



STATE EMPLOYEE RETIREE HEALTH CARE BENEFITS
(OPEB BENEFITS) IN THE FIFTY STATES,
WITH A SPECIAL FOCUS ON CONNECTICUT

by

Andrew Biggs, PhD

Preface Discussing Connecticut

by



The Townsend Group

The Townsend Group, Intl, LLC

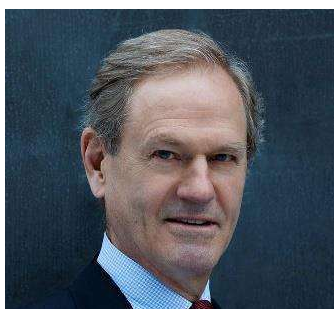
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Nutmeg Research Initiative is an IRS §501(c)(4) non-profit, social welfare organization researching, and sharing information about issues that impact the lives and livelihood of everyone in Connecticut, every single day. Using a foundation rooted in 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.



The Townsend Group



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PREFACE – BY TOWNSEND

Connecticut State Employee Retiree Health Benefits are Most Generous in Nation

Connecticut state employees enjoy the most generous retiree health benefits (so-called OPEB benefits) in the country, accruing future benefits each year equal to **28% of their annual wages**. **Annual benefit accruals in Connecticut are equal to \$26,846**.

Connecticut is in a **statistical tie with California** state employees, who enjoy benefits equal to 28.0% of wages versus 27.6% for Connecticut. Ohio is a distant third at 23.7%, Hawaii is fourth at 19.6% and Kentucky fifth at 15.7%. **The national median is only 2.8%**.

In the Northeast, second place Maine pays its state employees “only” \$18,712.

These are the results of the attached study, completed by national retirement benefits expert Dr. Andrew Biggs, who compared the benefits being paid to active state employees (the “service cost” to the state) in the 50 states on an apples-to-apples basis.

Connecticut’s Accounting Method is Unique and Its Disclosures Non-Transparent

In addition to assessing the benefits being earned by current employees, Dr. Biggs assessed the accounting methods used and the transparency of disclosures provided by the 50 states. He found that Connecticut follows a **non-standard accounting method** and **provides inadequate disclosure**; third parties are unable to understand the state’s accounting methods and its reported results.

CT’s Unique Accounting and Poor Disclosure Reduces the Usefulness of Its Financials

Biggs stated that “Connecticut employs a creative accounting strategy that results in the state reporting lower values for its long-term financial obligations,” providing a **“misleadingly optimistic view of the state government’s long-term finances.”**

Dr. Biggs’ assessment is similar to that of scientists who conduct peer reviews of new scientific studies. If they cannot replicate study methods or reproduce the same results with the methods as disclosed, generally, scientists will reject the findings.

Best Gauge of Cost of Retiree Health Benefits is Budget Cost and Total Claims Paid

OPEB accounting is complex, and Connecticut’s “creative” version and its non-transparency renders its financial statements misleading, so those interested in the OPEB cost burden in Connecticut should focus on hard budget figures. **The state contributes about \$850 million annually to the retiree health trust** that will pay benefits for current employees and pays benefits for retirees since 2009. **Connecticut also pays more than \$600 million annually in claims**, mostly to older retirees, whose claims cannot be paid by the trust, and, thus, must be paid by a budget appropriation. Connecticut does not reveal which claims are paid by the trust and which with general funds.

Background

Retiree health care benefits (OPEBs) are long-term obligations, especially the benefits earned by current employees that are paid years later after their eventual retirement.

As very long-term obligations, retiree health care benefits are particularly sensitive to the interest rate – the “discount rate” – used to convert them to present values, i.e. what these obligations would cost if paid in full today. The higher the discount rate, the lower the calculated present value, or cost today.

In their financial reports, states use a variety of discount rates. In his study, Dr. Biggs recalculated the 50 states’ costs for current employees (service cost) using a uniform discount rate of 3.65% in order to compare the states on an apples-to-apples basis.

In addition to the different discount rates used, the 50 states have different characteristics and assumptions as to other key factors involved in calculation of their OPEB obligations, specifically, demographics of state workforce and of the population of current retirees, health care cost trend rates, inflation rate, investment rate on any assets held in a trust/fund to pay future retiree health benefits, amount of such assets, future payroll growth rate, etc.

According to the Government Accounting Standards Board (GASB), states are to distill these factors into a schedule of estimated benefits to be paid each year through the last year that benefits are expected to be paid. ***Connecticut does not disclose this schedule***, while most states do, including an exemplary schedule in neighboring Massachusetts.

GASB Statement 75 prescribes that states use two separate discount rates in calculating the present value of their retiree health care obligations. The first rate is the investment rate on any assets set aside to fund retiree health benefits, which is meant to be applied to nearer-term annual benefits to be paid with, and until, those assets are exhausted (all state retiree health care obligations are underfunded). ***Dr. Biggs calls this approach, which most states follow, an “assets first” method. Connecticut follows an opposite “assets last” approach, using assets to fund the most distant benefits, which has the effect of significantly reducing the present value of the state’s Net OPEB Liability (NOL).***

The second rate is for remaining annual benefits; most states use the interest rate on AA/Aa rated municipal bonds, the rate that Dr. Biggs used in his apples-to-apples comparison.

Then, GASB 75 says that the states should develop a single “blended” rate which, when applied to the entire schedule of estimated future benefits payments, would yield the same present value that results from combining the separate costs developed when using the two separate rates applied to the two different schedules of future payments. ***Connecticut does not publish the “blended rate” that is called for under GASB 75.***

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An Update on Retiree Health Benefits in Connecticut and State Governments Around the Country

Andrew G. Biggs

February 2025

Summary

Public employee compensation has been widely discussed – but usually in narrow terms. Employee wages and pension benefits have received significant attention. But the retiree health coverage offered to many public sector employees has only rarely been studied, despite the often-significant costs of such programs to state governments and commensurate benefits conferred on employees as part of their compensation.

In this study I provide updated figures on the value of future retiree health benefits accruing to current employees of state governments, showing significant variation in the generosity of such benefits from state to state. I use data drawn from state financial reports and actuarial valuations in an analysis which shows that the State of Connecticut offers the second most generous retiree health program in the country.

While Connecticut's costs for retiree health care rank among the top five in the country according to the state's own reports, Connecticut's reports utilize a unique accounting strategy adopted for the state's financial disclosures released in 2024 that significantly reduces the accounting costs of the benefits accruing to its state government employees each year. While the reported cost of most state retiree benefit programs declined over the period studied due to the conventional method of valuing these benefits under the rules of the GASB (Government Accounting Standards Board), Connecticut's unique accounting strategy, reduced the accounting cost of accruing retiree health benefits by 61 percent from Fiscal Years 2021 to 2024, from 32.4 percent of employee wages to only 12.8 percent.

To evaluate and compare state employee health care benefits across the fifty states, I use a single uniform discount rate to recalculate states' costs and provide a more accurate comparison of benefits conferred on state employees.

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About the Author

Andrew G. Biggs is a nationally-recognized expert on retirement systems, including Social Security, state and local pensions, and household retirement savings. Biggs is a senior fellow at the American Enterprise Institute (AEI) in Washington, D.C.. Before joining AEI, Biggs was the principal deputy commissioner of the Social Security Administration, where he also served as deputy commissioner for policy. In 2001 he was on the staff of President George W. Bush's Commission to Strengthen Social Security and in 2005 he served as the associate director of the White House National Economic Council. In 2013, the Society of Actuaries appointed Biggs vice chair of its Blue Ribbon Panel on Public Pension Funding. In 2016, he was appointed by President Obama to the Financial Oversight and Management Board for Puerto Rico, which managed Puerto Rico's bankruptcy and oversees the government's budget. He was reappointed to the Oversight Board in 2020 by President Trump and by President Biden in 2024. In 2022, Biggs was nominated by President Biden to serve on the Social Security Advisory Board.

Biggs has been widely published in both mainstream media outlets and academic journals, and has testified before Congress on more than two dozen occasions. Institutional Investor Magazine named him one of the 40 most influential people in the retirement world.

Biggs holds a bachelor's degree from Queen's University Belfast in Northern Ireland, master's degrees from Cambridge University and the University of London, and a Ph.D. from the London School of Economics.



Introduction

Many public sector employees are eligible for health coverage in retirement, often referred to as OPEBs (Other Post-Employment Benefits), meaning “other than pensions.” OPEBS can include benefits such as life insurance and dental coverage, but health insurance is by far the most valuable and most expensive component of the package. Retiree health coverage for public employees often offers a more comprehensive health benefits package from the time of retirement until Medicare eligibility commences at age 65, with supplementary benefits similar to “Medigap” policies offered thereafter.

