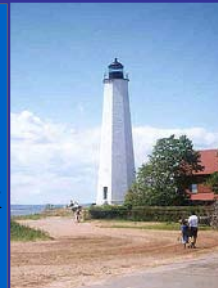
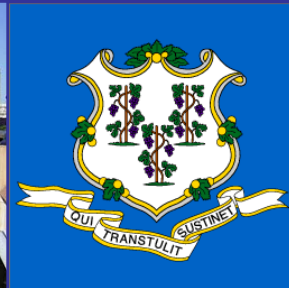




State of Connecticut

Post-Retirement Benefits Plans

Past Performance and Future Plans



Dial-in Number: 866-279-1568

Passcode: *2326801*

June 3, 2011



Presenters

- Denise Nappier State Treasurer
 - Benjamin Barnes Secretary of the Office of Policy and Management
 - Becky Sielman Milliman
 - Renee Boicourt Lamont Financial
-



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Introduction





Introduction

- The State has two major pension plans:
 - The State Employees Retirement System (SERS) covering 50,064 active members and 41,782 retirees
 - The Teachers Retirement Fund (TRF) covering 51,368 active employees, 30,219 retired members
 - Statistical summaries of the plans are included in Appendix A
- The funding of Post-Employment Benefits (Pension and Health Care) has become an area of increased focus and scrutiny for investors, rating agencies and policy makers nationwide
- State has had a history of working toward systematic improvements and further actions are planned
- Governor Malloy is committed to restructuring post-employment Benefits beginning with substantial changes in a proposed new labor agreement as well as a commitment to further streamlining of state government, its functions and personnel levels and costs over time
- Treasurer Nappier has been focused and outspoken on these matters since she took office in 1999. She led the effort for POB financing in 2008 which committed the State to fully funding the ARC for the life of the bonds for TRF

Actively Managing Benefit Levels



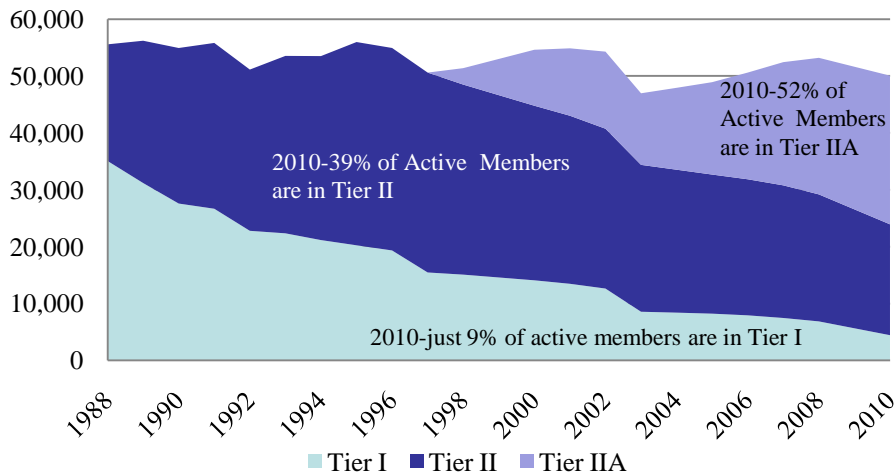


Actively Managing Benefit Levels

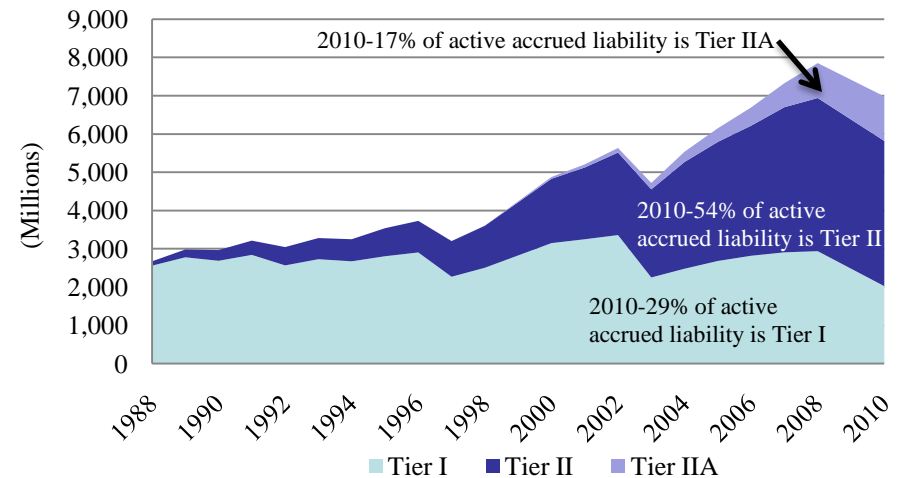
The State Has Actively Implemented New, Less Expensive Tiers for Employee Pensions

