SEBAC 2022

The Full Cost of the 2022 Wage Agreement Between the State of Connecticut and State Employees

by

The Townsend Group, Intl, LLC

Nutmeg Research Initiative is an IRS §501(c)(4) non-profit, social welfare organization researching, and sharing information about issues that impact the lives and livelihood of everyone in Connecticut, every single day. Using a foundation rooted in center-right principles we strive to make Connecticut a better place to live, work and raise a family, by embracing open and limited government, lower taxes and economic growth and opportunity for everyone.

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Executive Summary

Introduction

In April 2022, the Connecticut General Assembly (CGA) approved a new wage contract which the Lamont Administration negotiated with the State Employees Bargaining Alliance Coalition (SEBAC) (the "SEBAC 2022" agreement) after the previous wage agreement expired on July 1, 2021.

The official estimate of the aggregate cost of SEBAC 2022 prepared by the Office of Fiscal Analysis (OFA) estimated SEBAC 2022's cost, including wages and non-pension benefits, was $430 million, $567 million and $583 million in fiscal years 2023, 2024 and 2025, respectively.

The OFA cost estimate did not include pension costs, saying "The SERS (State Employee Retirement System) impact will not be recognized until FY24."

Now, almost a year later, sufficient data is available to estimate the pension costs and the total cost of SEBAC 2022. This paper uses official actuarial analyses prepared by the State's actuaries, Cavanaugh Macdonald, as well as *OpenCT* data for actual pension benefit payments made by SERS for the five months after the retirements occasioned by SEBAC 2022 compared to the prior comparable period.

This paper shows that the pension costs of SEBAC 2022 are substantial and that the total cost of SEBAC 2022 are even more so, primarily because SEBAC 2022 failed to prevent the retirement of 2 ½ times the normal number of retirements of workers covered by the agreement. [1.]

SEBAC 2022 Increased the State's Pension and Total Compensation Costs

- ***SEBAC 2022 increased future State pension costs by $4.5 Billion, or over 11%*** over the amortization period through 2048 (approximately ***$270,000,000 annually***).
- ***SEBAC 2022 will increase the State's annual compensation cost by an estimated $830 million in fiscal 2024,*** combining increased wage and non-pension benefit costs of $567 million and increased annual pension contributions of $270 million.
- ***SEBAC 2022 is the primary driver of a projected $243 million, or 10.4%, increase in pension benefit payments by the SERS pension fund in fiscal 2023.*** SEBAC 2022 triggered above-normal retirements, increasing the number of retirees by 3,700, or 7%, to approximately 57,935 in the last five months of calendar 2022 compared to 54,230 in the comparable period in 2021. As a result, pension benefit payments for the five-month period increased $243 million over the prior comparable period, leading to annualized pension benefit payments of $2.35 billion. [1]

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[1] According to the State Employees Retirement Commission, retirements over the 12 months through July of 2022 numbered 5,607 versus an annual average of 2,130 over the last decade. As of September 2022, approximately 830 new retirees had been rehired over the 14 months through August of 2022. By State regulation, rehired retirees can usually only work for a limited number of months as payroll employees; thus, they are classified as "temporary."

Introduction

In April of 2022, the Connecticut General Assembly approved a new wage agreement between the State Employee Bargaining Alliance Coalition (SEBAC) and the State of Connecticut (the "SEBAC 2022' agreement) negotiated by Governor Lamont. SEBAC 2022 is a four-year agreement, with three annual wage increases and an "open 4th year." Also, SEBAC 2022 included pensionable cash bonuses of $2,500 paid to all active employees in June 2022 (Fiscal 2022) and $1,000 paid to all active employees in July 2022 (Fiscal 2023).

The Office of Fiscal Analysis (OFA) estimated the cost of SEBAC 2022, not including its long-term pension cost.

This paper estimates that pension cost, specifically the impact of SEBAC 2022 upon the state employee retirement system pension fund (SERS).