While retiree health benefits are not paid until the employee separates from public service, the right to future health benefits is a component of employees’ current compensation. The Government Accounting Standards Board (GASB) states that retiree health benefits “are a part of the compensation that employees earn each year, even though these benefits are not received until after employment has ended.”¹ Similar to traditional pensions, an employee who is eligible for retiree health benefits accrues the right to *future* health insurance or premium payments to be made by his employer. The total cost of new benefits accruing in a retiree health program over the course of a year is typically referred to as the “service cost” of the plan, meaning the cost of future benefits earned by employees due to an additional year of service. The service cost of a retiree health plan is equivalent to what pensions refer to as the “normal cost.”

While most state governments offer some form of health coverage to retired employees, the generosity of such plans varies dramatically from state to state. In some states, retirees are offered nothing more than the opportunity to buy into the health insurance pool for active employees. Making the active employee health program available to retirees constitutes an implicit subsidy, in that retirees are allowed to purchase benefits at a lower price than would be available to them in private markets, at the cost to the government of raising health insurance prices for younger active employees. Accounting rules that are established by GASB dictate that even the cost of this implicit subsidy must be disclosed on the government’s financial statements.

In other states, however, retiree health benefits are far more generous, up to providing full health coverage through the age of Medicare eligibility and beyond. These payments can

¹Governmental Accounting Standards Board, “Other Postemployment Benefits: A Plain-Language Summary of GASB Statements No. 43 and No. 45,” (September 29, 2011), http://www.gasb.org/project_pages/opeb_summary.pdf

significantly improve the retirement income security of separated public employees by largely freeing them from the responsibility of bearing health care costs in old age.

State and local governments must publish accounting disclosures with regard to OPEBs in their financial statements, typically referred to as Annual Comprehensive Financial Reports (ACFRs). In general, these financial disclosures measure plan finances as of the final day of the prior fiscal year, typically June 30, then project service costs forward through the following year. For instance, a state's 2024 disclosure would typically be based upon the financial conditions and annual operations of its OPEB program as of, and through, June 30 of 2023, and then based upon those figures project the program's service costs for Fiscal Year 2024. In tables and figures in this paper, I will label service costs via the following Fiscal Year for which the service costs apply.

It is worth noting that OPEB reporting and valuation conventions are different from conventional financial statement in that one central measurement of cost in OPEB accounting, the service cost, is a figure *projected* for the *next* twelve months, whereas costs in conventional financial statements are part of the statement of operations (aka, the income statement) which reports *actual* income and costs for the *prior* twelve months. However, the net and total OPEB liabilities are point-in-time figures that are calculated as of the final day of the previous fiscal year

Among other figures, these disclosures publish the “normal cost” or “service cost” of retiree health coverage. As mentioned above, the service cost represents the present value of the future benefits that employees become entitled to with each year of employment. The California Department of Education describes the normal cost as “the cost for OPEB being earned by employees in exchange for [their] services now.”²

Just as the service cost of an OPEB plan is a cost borne by the government that sponsors the plan, the service cost is a form of compensation received by employee who participate in that plan. A cost to one party is a benefit to another, and a liability to one is an asset to another. And so the service cost of an OPEB plan provides information not only on costs borne by the government but on benefits provided to public sector employees.

²California Department of Education, “Definitions of Key Terms,” (March 12, 2011), <http://www.cde.ca.gov/fg/ac/co/documents/gasb45attha.doc>.

A number of studies have attempted to compare the pay and benefits of public and private sector employees, but most pay little heed to retiree health benefits³ and some ignore them entirely.⁴ Only a few studies examine retiree health benefits in detail.⁵

A 2022 study by this author uses actuarial disclosures for state government employees to incorporate retiree health benefits into a more comprehensive analysis of compensation of state government workers compared to similar private sector employees.⁶ That study incorporated OPEBs as reported by the states without any adjustments for different interest rate assumptions that are built into OPEB cost projections. This study updates the earlier data for state employee retiree health plans to the most recent available and makes adjustments in order to render the comparisons on an apples-to-apples basis. An apples-to-apples adjustment is necessary because OPEB plans can vary dramatically in terms of the methodology used to value the benefits involved. This study also highlights broad trends while placing a special emphasis on much greater changes in reported OPEB liabilities in the State of Connecticut.

Data

The data in this study derive from actuarial projections that states are required to perform and disclose in their financial statements. The most important of these disclosures is promulgated by the Governmental Accounting Standards Board (GASB), a private sector institution that

³ Most recently, a 2024 report from the union-affiliated Economic Policy Institute gives short shrift to retiree health plans. Authors Monique Morrissey and Jennifer Sherer acknowledge that “retiree health benefits are more common in the public sector than in the private sector.” However, their adjustment for the value of OPEBs, which appears to draw upon no source data, assumes that such benefits are equal to only one percent of employee salaries. As the official accounting disclosures of state retiree health plans will show, in many states the value of retiree health benefits is many multiples higher. Morrissey, M. and J. Sherer (2024). The public-sector pay gap is widening. Unions help shrink it, The Economic Policy Institute.

⁴ For instance, Allegretto’s widely-cited studies on the so-called “teacher pay gap,” also published by the Economic Policy Institute, do not include the value of retiree health benefits in any way. Allegretto, S. (2024). Teacher pay rises in 2023—but not enough to shrink pay gap with other college graduates, The Economic Policy Institute and the Center for Economic and Policy Research.

⁵ One exception to this pattern is Liu and Aubrey’s report on teacher compensation, which estimates the value of retiree health benefits using data from the Medical Expenditures Panel Survey, finding that public school teachers receive retiree health benefits that are on average over nine times more generous than those paid to comparable private sector workers. However, this report is restricted to public school teachers and does not distinguish levels of pay by state or region. Liu, S. and J. Aubrey (2021). What do we know about public teacher compensation. Issue Brief Number, Center for Retirement Research at Boston College. 80.

⁶ Biggs, A. G. (2022). State Employee Compensation in the Fifty States, With a Special Focus on Connecticut, Nutmeg Research.

establishes accounting standards for state and local governments.⁷ The GASB operates under the purview of the Financial Accounting Foundation and the Financial Accounting Standards Board. The GASB's standards do not bind how a government must fund its pension, retiree healthcare plan or other programs. Rather, GASB rules dictate how the costs and benefits of such programs should be measured and require that these figures be disclosed in the governmental organization's financial statements.

The most important standard here is GASB Statement No. 75, pertaining to Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.⁸ GASB 75 was issued in June of 2015 and become operative in June 2017. GASB 75 requires that governments sponsoring OPEB plans disclose a variety of information regarding those plans. Some of these data are of particular interest to this study. These include:

- The service cost, which represents the present discounted value of the new benefits earned by employees in the current year
- The total OPEB liability, which represents the present discounted value of all benefits that will be paid to participants in the future that were accrued as a result of prior years of service under the plan
- The net OPEB Liability, which is the total OPEB liability minus any assets accrued to cover those benefit costs
- The number of active employees and retirees covered by the plan
- The dollar value of benefits paid by the plan in the current year
- Contributions to the plan made by the employer (and, in certain cases, employees)

In addition, GASB 75 requires the plan sponsor to document a wide variety of assumptions used in projecting benefit costs. Two key assumptions are the projected growth rate of health costs, which indicates how much costs will increase in future years, and the discount rate, which is an interest rate that allows the plan actuaries to convert future benefit costs to a present value that is meaningful in today's terms. The discount rate, which is a crucial factor in this study, is discussed more in the following section.

⁷ See www.gasb.org/

⁸ A summary of GASB 75 is available at <https://gasb.org/page/PageContent?pageId=/standards-and-guidance/pronouncements/summary-statement-no-75.html>

The discount rate

Many figures presented in the GASB 75 disclosures are calculated in present value terms. A present value takes future costs – in this case, benefit payments that must be made years or decades from today – and discounts those costs back to the present using a given interest rate.

The choice of interest rate can have a dramatic effect on the cost of a retiree health plan when that cost is presented in present value terms. In general, the higher the discount rate the lower the present value of a future benefit payment. For instance, consider a \$1 million payment that must be made 10 years from today. If that \$1 million is discounted using a 4 percent interest rate, the present value is equal to approximately \$676,000.⁹ However, if the discount rate is increased to 7 percent, the present value of the future \$1 million payment declines to about \$508,000, a 25 percent reduction. Not surprisingly, governments sponsoring OPEB plans would prefer to use higher rather than lower discount rates.

Moreover, the effect of using a higher or lower discount rate increases with the time period over which the liability is discounted. For instance, if a \$1 million payment occurs 30 years into the future, the present value using a 4 percent discount rate is \$308,000 while the present value using a 7 percent discount rate is only \$131,000. The use of a 7 percent discount rate produces 57 percent reduction in the liability when measured over 30 years, versus only a 25 percent reduction when measured over 10 years. This characteristic of discounting will become important in discussing the apparent decline in Connecticut’s OPEB costs between 2022 and 2023.

