funding would affect the amount of recoveries of the SERS contributions.

4. Additional refinements to our Fringe Benefit Cost Recovery Rate may be required by the Federal Government. These changes may have a negative impact on recoveries but will not be determined until their on-site visit in early February.



Robert W. Kinnin
Assistant Director
Accounting Systems Division

RWK:jrv
Attachments

1992-93 SERS FRINGE BENEFIT COST RECOVERY RATE
 CALCULATION BASED ON METHOD PROPOSED BY THE FEDERAL GOVERNMENT

1990-91 SERS COST

GENERAL FUND CONTRIBUTIONS	192,216,908
TRANSPORTATION FUND CONTRIBUTION	16,600,000
FEDERAL AND OTHER FUND REIMBURSEMENTS	55,000,000
OTHER STATUTORY RETIREMENTS	925,092
JUDGES & COMPENSATION COMMISSIONERS	10,850,675
HEALTH INSURANCE - RETIREES	57,889,622

TOTAL COST	333,482,297

1990-91 PERSONAL SERVICE EXPENDITURES 1,801,083,344

1992-93 ESTIMATED PERSONAL SERVICE EXPENDITURES 1,882,132,094
 (1990-92 P.S. PLUS 4.5% COLA)

1988-89 ROLLFORWARD ADJUSTMENT (14,831,025)

1992-93 ESTIMATED SERS COSTS	
SERS CONTRIBUTIONS	426,300,000
JUDGES AND COMPENSATION COMMISSIONERS	7,900,000
OTHER STATUTORY	1,120,216
HEALTH INSURANCE - RETIREES	70,782,465

TOTAL	506,102,681

RATE CALCULATION

1990-91 SERS COST	333,482,297
1989-90 ROLLFORWARD ADJUSTMENT	(14,831,025)

TOTAL COST TO BE RECOVERED	318,651,272
MAXIMUM POTENTIAL RECOVERIES	437,122,850

1992-93 ROLLFORWARD ADJUSTMENT	(118,471,578)
1992-93 ESTIMATED SERS COST	506,102,681

TOTAL SERS COST POOL	387,631,103
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1992-93 SERS FRINGE BENEFIT COST RECOVERY RATE 20.60%
 (\$387,631,103 / \$1,882,132,094)
 =====

22-Jan-92

1992-93 SERG RETIREMENT FUND
APPROPRIATION REQUEST

TOTAL REQUIRED CONTRIBUTION	\$426,300,000
LESS FEDERAL REIMBURSEMENTS	\$47,508,859
LESS OFF-BUDGET AGENCIES	\$4,522,481
LESS TRANSPORTATION FUND	\$27,835,979
LESS HIGHER EDUCATION	\$45,451,722
TOTAL GENERAL FUND APPROPRIATION	\$300,980,960

22-Jan-92

STATE EMPLOYEES' RETIREMENT SYSTEM
 1992-93 GENERAL FUND BUDGET REQUEST
 ADJUSTMENTS FOR REIMBURSEMENTS FROM OTHER FUNDS

REIMBURSING FUND	1992-93 P.S. BUDGET REQUEST	ESTIMATED PERCENTAGE SUBJECT TO SERS REIMBURSEMENT	PERSONAL SERVICE EXPENDITURE SUBJECT TO SERS REIMBURSEMENT	1992-93 ESTIMATED SERS RECOVERY RATE	1992-93 ESTIMATED SERS CONTRIBUTION REIMBURSEMENT
HIGHER EDUCATION					
UNIVERSITY OF CONNECTICUT	\$137,386,847	56.07%	\$77,032,805	20.59%	\$15,861,055
UCDOW HEALTH CENTER	\$54,079,536	34.40%	\$18,603,395	20.59%	\$3,830,439
CONN. STATE UNIVERSITY	\$97,748,213	63.61%	\$62,177,638	20.59%	\$12,802,376
STATE TECHNICAL COLLEGES	\$18,185,345	74.80%	\$13,602,638	20.59%	\$2,800,783
REGIONAL COMM. COLLEGES	\$67,326,479	73.27%	\$49,330,111	20.59%	\$10,157,070
TOTAL					\$45,451,722
TRANSPORTATION FUND					
DEPT. OF TRANSPORTATION	\$107,765,010	100.00%	\$107,765,010	20.59%	\$22,188,816
DEPT. OF MOTOR VEHICLES	\$27,426,727	100.00%	\$27,426,727	20.59%	\$5,647,163
TOTAL					\$27,835,979
BANKING FUND	\$6,772,153	100.00%	\$6,772,153	20.59%	\$1,394,386
INSURANCE FUND	\$4,091,010	100.00%	\$4,091,010	20.59%	\$842,339
WORKER'S COMP. COMM. FUND	\$5,023,771	100.00%	\$5,023,771	20.59%	\$1,034,394
DPUC FUND	\$5,610,450	100.00%	\$5,610,450	20.59%	\$1,155,192
CONSUMER COUNCIL FUND	\$467,068	100.00%	\$467,068	20.59%	\$96,169
TOTAL					\$4,522,481
FEDERAL GRANTS AND FUNDS OTHER THAN THE GENERAL FUND	\$230,737,536	100.00%	\$230,737,536	20.59%	\$47,508,859