One of the key objectives of SEBAC 2022 was expected to be the prevention of an abnormally large wave of retirements in late fiscal 2022 and to do so without incurring high employee compensation costs, including significantly increased future pension benefit costs. In fact, 5,607 state employees retired over the twelve months through July 31, 2022, more than 2 ½ times the average annual level of retirements, according to information from the State Retirement Commission.

This paper assesses the pension cost in two ways. First, it measures the increase in required future state contributions to SERS occasioned by SEBAC 2022. Second, it measures the increased burden upon SERS in terms of the increase in aggregate benefit payments that must be made by SERS to retirees in fiscal 2023 and thereafter compared such payments in fiscal 2022.

Increase in the State's Pension Cost due to SEBAC 2022: To measure the increase in required future State contributions to SERS occasioned by SEBAC 2022, the paper uses two Actuarial Valuation Reports of SERS and a special report ("Special Report"), all three prepared by the State's actuaries, Cavanaugh Macdonald (CavMac").

The Valuation Reports of June 2021 and 2022 ("2021Report" and "2022 Report, respectively) present schedules of the State's future contributions to SERS required to fully amortize the State's pension liability. The 2022 Report shows the impact of two factors which occurred subsequent to the 2021 Report: (1) SEBAC 2022 and (2) a special $3.2 billion deposit to SERS ("Special Deposit").

By comparing the schedules in the two Valuation Reports, it is possible to determine the combined impact of SEBAC 2022 and the $3.2 billion Special Deposit.

Then, it is possible to isolate the impact of SEBAC 2022 alone by removing the impact of the Special Deposit which is estimated by CavMac in its Special Report. The Special Report shows the impact of the Special Deposit in the originally anticipated amount of $2.8 billion. Employing the same methodology used to assess the impact of the original $2.8 billion, it is possible to estimate the impact of the ultimate $3.2 billion deposit.

Increase in SERS Pension Benefit Payments due to SEBAC 2022: Most state employee retirements triggered by SEBAC 2022 occurred from March through July 2022. Accordingly, this paper compares benefit payment data for the five-month period after this period of elevated retirements (August 2022 to December 2022) to data for the prior comparable five-month period (August 2021 to December 2021). This paper examines pension benefit payment data from the *OpenCT* database maintained by the State Comptroller, which records all pension benefit payments as they are made.

SEBAC 2022 Increased Future State Pension Costs by $4.5 Billion

This paper compares amortization schedules of SERS pension liabilities from three different reports prepared by the state's actuary, Cavanaugh MacDonald ("CavMac"): the 2021 Report, the 2022 Report and the Special Report by CavMac forecasting the reduction in the State's future contributions to SERS resulting from $2.8 billion special transfer to SERS in 2022 (ultimately a $3.2 billion deposit) ("Special Deposit") from the Budget Reserve Fund and the General Fund Surplus.

The 2021 Report first shows the amortization schedule as of June 30, 2021 before the Special Deposit and SEBAC 2022; the 2022 Report shows the amortization schedule after both, using the ultimate amount of $3.2 billion for the Special Deposit.

A comparison of the schedules in the 2021 Report and the 2022 Report (see Attachments 1 and 2, respectively) shows that the combination of the Special Transfer and SEBAC 2022 reduced the future amortization by $2.25 billion. See Step One below.

Step One

SERS Valuation as of June 30, 2021			SERS Valuation as of June 30, 2022			Difference in UAL Amortization: 2021 Report vs. 2022 Report		
Fiscal Year	Amortization of the $22,397,582 UAL (000)		Fiscal Year	Amortization of the $ 20,930,962 UAL (000)			2023 to 2048 (000)	
2022	$ 1,910,858			NA			NA	
2042 (20 Years)	1,910,858	per year	2023 to 2042 (20 Years)	$ 1,817,214	per year	20 Years	$ (93,644)	per year
2043	1,860,811		2043	1,767,166			$ (93,645)	
2044	1,773,238		2044	1,679,593			$ (93,645)	
2045	1,729,103		2045	1,635,459			$ (93,644)	
2046	-		2046	(93,644)			$ (93,644)	
2047	-		2047	-			-	
2048	-		2048	-			-	
2023 to 2048	**$ 43,580,312**			**$ 41,332,854**			**$ (2,247,458)**	