GASB 75 states that the discount rate used to value OPEB liabilities should be a single “blended” interest rate calculated to produce results that are equivalent to the application of two distinct discount rates: First, the expected rate of return on OPEB plan investments should be used to discount benefit liabilities for so long as these assets in combination with regular employer contributions will be sufficient to make future benefit payments; and, second, for benefit liabilities occurring after the exhaustion of the plan’s investments, the discount rate should be the interest rate paid on 20-year, tax-exempt general obligation municipal bonds. The blended discount rate is a single rate that combines the effects of the two distinct rates. The

⁹ This present value can be calculated as $\$1,000,000/1.04^{10} = \$675,564$.

blended rate allows a reader to understand the average discount rate that is applied to all liabilities.

In other words, GASB 75 dictates that the valuation of OPEB liabilities follow an “assets-first” approach: for accounting purposes, a plan’s assets are used first to pay benefits, following which benefits are assumed to be financed on a pay-as-you-go basis. These accounting rules do not dictate how an OPEB plan must use its assets in practice. However, the assets-first approach helps ensure that OPEB actuarial valuations and state financial statements are calculated on a uniform basis.

Moreover, while the GASB states that its accounting standards are for accounting rather than funding purposes, the assets-first approach provides an incentive for governments to better fund their retiree health. The reason is that years in which benefits are paid via assets are discounted at the higher investment rate which produces a lower discounted present value and a lower Net OPEB Liability, which, in turn, produces healthier-looking state financial statements.

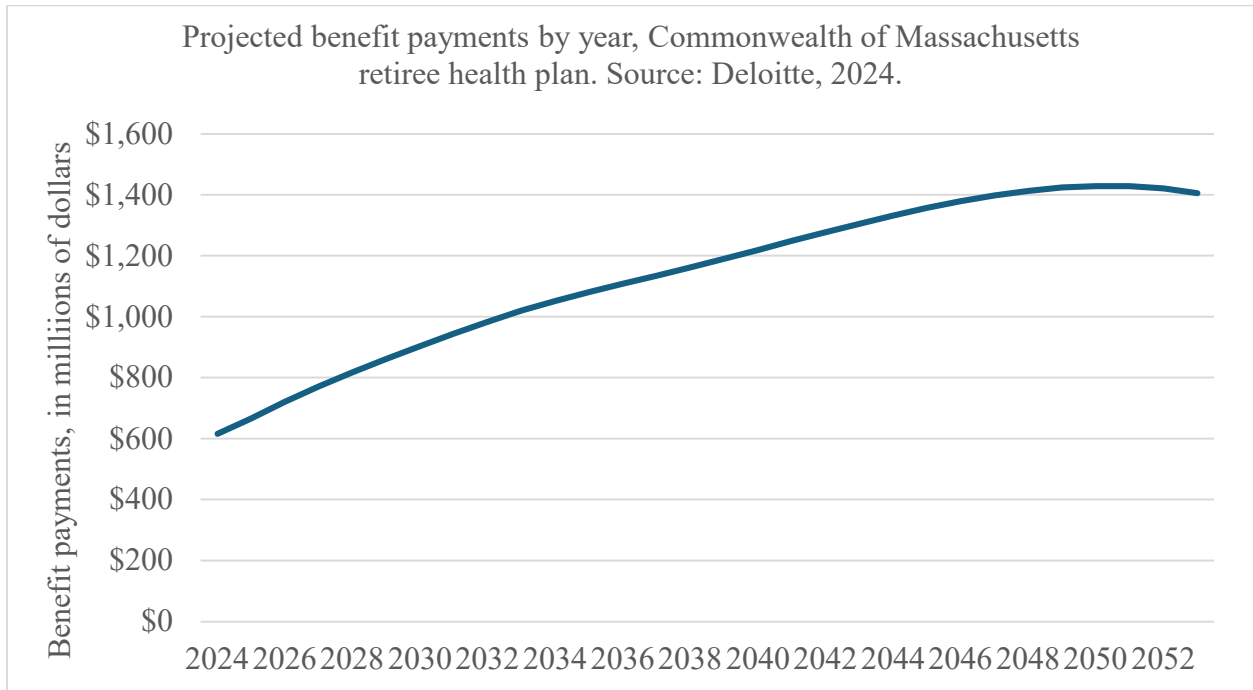
Since GASB 75 requires that two different discount rates be used, and, also, that one “blended” discount rate be developed and reported, it can be difficult to understand the methodology that OPEB actuaries actually use.

A particularly good example of a comprehensive and transparent report is Deloitte’s most recent valuation report for the Commonwealth of Massachusetts.¹⁰ Deloitte used the state-determined investment rate of 7.00% to discount benefit costs over the period that the OPEB fund assets together with the state’s annual contribution would be sufficient to pay those benefit costs; for benefits paid after the projected exhaustion of the program’s trust fund, Deloitte discounted benefits using the 3.65% rate for 20-year municipal bonds. Having done so, then, Deloitte determined that a “blended” discount rate of 4.34% represented a “single rate” that that would be sufficient to discount all future benefit costs to the present.

In order to fully understand this process, it is critical to know the amounts of future benefit costs, both the amounts during the period before fund assets are exhausted and the amounts thereafter. Deloitte’s valuation report for Massachusetts presents a year-by-year schedule of discounted estimated annual benefit costs (see Figure 1), totaling \$9.8 billion until fund assets are exhausted and \$12.9 billion thereafter.

¹⁰ Deloitte Consulting LLP (2024). Commonwealth of Massachusetts Postemployment Benefits Other Than Pensions. GASB Statements 74/75 Valuation Report. Measurement date of June 30, 2023. .

Figure 1



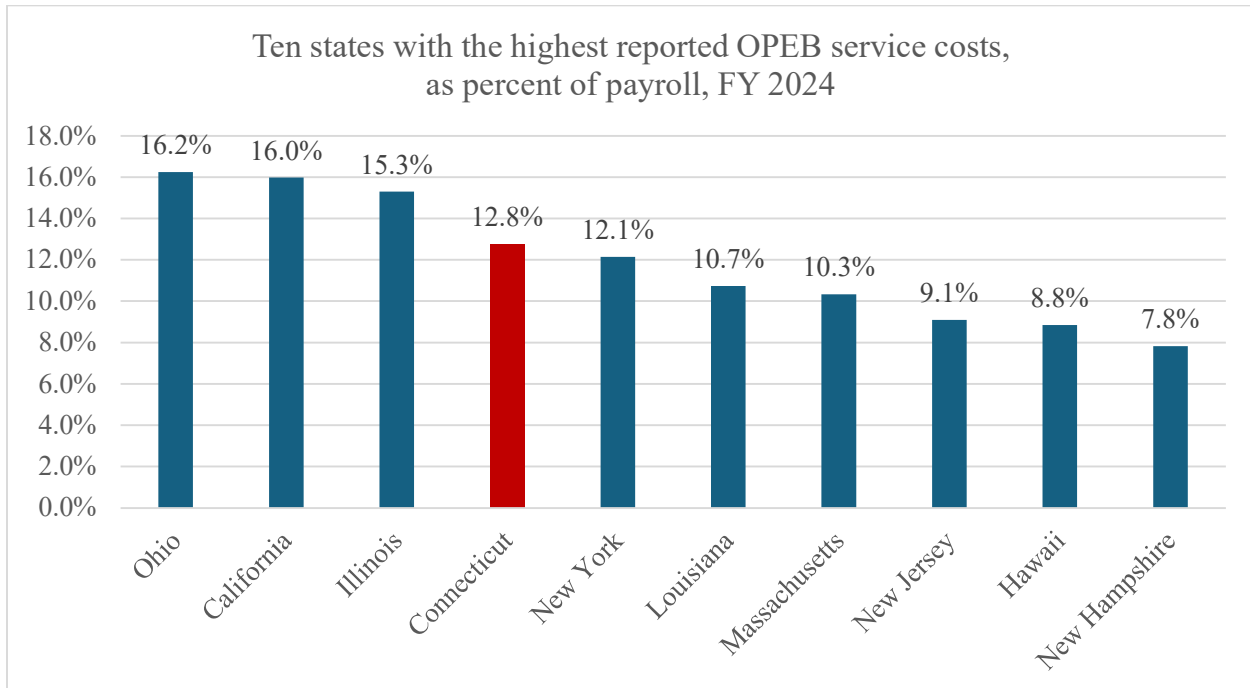
Results

Here I review the results of the 50-state compilation of the value of retiree health benefits accruing to state government employees in each year. In this base case, the OPEB service cost is represented as a percentage of employees' wages and salaries. That percentage is analytically useful, as it is the salary increase that would provide approximately equivalent value to the benefits employees accrue under their state government's OPEB plan.

In the first step of this analysis, I rely on the value of health care benefits as reported by the states using the states' own chosen discount rates. Because higher or lower discount rates can generate dramatically different present values for the same future benefit payments, these figures are *not* reported on an apple-to-apples basis.

In financial disclosures projecting benefit costs for Fiscal Year 2024, the most generous retiree healthcare benefits measured as a percentage of employee salaries were in Ohio, where annual benefit accruals for state government employees were worth an additional 16.2 percent of wages in each year of employment. Connecticut was the fourth most generous state, offering benefits equal to 12.8 percent of wages. The top ten states are shown in Figure 2.

Figure 2.