- The State has a history of addressing the affordability of pension benefits. Tier I is the most expensive plan but currently only 9% of the active employees are Tier I
- Tier II was established in 1984 (27 years ago) and covers 39% of the current active workforce providing for a lower benefit accrual rate and later retirement age
- The State implemented Tier II A in 1997 (14 years ago) which requires contributions from employees and it now covers the majority of employees (52% of the workforce)

SERS Active Members-Count



SERS Active Members-Accrued Liability



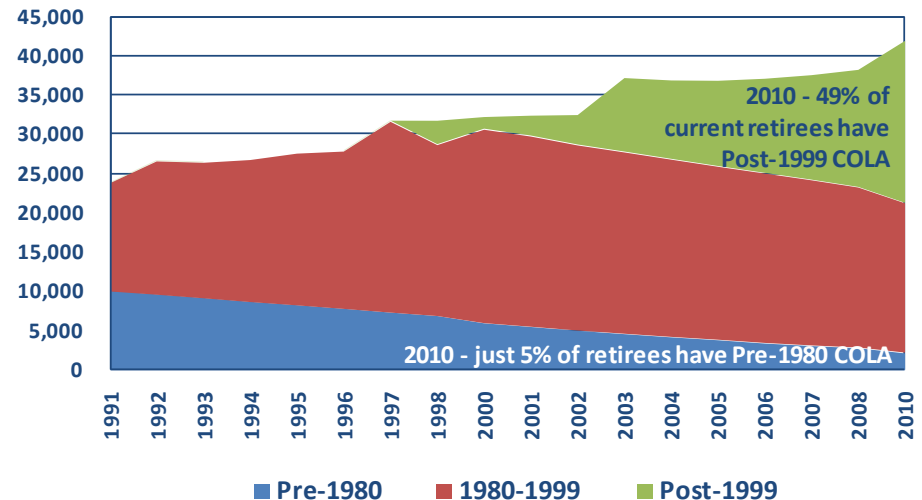


Actively Managing Benefit Levels

The State Has Actively Reduced Cost of Living Adjustments for SERS Retiree Pensions

- Prior to 1980, the SERS COLA was CPI capped at 5.0% (6.0% for members over age 62 not covered by Social Security)
- Effective July 1, 1980, the COLA was changed to a fixed 3.0%
- Effective July 1, 1999, the COLA was changed to 60% of CPI up to 6.0% plus 75% of CPI over 6.0%, with a minimum of 2.5% and a maximum of 6.0%
- Tentative 2011 union agreement includes COLA changes effective September 2, 2011
 - The COLA formula is revised to reduce the minimum from 2.5% to 2.0% and raise the maximum from 6.0% to 7.5% - this should lower expected COLAs by about 40 basis points on average

SERS Retirees - Count





Actively Managing Benefit Levels

Strong Financial Management of Other Post Employment Benefits

- OPEB Considerations
 - Overall, OPEB projections should be viewed cautiously because these benefits are more likely to change and the valuations done must assume all future employees receive the same level of benefits. In addition OPEB valuations are very sensitive to discount rates under GASB 45
- Positive incremental changes in OPEB plan design and funding mechanisms
 - 2009 – Employees with less than 5 years service are required to pay 3% of salary up to ten years of service toward Other Post Employment Benefits
 - 2009 – Employees with less than 10 years of service as of 2009 must, under the “Rule of 75” have age plus years of service to total 75 in order to be eligible for OPEB
 - 2009 – Increased pharmacy co-payments
 - 2009 – Closed new admissions to the Preferred Plan



Actively Managing Benefit Levels

Teachers OPEB

- Funded through a combination of General Fund appropriations and contributions by active and retired members
 - By statute General Fund appropriations cover 1/3rd of retiree health insurance costs plus any balance not paid from the Teachers' Retirement Health Insurance Fund
 - The remaining 2/3rds is split roughly 50/50 between active and retired teachers contributions
 - The TRHIF also receives Federal prescription drug subsidy funds
- \$25.0 million and \$26.5 million appropriated for FY 12 & FY 13 respectively
- Teachers' Retirement Health Insurance Fund (TRHIF) Balance of \$64.1 million as of 6/30/2010
 - TRHIF is not a trust fund and its assets do not constitute plan assets for GASB 43/45 or actuarial valuation purposes
- With the General Fund contributions, the fund balance increased from \$20.5 million as of 6/30/2006 to \$73.8 million as of 6/30/2009
- Actuarial accrued liability of almost \$3.0 billion as of 6/30/2010 would require annual employer contributions of \$177.1 million for FY 11 and \$184.1 million for FY 12
 - Assumes no plan assets, a 4.5% return rate, a 30 year amortization and level percent-of-payroll contributions



Actively Managing Benefit Levels

Synopsis of Tentative State Employees Bargaining Agent Coalition (SEBAC) Agreement