The Special Report shows that the $2.8 billion transfer alone reduced future State contributions to SERS by $5.79 billion (see Attachment 3). Employing the methodology used in the Special Report, the ultimate $3.2 billion transfer reduced State contributions to SERS by an estimated $6.75 billion. Accordingly, SEBAC 2022 *increased* the State's future obligations to SERS by $4.50 billion. See Step Two below.

Step Two

Difference in UAL Amortization: 2021 Report vs. 2022 Report		Reduction in State Contribution to SERS Due to $3,132,087,937 Deposit from BRF into SERS in 2022		Implied *Increase* due to SEBAC 2022	
Fiscal Year	2023 to 2048 (000)	Fiscal Year	2023 to 2048 (000)	Fiscal Year	2023 to 2048 (000)
	NA				
2023	$ (93,644)	2023	$ -	2023	$ (93,644)
2024 to 2042	$ (93,644) per year	2024 to 2042	$ (270,000) per year	2024 to 2042	176,356 per year
2043	$ (93,644)	2043	$ (270,000)	2043	176,356
2044	$ (93,644)	2044	$ (270,000)	2044	176,356
2045	$ (93,644)	2045	$ (270,000)	2045	176,356
2046	$ (93,644)	2046	$ (270,000)	2046	176,356
2047	-	2047	$ (270,000)	2047	270,000
2048	-	2048	$ (270,000)	2048	270,000
	$(2,247,456)		**$ (6,750,000)**		**$4,502,544**

SEBAC 2022 Drives $245 Million, or 10.4%, Increase in SERS Pension Benefit Payments in Fiscal 2023

After the retirement wave occasioned by SEBAC 2022, pension benefit payments to retirees surged. Over the five months of August through December 2022, pension benefit payments by the SERS totaled $ $1. 075 billion, a 10.4% increase over the $973 million paid in the comparable period in 2021, based upon data from the *OpenCT* database maintained by the State Comptroller.[2]

Annualizing the five-month totals suggests total annual benefit payments of $2.58 billion in fiscal 2023, compared to total annual payments of $2.34 billion for fiscal 2022. The estimated year-over-year increase is $245 million.

There is a high degree of confidence in this estimation method, since the $2.34 billion annualized amount for fiscal 2022 aligns closely with data shown in the 2022 Valuation Report prepared by Cavanaugh Macdonald, which shows disbursements of $2.38 billion in fiscal 2022.

The increase in the estimated amount for fiscal 2023 is due primarily to a 6.8% increase in the number of retired beneficiaries. In this five-month period, *OpenCT* shows 57,936 beneficiaries in 2022 versus 54,230 in 2021 for a 3,706 year-over-year increase.

The 3,706 figure represents the elevated level of 5,607 retirements associated with SEBAC 2022, net of mortality experience and the rehiring of retirees as non-permanent

[2] Data downloaded into Excel. Excel spreadsheets available on request.

payroll employees. Approximately 830 new retirees were rehired over the 14 months from July 1, 2021 through August 31, 2022; as such they were not receiving pension benefits during this period. Annual retirements averaged 2,130 over the prior decade.