It is interesting to note how quickly the value of retiree health benefits declines even within the 10 most-generous states: in the highest five states, accruing retiree health benefits average 14.5 percent of salaries, falling to only 9.45 percent for the sixth through tenth-ranked states.

Beyond the 10 most generous states, the value of retiree health benefits for current employees falls even further. At the median, accruing retiree health benefits are worth only an additional 1.9 percent of annual salaries. In the bottom 20 states, the average is just 0.6 percent of wages; in the bottom 10, only 0.2 percent of wages.

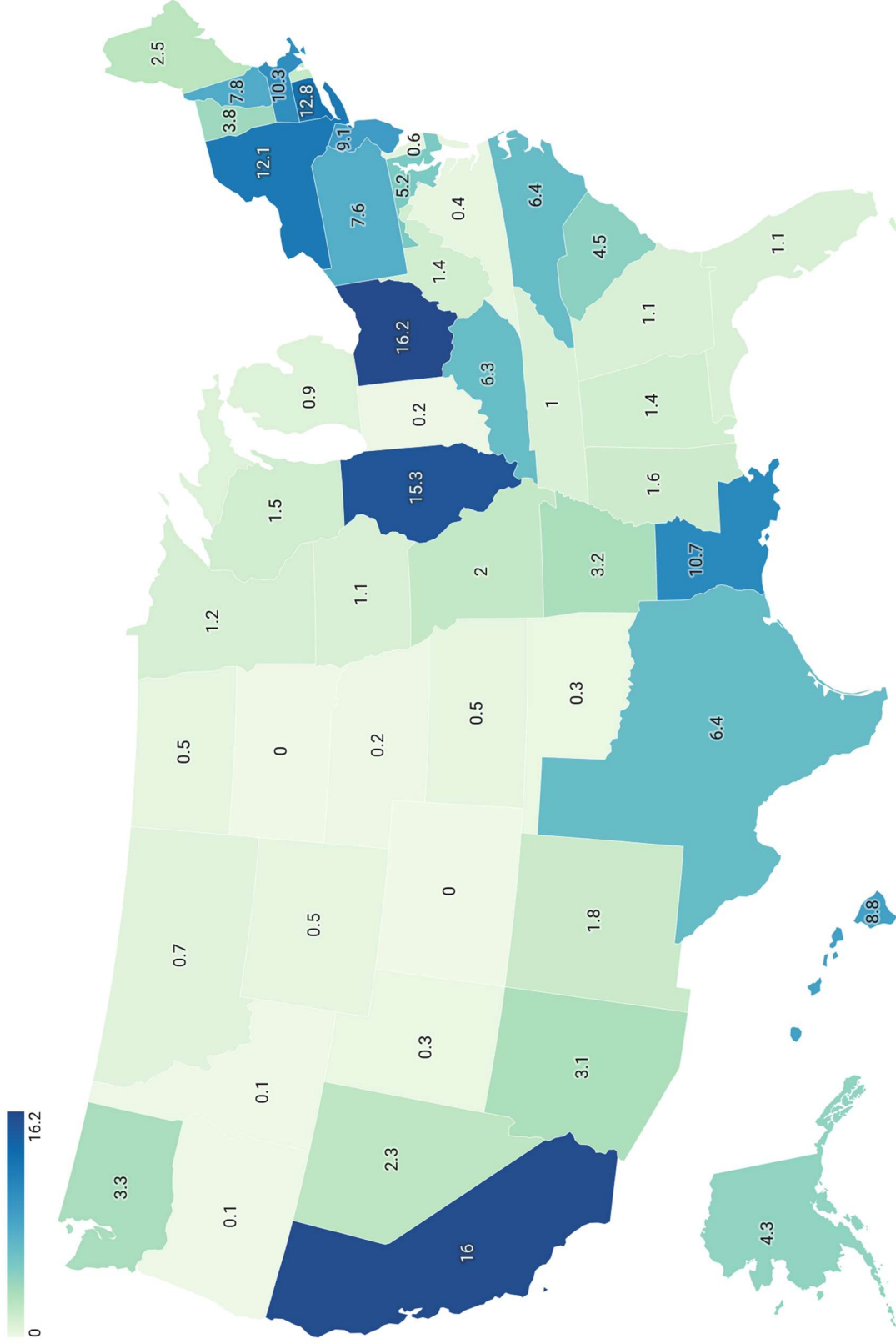
Retiree health benefits are much more unequally distributed as a component of compensation than, for instance, wages or pension benefits or health insurance benefits paid to active employees. To be sure, those other components of compensation vary in generosity. But in the case of retiree health care, the 10 most generous states offer coverage that, as a percentage of annual salaries, is worth 60 times the value of benefits offered in the 10 least-generous states.

The full range of state figures for FY 2024 can be found in Figure 3. As a region, the Northeast tends to have the most generous retiree health plans for state government employees. Outside of the Northeast there are no clear regional patterns: California offers the second-highest

retiree health benefit in the country, but is bordered by Oregon, which offers only the implicit subsidy of allowing retirees to enroll in the health plan for active employees. Similarly, Illinois and Ohio offer generous retiree health benefits, but between them lies Indiana which again offers only the opportunity for seniors to pay their own way in the active employee health program.

Figure 3.

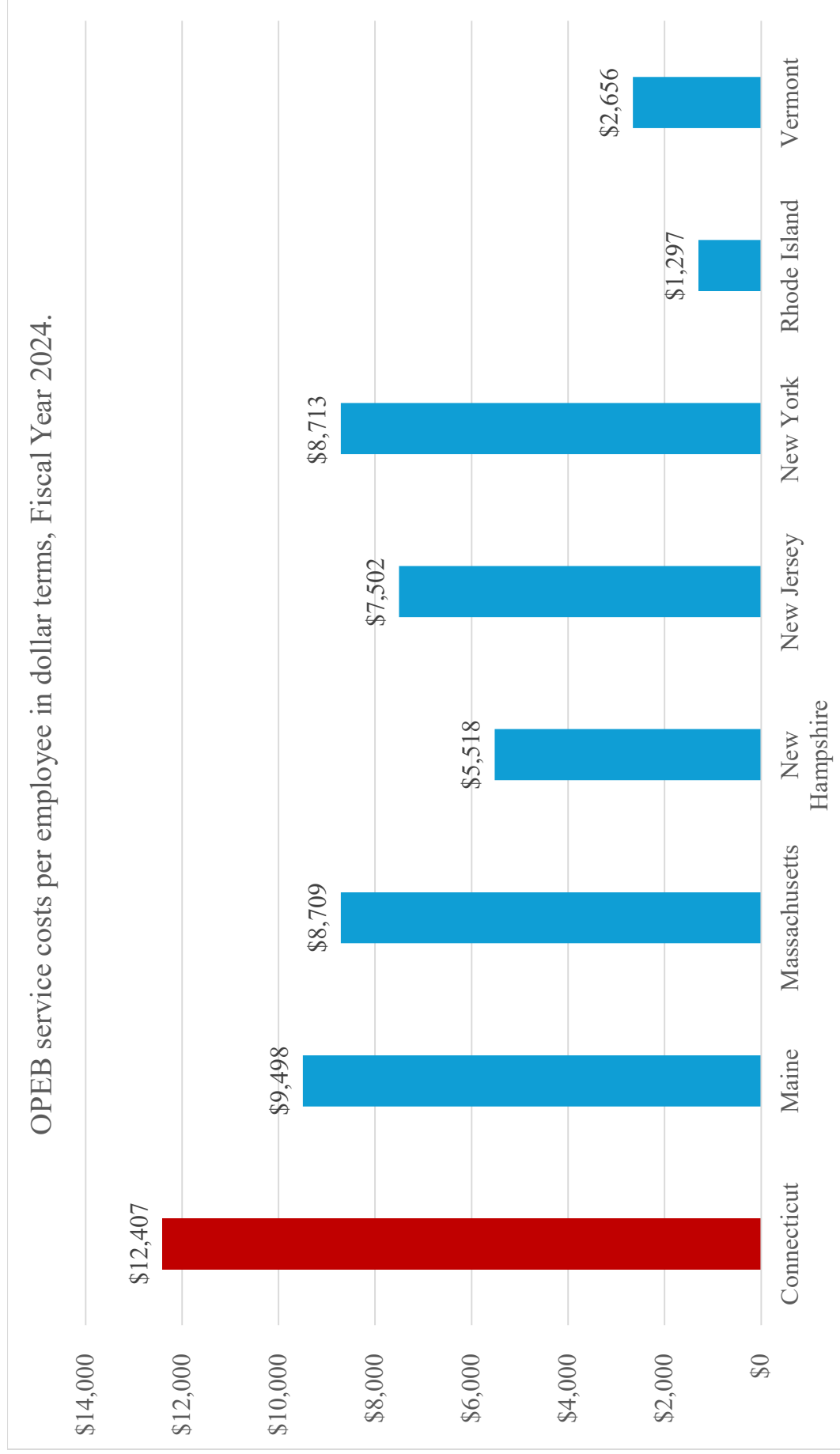
Service cost as percent of employee wages, as reported using plans' chosen discount rates. Source: author's calculations from plan actuarial valuations.



