CT TEACHERS' RETIREMENT BOARD
165 CAPITOL AVENUE HARTFORD, CT 06106-1673
Toll Free 1 (800) 504-1102 Local (959) 867-6333 Fax (860) 241-9295
"An Affirmative Action/Equal Opportunity Employer"
https://portal.ct.gov/trb

UNDERSTANDING THE FUNDING OF THE TEACHERS' RETIREMENT SYSTEM

When did the Connecticut Teachers' Retirement System implement an actuarial funding program?
The State established an actuarial funding program in 1979 (Public Act 79-436).

How was the system funded prior to 1979?
Prior to 1979, the Retirement System was funded on a terminal basis. Using actuarial tables, CTRB determined the amount that would be required to fund the retired member's pension benefit (Pension Reserve) when the member actually retired from service. This amount was then appropriated by the Legislature and deposited in the Retirement Fund to pay the benefits over the member's lifetime. Any cost of living adjustments that were paid were funded on an annual cash basis from General Fund Appropriations.

What is actuarial funding?
Actuarial funding is a systematic program of funding pension costs during the period of time that the benefits are earned as well as a method for amortizing unfunded past service liabilities over a defined period of time.

How is this usually done?
The value of the benefits earned during a particular year is typically referred to as "normal cost". In most cases, the plan's actuary determines the percentage of the total payroll that must be appropriated to fund the value of the benefits earned during a plan year.

What is a past service liability?
A past service liability is a benefit that was earned during a prior plan year(s) that was not fully funded or that portion of normal cost that was not fully paid during a plan year. The unfunded past service liability is amortized over a period of time. For the CTRB plan, this amortization is calculated based on a level percentage of payroll. Any amendments to the plan affecting the past service liability are to be amortized over a period of thirty years.

What's the advantage of actuarial funding as opposed to terminal funding?
Putting aside money each year as the person renders service allows a plan to take advantage of the investment income that would be earned during the person's working career. The effect of compound interest over time helps reduce the cost to the plan.

For example, let's say that you will need a total of $10,000 ten years from now. If you put aside $690 each year for ten years and assuming an 8% interest per year, over a period of ten years you would have accumulated $10,000 ($6,900 principal + $3,100 interest).

When the State established the actuarial funding program in 1979 (Public Act 79-436) what was the funding schedule?
The State gradually phased in the funding schedule. For the first year, the funding was 35% of the normal cost and forty-year amortization of past service liabilities and increased by 5% for each succeeding year eventually reaching a funding level of 100% of the normal cost and amortization of past service liabilities. Beginning in 1992 the law required that the system be funded at 100% of the normal cost and full forty-year amortization of the unfunded past service liabilities.

Has the State adhered to the funding schedule?
The State has adhered to the funding schedule since 2007. The payment of the full required annual contributions is an integral part of the long-term goal of paying off the unfunded liabilities of the system over a period of years and ultimately achieving a fully funded plan.

What is the Retirement System's unfunded liability?
According to the most recent actuarial valuation of the fund as of June 30, 2012, the System had an unfunded liability of approximately $11.1 billion dollars.

What does it mean when they say a plan is "fully funded"?
Generally this means that a plan has sufficient assets in the fund to pay all of the accrued benefits earned as of a specified date. In CTRB's case, as of June 30, 2012, we had sufficient assets on hand to fully fund approximately 55% of the benefits earned as of that date.

Does this underfunding affect the ability of the system to pay benefits?
No. At the present time there are adequate assets to continue to pay benefits. As of June 30, 2012, the Market Value of the Retirement Fund was approximately $13.5 billion and the annual payroll for benefits was approximately $1.5 billion. In the event there were to be a shortfall, the State would be obligated to appropriate funds to pay legally obligated benefits.