SERS PENSION BENEFIT PAYMENTS
August through December
2021 Versus 2022

	2021		2022		Difference	
	No. of Benefit Recipients	Benefit Payments	No. of Benefit Recipients	Benefit Payments	No. of Benefit Recipients	Benefit Payments
August	53,929	$ 192,561,505	58,083	$ 214,921,514	4,154	$ 22,360,010
September	54,135	194,409,164	58,004	214,581,696	3,869	20,172,531
October	54,298	196,390,048	57,920	215,119,697	3,622	18,729,648
November	54,412	195,247,607	57,900	214,687,810	3,488	19,440,203
December	54,375	194,413,191	57,773	214,981,359	3,398	20,568,168
Average / Total	54,230	$ 973,021,515	57,936	$ 1,074,292,076	3,706	$ 101,270,561
Percent Increase					6.8%	10.4%

Source: OpenCT database maintained by CT State Comptroller

Background

Special Deposits to Pension Funds: Connecticut has two state-level public pension funds, one for state employees (SERS) and one for the state's K-12 teachers (TRS). They are among the most severely underfunded state-level pension funds in the nation.

In an effort to bolster funding, in 2017, the state adopted certain budget provisions designed to channel money to these funds in addition to the regularly scheduled actuarially determined employer contributions.

First, whenever the state's Budget Reserve Fund (BRF) exceeds 15 percent (18 percent in fiscal 2024 and thereafter) of the budget adopted for the coming fiscal year, the excess is required to be used to pay down the state's long-term liabilities, beginning with deposits to SERS and TRS.

Second, if there is a surplus in the state's General Fund, and the amount in the BRF exceeds 15 percent (18 percent in fiscal 2024 and thereafter) of the budget adopted for the coming fiscal year, then the surplus is also required to be utilized to pay down the state's long-term liabilities, beginning with deposits to SERS and TRS.

As a result of these provisions, deposits were made into SERS in fiscal 2023 in the amount of $3.2 billion.

In late fiscal 2022, Connecticut's Office of the State Comptroller requested that the State's independent actuary, Cavanaugh MacDonald, perform an analysis of the impact of the fiscal 2023 special deposit (expected, at the time, to amount to $2.8 billion) and similar previous special deposits to SERS. The actuary treated the deposits into SERS and TRS, as if the deposits in each year were made as of the prior June 30th, i.e. the regularly scheduled date for actuarial valuations of these pension funds.

Cavanaugh Macdonald calculated that the $2.8 billion deposited to SERS would result in a reduction to the total contributions to SERS through fiscal year 2048 of $5.74 billion. From fiscal 2024 through fiscal 2046, the annual savings of $231 million were projected, with slightly lesser annual reductions in fiscal 2047 and 2048.

Subsequent to CavMac's special report, the special deposit exceeded the expected amount, coming in at $3.2 billion, an amount which CavMac used in its Valuation Report as of June 30, 2022, issued in December 2022.

New Contract with State Employees (SEBAC 2022): Almost all state employees in Connecticut are represented by unions in the State Employee Bargaining Alliance Coalition (SEBAC). SEBAC negotiates both wage and benefit agreements with the State on behalf of member unions. In July 2021, the SEBAC wage agreement with the State expired. Between that time and March 2022, the Lamont Administration negotiated a new wage agreement with SEBAC (SEBAC 2022).

Leading up to SEBAC 2022, the general expectation had been that the new agreement should moderate a large wave of expected retirements which had been anticipated since the time of the approval of the prior wage and benefit agreement in 2017 (SEBAC 2017). It was anticipated that retirements would be triggered by contract provisions of SEBAC 2017 which became effective July 1, 2022 which (i) suspended cost-of-living adjustments for the first 30 months after retirement for all subsequent retirees and (ii) reduced health care benefits for subsequent retirees.

The structure of the SEBAC 2022 was suboptimal insofar as concerned stemming retirement: almost a full year of a retroactive wage increase was paid in lump sum in June 2022 immediately before the critical June 30th date, as was a $2,500 lump sum bonus.

When SEBAC 2022 was submitted to the General Assembly for approval in April, the state's Office Fiscal Analysis (OFA) provided a cost estimate of the budget impact of SEBAC 2022 for all operating units employing employees covered by SEBAC 2022. The estimate was $430 million for Fiscal 2023, $567 million for Fiscal 2024 and 2025 and $583 million for Fiscal 2026.