Created with Datawrapper

Since the focus of this study is retiree health coverage offered to Connecticut state government employees, I have assembled more detailed figures comparing Connecticut to other Northeastern states. Figure 4 displays the dollar value of annual retiree health benefits accruing to state government employees in a range of Northeast states, again as reported by the states using their own chosen discount rates. The value per employee is simply the total service cost of the plan divided by the number of active plan participants. In Connecticut, the service cost of newly-accruing retiree health benefits projected for FY 2024 was \$12,407 per employee using values in Connecticut's own reports. In other words, the retiree health benefits package offered to Connecticut state employees was equivalent in value to an annual salary increase of over \$12,000. Connecticut retiree health benefits exceed those of the second-ranked state, Maine, by \$2,909 per year, a 31 percent difference. Compared to New York and New Jersey, which are in the middle of the group, Connecticut's retiree health plan offers benefits that are 53 percent more generous in dollar terms, a difference in annual benefit accruals of \$4,300.

Figure 4.



Comparing retiree health benefits on an apples-to-apples basis

Previous sections discussed the importance of the discount rate in valuing retiree health plan liabilities. The service cost of newly-accurring benefits is especially sensitive to differences in the discount rate, because benefits earned today may not be paid until decades in the future.

Therefore, it is important to note that states may use very different discount rates in valuing their OPEB liabilities. For plans nationally for which data on the discount rate were available, the lowest rate was the 1.92 percent used by Illinois and the highest rate of 7.40 percent was utilized by Maryland. The median discount rate used was 4.24 percent and the modal, or most common, rate was 3.54 percent.

These different discount rates may or may not reflect actual differences in the cost of benefits to the government. Regardless, the financing strategy used by a government to pay retiree health benefits is distinct from the value of the benefits provided to employees.¹¹

To compare the value of the retiree health benefits offered by different state governments to their retired employees, it is important to do so on an apples-to-apples basis using a common discount rate. When a common discount rate is employed, then two plans that pay the same health benefits in dollar terms to future retirees will have the same present value of accruing benefits for current employees.

I will re-calculate each Northeast state's retiree health service cost using an assumed discount rate of 3.65 percent, which is the interest rate that Connecticut's actuaries report is paid by municipal bonds. This approach treats promised retiree health benefits equivalently to debt payments promised to creditors. Nationally, around one-third of retiree health plans for which data are available use a rate equal to or below 3.65 percent to discount all of their benefit liabilities, so this rate should not be considered to be unreasonably low.

To re-calculate the service cost of an OPEB plan, one must assume an average duration of newly-accurring benefits. The average duration is the number of years between when benefits are earned and when those benefits will be paid. Most retiree health plans do not publish this figure in their actuarial valuations or other financial statements. For these purposes, I assume an

¹¹ For instance, households may adopt different strategies for financing a child's college education; some might save ahead of time, putting the money in aggressive investments; others might save in safer investments; still others might simply pay the bills as they come due; while others might take loans and pay them off after the child graduates. However, none of those financing strategies changes the cost of the college education.

average duration of newly-accrued benefits of 25 years, a figure that is on par with the duration of service costs typically found in pension plans.

Figure 5 replicates Figure 4, while adding or subtracting from each plan's reported service cost the incremental amount that is produced by recalculating the service cost at a common 3.65 percent discount rate. The states' chosen discount rates range from a low of 3.54 percent in New Jersey to a high of 7.00 percent in Vermont.¹² Recalculating service costs involves compounding the published service cost forward by 25 years using the OPEB plan's chosen discount rate, then discounting that future value back to the present using a 3.65 percent interest rate.¹³

The effect on the service cost of accruing retiree health benefits in Connecticut is dramatic. Connecticut already offered the most generous retiree health benefits in the Northeast, with employees accruing \$12,407 in future benefits for each year of work. However, this service cost was calculated using a 6.90 percent discount rate when other states typically used more modest rates. When Connecticut's retiree health accruals are recalculated using a common 3.65 percent discount rate, the future benefits that employees become entitled to through each year of work rise in value to \$26,846.

In Maine and Vermont, which use 6.50 percent and 7.00 percent discount rates, respectively, annual benefit accruals similarly more than double in value when recalculated at a 3.65 percent municipal bond yield. In New Hampshire, which uses a 3.65 percent discount rate as its baseline, the service cost of retiree health benefits remains unchanged. And in New York, Massachusetts and New Jersey, whose baseline discount rates are below 3.65 percent, this recalculation reduces the service costs of their plans.

This exercise shows that, in an apples-to-apples comparison, Connecticut's retiree health plan remains by far the most generous among Northeast states, which is the region with the most generous benefits in the nation. Second-place Maine provides a benefit that is only about two-thirds as generous.

¹² As will be discussed in following sections, Connecticut employs a non-standard method for arriving at a discount rate with which to value the service cost of its plan. The calculations in Table 3 value states' promised benefits using a common standard.

¹³ For instance, Connecticut reports a service cost of \$12,407 per employee when future benefits are discounted using 6.9 percent interest rate. To convert that figure to a 3.65 percent rate, I multiply \$12,407 by 1.069²⁵, producing a future value of \$65,783. I then divide that figure by 1.0365²⁵, producing a normalized present value of \$26,846.

Figure 5.

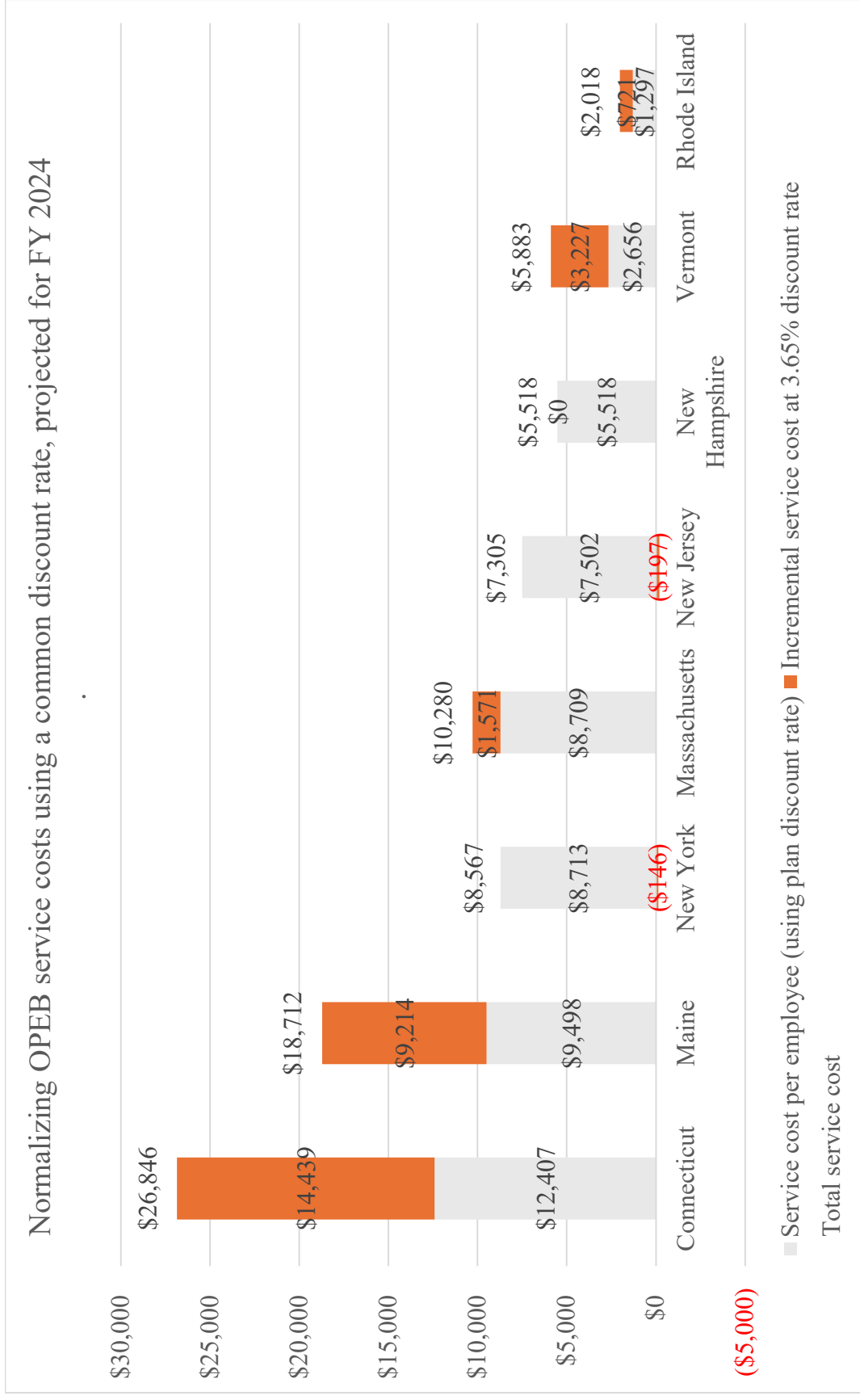


Table 4 expands the apples-to-apples comparison nationwide. Each state's reported value of retiree health benefits accruing to active employees is recalculated from its "blended rate" (or the investment rate in the case of Connecticut) to a standardized 3.65 percent discount rate. Even in a nationwide context, Connecticut's retiree health benefits are unusually generous. Connecticut's normalized service cost of 27.6 percent of employee wages is literally almost 10 times greater than the median normalized service cost of 2.80 percent of wages,

California offers the most generous retiree health plan when benefits are measured as a percentage of employee wages, with the service cost of OPEB benefits equal to 28.0 percent of pay. Connecticut's retiree health benefits, which have a value equal to an additional of 27.6 percent of employees' wages, are a close second to California's. Ohio, Hawaii and Kentucky round out the five states offering the most generous retiree health benefits to current employees relative to employee wages.

Figure 6 illustrates for each state the increase or reduction in the service cost as a percentage of wages when such costs are normalized to a constant 3.65 percent discount rate. In many cases, discounting accruing benefits using a 3.65 percent rate has little or no effect on the service cost, as plans already are utilizing a low discount rate. In a small number of cases, where the plan's reported service cost is based upon a discount rate that is below 3.65 percent, normalizing to 3.65 percent reduces the service cost.

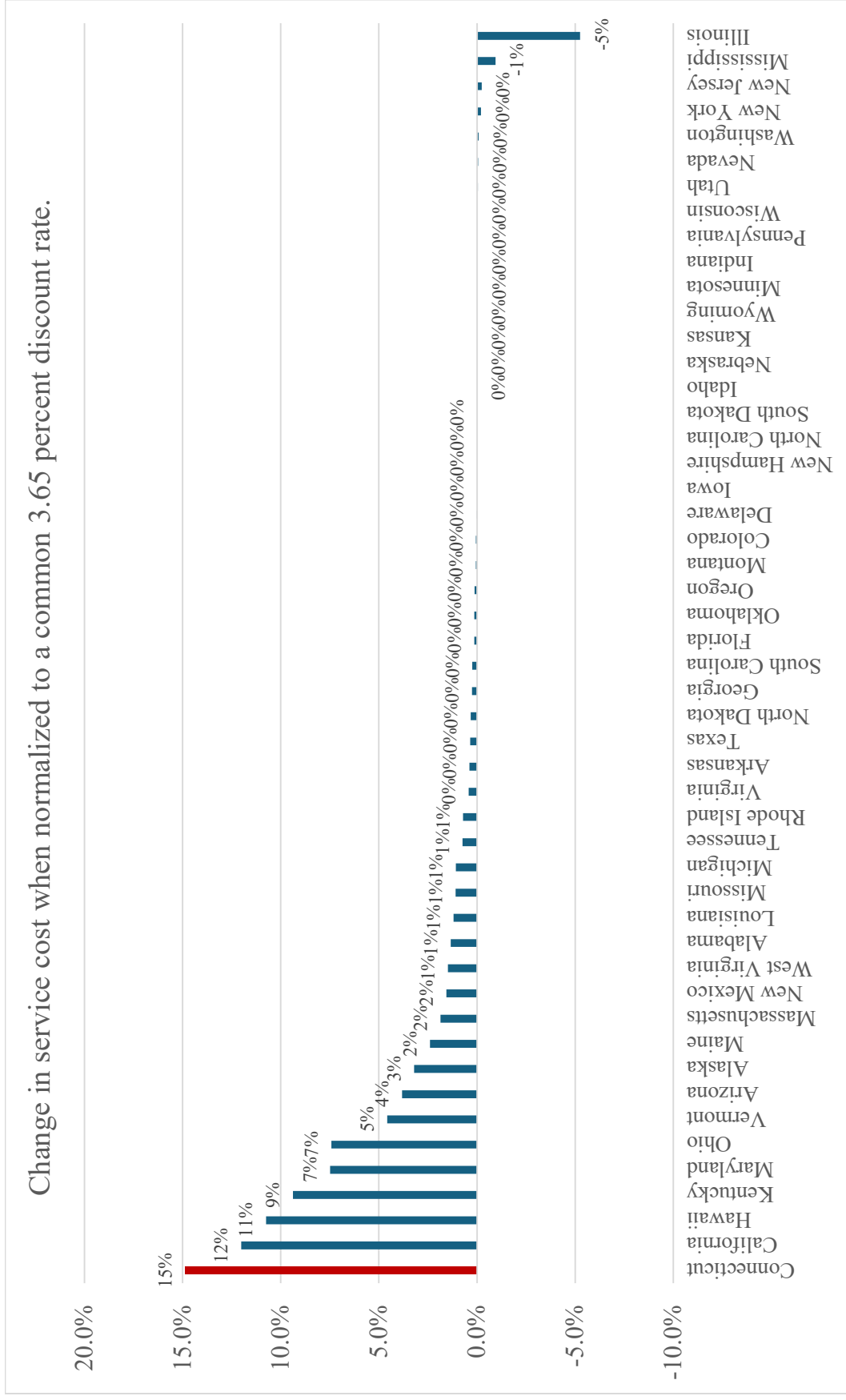
However, in certain states such as Connecticut, California and Hawaii, measuring benefit accruals using a 3.65 percent yield drawn from municipal bonds increases the service cost dramatically. While there are exceptions, states with higher reported OPEB service costs also tend to see larger percentage increases in their service costs when measured using a 3.65 percent municipal bond yield. It is difficult to say whether this implies that states with more costly and generous OPEB benefits attempt to hide those costs using higher discount rates or whether such states are making greater efforts to prefund their future benefits. Regardless, these results do imply that the real value of OPEB benefits in the most generous states such as Connecticut and California is even greater relative to less-generous states than a simply comparison of financial statements would indicate.

Table 4. OPEB service cost for FY 2024 as a percent of wages, as calculated using the reported the plan discount rate and normalized using a common 3.65% rate.

State	As reported, using plan discount rate	Normalized to 3.65% discount rate	State	As reported, using plan discount rate	Normalized to 3.65% discount rate
Alabama	1.4%	2.7%	Montana	0.7%	0.8%
Alaska	4.3%	7.5%	Nebraska	0.2%	0.2%
Arizona	3.1%	7.0%	Nevada	2.3%	2.3%
Arkansas	3.2%	3.6%	New Hampshire	7.8%	7.8%
California	16.0%	28.0%	New Jersey	9.1%	8.8%
Colorado	0.04%	0.1%	New Mexico	1.8%	3.4%
Connecticut	12.8%	27.6%	New York	12.1%	11.9%
Delaware	0.6%	0.6%	North Carolina	6.4%	6.4%
Florida	1.1%	1.3%	North Dakota	0.5%	0.8%
Georgia	1.1%	1.4%	Ohio	16.2%	23.7%
Hawaii	8.8%	19.6%	Oklahoma	0.3%	0.5%
Idaho	0.1%	0.1%	Oregon	0.1%	0.2%
Illinois	15.3%	10.0%	Pennsylvania	7.6%	7.6%
Indiana	0.2%	0.2%	Rhode Island	1.9%	2.6%
Iowa	1.1%	1.1%	South Carolina	4.5%	4.8%
Kansas	0.5%	0.5%	South Dakota	0.0%	0.0%
Kentucky	6.3%	15.7%	Tennessee	1.0%	1.7%
Louisiana	10.7%	11.9%	Texas	6.4%	6.7%
Maine	2.5%	4.9%	Utah	0.3%	0.3%
Maryland	5.2%	12.7%	Vermont	3.8%	8.3%
Massachusetts	10.3%	12.2%	Virginia	0.4%	0.8%
Michigan	0.9%	2.0%	Washington	3.3%	3.2%
Minnesota	1.2%	1.2%	West Virginia	1.4%	2.9%
Mississippi	1.6%	0.7%	Wisconsin	1.5%	1.4%
Missouri	2.0%	3.0%	Wyoming	0.5%	0.5%

Source: Author's calculations, from state government financial statements.

Figure 6



Changes to Connecticut retiree health care costs and liabilities

The cost and generosity of retiree healthcare benefits for Connecticut state government employees has been a topic of discussion for a number of years. The net liability for OPEB benefits reached a peak of \$23.5 billion in Fiscal Year 2021.

Moreover, the following year (FY 2022), the service cost of accruing benefits for current state employees peaked at 32.4 percent of employee wages, with an aggregate dollar cost in that year of \$1.2 billion.

But since that time, both the net OPEB liability and the service cost of newly-accruing benefits have fallen dramatically. In the two years from the openings of Fiscal Year 2022 to Fiscal Year 2024, the net OPEB liability declined to \$15.6 billion, a greater than one-third reduction, which cut the net liability by \$7.9 billion in dollar terms.