The OFA cost estimate stated: "The SERS impact will not be recognized until FY24."

The estimate did not, and could not, contemplate the impact of SEBAC 2022 until a subsequent actuarial valuation date when more information would be available about the ultimate number of employees retiring before July 1, 2022 and certain other factors would be known.[3]

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[3] The OFA estimate did factor in the increase in the normal cost of pensions, a very small amount. OFA's estimate reads as follows: "The pension impact of the wage related provisions assume an average normal cost rate of 4.10%."

OFA calculated the amount by which the normal cost portion of the State's contribution to SERS would increase in each year, by multiplying its estimate of the total wage increase by 4.10%. For example, OFA estimated the total amount of the pensionable wage increase in Fiscal 2023 as $374 million, which when multiplied by 4.10% yields $15.3 million as the increase in the normal cost of pensions.

Attachment 1: Sched. J – Projection of Unfunded Accrued Liability, Actuarial Valuation Report, CT State Employees Retirement System (SERS), June 30, 2021

Schedule J – Projection of Unfunded Accrued Liability

An amortization payment schedule of the June 30, 2021 Unfunded Accrued Liability is provided in the table below. No future gains and losses are included in this table.

Valuation Year	Unfunded Accrued Liability ($ in thousands)	Amortization Payment ($ in thousands)
2021	22,397,582	1,910,858
2022	22,032,157	1,910,858
2023	21,641,517	1,910,858
2024	21,223,924	1,910,858
2025	20,777,516	1,910,858
2026	20,300,307	1,910,858
2027	19,790,170	1,910,858
2028	19,244,833	1,910,858
2029	18,661,869	1,910,858
2030	18,038,679	1,910,858
2031	17,372,490	1,910,858
2032	16,660,334	1,910,858
2033	15,899,039	1,910,858
2034	15,085,214	1,910,858
2035	14,215,236	1,910,858
2036	13,285,229	1,910,858
2037	12,291,051	1,910,858
2038	11,228,276	1,910,858
2039	10,092,168	1,910,858
2040	8,877,670	1,910,858
2041	7,579,371	1,910,858
2042	6,191,489	1,910,858
2043	4,707,844	1,860,811
2044	3,171,874	1,773,238
2045	1,617,496	1,729,103
2046	0	0

Attachment 2: Sched. J – Projection of Unfunded Accrued Liability, Actuarial Valuation Report, CT State Employees Retirement System (SERS), June 30, 2022

Schedule J – Projection of Unfunded Accrued Liability

An amortization payment schedule of the June 30, 2022 Unfunded Accrued Liability is provided in the table below. No future gains and losses are included in this table.

Valuation Year	Unfunded Accrued Liability ($ in thousands)	Amortization Payment ($ in thousands)
2022	20,930,962	1,817,214
2023	20,557,984	1,817,214
2024	20,159,272	1,817,214
2025	19,733,048	1,817,214
2026	19,277,414	1,817,214
2027	18,790,342	1,817,214
2028	18,269,662	1,817,214
2029	17,713,055	1,817,214
2030	17,118,042	1,817,214
2031	16,481,973	1,817,214
2032	15,802,015	1,817,214
2033	15,075,140	1,817,214
2034	14,298,111	1,817,214
2035	13,467,467	1,817,214
2036	12,579,509	1,817,214
2037	11,630,281	1,817,214
2038	10,615,556	1,817,214
2039	9,530,816	1,817,214
2040	8,371,229	1,817,214
2041	7,131,630	1,817,214
2042	5,806,498	1,817,214
2043	4,389,933	1,767,166
2044	2,925,672	1,679,593
2045	1,447,950	1,635,459
2046	(87,600)	(93,644)
2047	0	0

Attachment 3: Special Report on Special Deposit of $2.8 billion to SERS – Resulting Reduction in State's Future Contributions to SERS

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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

Valuation Year	Fiscal Year	ADEC Reductions 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.