Similarly, the service cost plummeted from \$1.2 billion to \$621 million; and, since wages increased by a dramatic 33 percent over the two years, the service cost as a percent of payroll plunged from 32.4 percent of employee wages to just 12.8 percent.

These figures would make it appear as if Connecticut has developed a better way to fund government employee retiree health benefits. In fact, though, these drastic improvements in the metrics for measuring the cost of the benefits are mostly due to accounting changes, both the increase in the municipal bond discount rates used by Connecticut and some other states and the unique accounting change that Connecticut adopted in its 2024 financial statements.

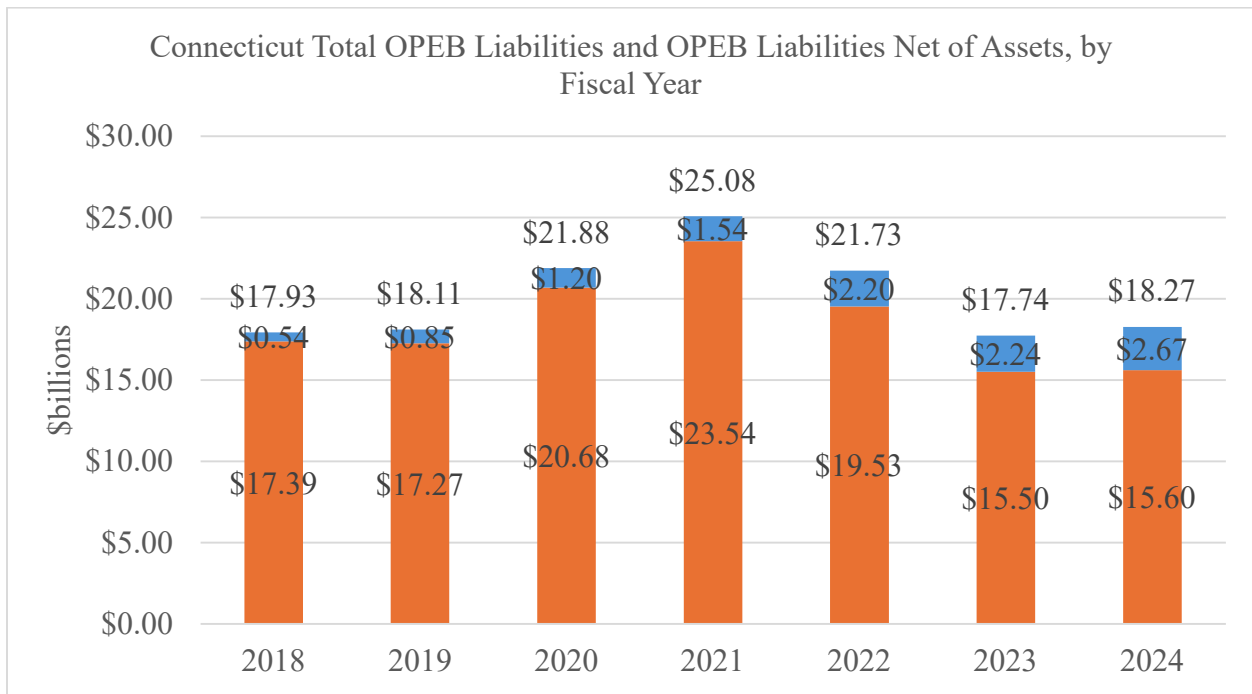
Table 5. Connecticut OPEB Measures, according to Connecticut's annual OPEB Valuation Reports

Fiscal Year	Service cost (dollars)	Service cost (percent of wages)	Total OPEB liability	Assets	Net liability OPEB liability	Benefit payments	Employer contributions	Employee contributions	Total contributions
2018	\$961	25.7%	\$17,928	\$542	\$17,386	\$639	\$667	\$121	\$788
2019	\$902	24.1%	\$18,114	\$849	\$17,265	\$648	\$802	\$117	\$919
2020	\$848	21.9%	\$21,878	\$1,196	\$20,682	\$593	\$753	\$117	\$869
2021	\$970	26.8%	\$25,078	\$1,537	\$23,541	\$623	\$867	\$159	\$1,027
2022	\$1,215	32.4%	\$21,727	\$2,200	\$19,527	\$637	\$868	\$147	\$1,015
2023	\$906	24.8%	\$17,738	\$2,240	\$15,498	\$638	\$848	\$145	\$993
2024	\$621	12.8%	\$18,266	\$2,667	\$15,599	\$627	\$851	\$148	\$998

Source: Annual actuarial valuations. All figures in millions of nominal dollars (i.e., non-inflation adjusted)

Connecticut did improve significantly in one genuine area: setting aside assets to help pay for future retiree health benefits. Beginning in a 2009 labor agreement, Connecticut state employees were required to contribute toward their retiree health care. The state itself made a matching contribution beginning in 2017, and both sums of money were invested in a trust fund dedicated to the state’s OPEB program. (See Figure 7.) From the beginning of FY 2021 to the beginning of FY 2024, the OPEB trust fund’s balance increased by \$1.1 billion.

Figure 7.



From the opening of Fiscal Year 2022 to FY 2023, the Net OPEB liability declined by \$4.0 billion, from \$19.53 billion to only 15.50 billion. According to the OPEB plan’s actuaries, the firm Segal, this improvement was almost entirely due to an increase in the discount rate used to value the plan’s liabilities, from 2.31 percent to 3.9 percent. Consistent with GASB 75, this discount rate was a blend of the 6.9 percent expected return on the OPEB plan’s assets and a 3.54 percent yield on high-quality 20-year municipal bonds. The change in the blended discount rate was driven by an increase in the yield on municipal bonds, which rose from 2.16 percent in Fiscal Year 2021 to 3.54 percent in FY 2022. The increase in the blended discount rate produced a dramatic reduction in the measured present value of the plan’s future benefit liabilities, as it did

for many other states. It does not, however, change the annual benefit costs that must be paid every year, nor does it change the assets available in the OPEB trust to pay those benefits.

From Fiscal Year 2023 to Fiscal Year 2024, Connecticut's projected Net OPEB Liability increased by around \$100 million, from \$15.5 billion to \$15.6 billion. However, this small increase hid much larger changes happening behind the scenes. The plan's actuaries projected two large offsetting changes. First, the OPEB liability *increased* by \$5.9 billion due to provisions of the federal government's Inflation Reduction Act that capped out-of-pocket costs of beneficiaries, among other changes. By itself, the Inflation Reduction Act would have generated a 38 percent increase in Connecticut's total OPEB liability.

Second, Connecticut's actuaries report that OPEB liabilities *declined* by \$5.8 billion due to an increase in the plan's discount rate: from the single blended 3.54 percent rate used in FY 2023 to a novel approach in FY 2024 in which a 6.9 percent discount rate is applied to liabilities for participants who will collect benefits in the more distant future and a 3.65 percent municipal borrowing rate applied to the benefits that will be paid in the present and near future.

Connecticut's actuarial firm, Segal, did not disclose a "blended" rate combining the two different discount rates. I am not aware of any other state that fails to disclose the average discount rate applied across all plan liabilities. Clearly, the Connecticut plan actuaries know what this blended rate is, as they publish the GASB 75-required sensitivity analysis, which shows how much the plan's total liability changes if the discount rate is increased or decreased by one percentage point. But the actuarial valuation does not state in numerical terms what any of these various discount rates actually are.

For Fiscal Years 2023 and earlier, the Connecticut retiree health plan followed the GASB approach of blending the expected return on the plan's assets with the yield on long-term municipal bonds. As discussed previously, this blended rate is based on the assumption that the plan pays benefits using its assets for as long as those assets last, after which benefits are funded on a pay-as-you-go basis. Benefits that can be paid using the plan's assets are discounted at the expected higher investment return on those assets, while benefits that are funded on a pay-as-you-go basis are discounted using the lower municipal bond yield.¹⁴ I have termed GASB 75's

¹⁴ The blended discount rate is a single interest rate that, when applied to the plan's annual benefit payments, produces the same present value as if the discount rates derived from the plan's assets and municipal bonds were applied separately.

approach as “assets first,” because assets are assumed to cover benefit costs in the near term while benefits following the exhaustion of assets are funded on a pay-as-you-go basis.

For FY 2024, Connecticut adopted an “assets-last” approach to valuing its benefit liabilities. The logic is as follows: since 2009 active Connecticut government employees have been required to contribute toward their retiree healthcare benefits, with those assets held in a trust that may only be used to pay benefits for those employees who contributed. Most of those employees are still actively employed by the state and are not yet collecting benefits. The 6.9 percent expected return on the OPEB plan’s asset is used to discount the future benefits owed to these employees. Since most of these employees are still working, the mass of their benefits will not be paid until the relatively distant future. By contrast, benefits for most current retirees, who were not contributory members of the trust, are funded on a pay-as-you-go basis each year via a state appropriation of funds. These benefits, which mostly occur in the present and the relatively near future, are discounted using a 3.65 percent municipal bond yield.

In other words, there is no longer a blended discount rate applied to Connecticut OPEB liabilities, as GASB 75 ordinarily would dictate.

Given Connecticut’s unique accounting, it is surprising that Connecticut’s actuarial valuation provides very little detail regarding how aggregated figures such as the service cost and the total OPEB liability are calculated. Typically, it would be possible for a skilled reader to recreate many of the figures published in an OPEB actuarial valuation. The paucity of detail contained in Connecticut’s valuation makes such replication difficult or impossible, thereby reducing the usefulness of the state government’s financial reports to third parties seeking to understand the state’s genuine financial position.

Moreover, Connecticut’s accounting approach largely flips the math of GASB 75’s discounting on its head, by applying the higher discount rate to the most distant benefits, for which differences in the discount rate have the greatest effect, and the lower discount rate to benefits paid in the present and the near future, where differences in discount rates matter much less. This approach is, at the least, contrary to the spirit of GASB 75’s assets-first approach to discounting OPEB liabilities, in the sense that a plan identical to Connecticut’s in every respect but which applied GASB 75’s discounting approach would report significantly higher service costs and OPEB liabilities. Connecticut’s accounting strategy renders financial comparisons to other states meaningless.

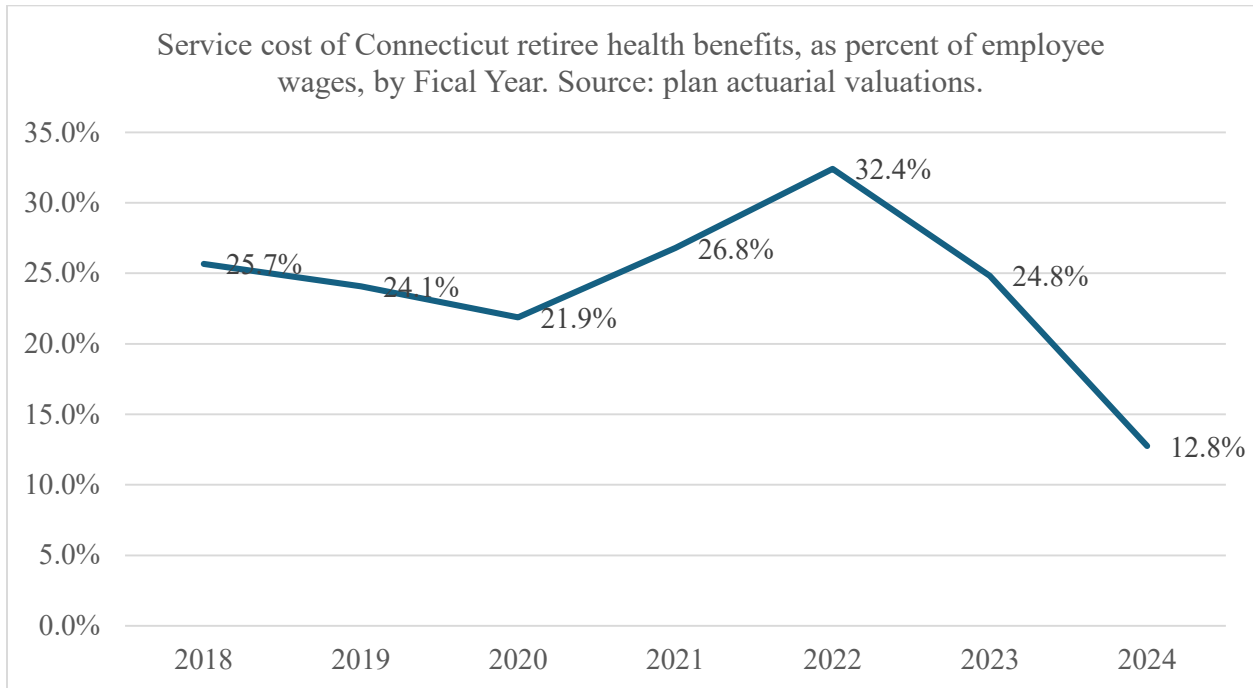
Connecticut's new accounting approach relies upon a legal perspective, in that Connecticut's labor union agreement in 2009 that established the OPEB trust dictated that the trust's assets can only be used to pay benefits for employees who contributed. This means the trust fund assets cannot be drawn down to pay benefits for most current retirees, who did not contribute.

However, the accounting improvements achieved by this strategy have no impact upon the actual benefits the plan must pay—each year—on the assets available to pay them. That is to say, the multi-billion dollar reduction in Connecticut's OPEB liability when it adopted this bookkeeping strategy for FY 2024 is an accounting gain rather than a substantive improvement.

This is illustrated when looking at the reported service cost of benefits accruing to employees each year. (See Figure 8.) In FY 2022, before the new accounting strategy was adopted, the reported service cost reached a high of 32.4 percent of employee wages – an extraordinarily costly figure that is double the highest rate among the 50 states shown in Figure 2. The reported “blended” discount rate increase from FY 2022 to FY 2023 reduced the service cost to 24.8 percent of pay, a nearly one-quarter reduction, which nevertheless, was not out of line with reductions in other states.

But from FY 2023 to FY 2024 the service cost was cut in half, falling to only 12.8 percent, based upon Connecticut's newly-adopted unique accounting strategy which applies the 6.90 percent investment rate to the distant-future benefits of active employees who are contributors to the OPEB trust, upon which only contributors have a call. This accounting strategy results in annual benefit accruals that are just 39 percent of those measured just two years earlier. This dramatic reduction in purported benefit costs occurred over a period in which, by the actuarial valuation's own disclosures, policy changes contained in the Inflation Reduction Act significantly *increased* the government's cost of providing retiree health benefits.

Figure 8.



Moreover, annual benefit payments to current retirees have barely changed in nominal terms since 2017 (see Table 5). For instance, in 2021 annual benefit payments to retirees equaled \$637 million at a time when the cost of benefits accruing to employees was reported at 32.4 percent of payroll. By 2023, annual benefit payments declined only 1.6 percent to \$627 million while the service cost as a percent of wages was reduced to 12.8 percent, a 61 percent reduction.

Connecticut's new accounting strategy has produced dramatic improvements in the metrics used to measure OPEB obligations. Not only has it helped reduce the state's reported Net OPEB Liability to \$15.6 billion currently from \$23.5 billion four years prior and helped reduce its service cost to 12.8 percent of wages from 32.4 three years ago, but it would seem to have helped reduce the state's "OPEB expense," which is an accounting measure designed to capture the combined cost of newly-accruing benefits plus the interest cost on the existing unfunded benefit liability.¹⁵ Connecticut's OPEB expense plummeted from \$1.44 billion in 2021 to only \$196 million in 2023, a decline of 86 percent that on paper saves the state over \$1.2 billion per year. The decline has reduced the OPEB Expense below actual benefit payments of

¹⁵ The precise calculation of the OPEB expense is more complex, but is conceptually similar to the Actuarially Determined Employer Contribution (ADEC) that is calculated for public sector pensions.

\$627 million in 2023. Most of this reduction in the OPEB expense is due to the increase in the discount rate employed from 2021 through 2023, which resulted from the general increase in interest rates in the national economy combined with Connecticut's unique accounting strategy. This accounting strategy does not alter the fundamentals of the plan's finances, which are still funded mostly on a pay-as-you-go basis out of state appropriations.

Conclusions

Retiree health benefits can be a significant component of the total compensation package offered to public sector employees. However, the value of the retiree health benefits offered to state government employees differs dramatically from state to state. In this study I update figures for each state based upon state financial statements or actuarial valuations.

Connecticut is a particular focus of this study. Connecticut's retiree health plan remains one of the most costly and generous in the country. Using the figures released by states, and adjusted to an apples-to-apples basis, Connecticut state employees accrue future retiree health benefits for each year of employment equal to an additional 27.7 percent of their annual wages and salaries, a figure that places Connecticut second among the 50 states, falling only slightly short of California's 28 percent service cost. Among Northeast states, Connecticut's retiree health plan is the most generous by a 43 percent margin relative to second-ranked Maine.

Connecticut has managed to dramatically reduce the reported cost of accruing health benefits through its seemingly-unique new accounting methodology. This new accounting approach uses the 6.9 percent assumed return on plan assets to discount benefits occurring in the distant future, where a higher discount rate has a much more pronounced effect on the present value of benefit liabilities. The lower 3.65 percent municipal bond yield is used to discount benefits being paid in the present and near future. This "assets last" approach to discounting is in contrast to GASB 75, which dictates that a plan apply the expected return on plan assets to near-term liabilities while using the lower municipal bond yield to discount benefits being paid in the more distant future.

Relative to the standard of the Governmental Accounting Standards Board practices embedded in GASB 75, Connecticut employs a creative accounting strategy that results in the state reporting lower values for its long-term financial obligations in its Annual Comprehensive Financial Report. However, a creative accounting strategy serves neither to reduce the retiree

health benefits that must be paid each year nor to increase the resources available to pay for them. While Connecticut's accounting strategy may not be in outright violation of GASB 75, the strategy provides a misleadingly optimistic view of the state government's long-term finances.

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