Tentative SEBAC Agreement

1. General Provisions
2. Healthcare Provisions
3. Pension Provisions



Actively Managing Benefit Levels

Synopsis of Tentative SEBAC Agreement

General Provisions

1. Hard wage freeze – FY 2012 and FY 2013
2. Salary increases – FY 2014, FY 2015 and FY 2016 (3% per year)
3. End longevity payments for new hires
4. No layoff of permanent bargaining unit employees for 4 years
 - Exceptions: Individual new hires after 7/1/11, temporary or durational employees, or part time employees
5. Labor-Management committees



Actively Managing Benefit Levels

Synopsis of Tentative SEBAC Agreement

Health Care Changes

1. \$35 Emergency Room co-pay
2. Value Based health and dental
 - Agree to follow all plan and physician recommended physicals, disease management protocols and diagnostic testing. Cost would be the same as the current plan plus any scheduled experience determined increases
3. Standard health and dental
 - Cost same as calculated in the first year for Value Added plus an additional \$100.00 per month and there would also be a \$350 Medical Deductible
4. Value Based voluntary for retirees and mandatory for new retirees
5. Increase pharmacy co-pays for active employees and new retirees, retiring after 9/1/11
6. Mandatory mail order for maintenance drugs
7. Minimum Service for OPEB
 - Increase to 15 years of actual state service after 9/1/11 with continuation of Rule of 75
8. Healthcare premiums for individuals electing early retirement
9. Employee contribution for OPEB
 - Employee Contribution of 3% of salary for Retiree health care trust fund for all employees (not just new employees) phased in beginning 7/1/13. 0.5% effective 7/1/13; 2% effective 7/1/14 and 3% effective 7/1/15. These payments would be made for ten (10) years or until retirement, whichever is less. The State would begin matching employee contribution and depositing the amount into the trust fund effective July 1, 2017
10. Tobacco Cessation and Obesity Program



Actively Managing Benefit Levels

Synopsis of Tentative SEBAC Agreement

| Health Care Changes | FY 2012 | FY 2013 | 20-Year Projection |
|---|----------------------|-----------------------|------------------------|
| Value Based Initiatives | | | |
| Value Based Health and Dental Care Plan under which individuals and their families could chose to participate and agree to follow all plan and physician recommended physicals, disease management protocols and diagnostic testing. This plan is available for active employees and individuals who retire on and after 9/2/11. The plan is also offered on a voluntary basis to current retirees. The cost for this plan would be the same as the current plan plus any scheduled experience determined increases. | \$ - | \$ - | \$ - |
| Implement edits currently existing in the plan design but not fully implemented by the vendors, such as prior authorization for certain diagnostic procedures | \$ - | \$ - | \$ - |
| Institute at \$35 Emergency Room Co-pay where there person is not admitted to the hospital | \$ - | \$ - | \$ - |
| | \$102,500,000 | \$ 102,500,000 | \$2,251,000,000 |
| Non-Value Based Health and Dental - If the employee chooses not to participate in the value based plan, or fails to comply with the plan's provisions, the cost for health care would be the same as calculated in the first year for Value Based, plus \$100.00 per month additional. Institute a \$350 Medical Deductible per year per individual for the regular plan | \$ 19,200,000 | \$ 21,700,000 | \$ 324,000,000 |
| Reduce Costs with Generics - drugs coming off patent | \$ 1,500,000 | \$ 12,000,000 | \$ 382,000,000 |
| Tobacco and Obesity - reduce costs through voluntary referral Program | \$ 1,000,000 | \$ 2,000,000 | \$ 83,000,000 |
| Other Health Cost Containment Initiatives – the Healthcare Cost Containment Committee will identify additional cost savings through renegotiation of contracts and improved service delivery | \$ 40,000,000 | \$ 35,000,000 | \$ 470,000,000 |
| Mandatory Mail Order / Pharmacy Co-pays: Mandatory Mail Order - maintenance drugs for active employees, future retirees and current retirees under 65 must be ordered through the mail. Voluntary for current retirees over 65 (mandatory once enrolled). Increase co-pay to \$5, \$20 and \$35 for non maintenance drugs. | \$ 19,876,000 | \$ 20,500,000 | \$ 698,000,000 |
| Healthcare Cost for Early Retirement: Healthcare cost for early retirees until they reach their normal retirement date, or age 65, whichever is earlier. | \$ 2,000,000 | \$ 4,000,000 | \$ 134,000,000 |
| Minimum Service for Retiree Medical – Increase to 15 years of actual state service for Normal, early retirement and HD retirement with continuation of Rule of 75 for Deferred Vested | \$ 1,822,000 | \$ 5,705,000 | \$ 854,000,000 |
| Health Care Total | \$187,898,000 | \$ 203,405,000 | \$ 5,196000,000 |



Actively Managing Benefit Levels

Synopsis of Tentative SEBAC Agreement

Pension SERS Changes

1. Cap salary that can be considered as part of an individual's pension benefit as provided under the Internal Revenue Code
2. Reduce minimum COLA for individuals who retire after 9/1/11
3. Change the early retirement reduction factor from 3% to 6% for each year before eligible to take Normal Retirement for retirements after 9/1/11
4. For current employees who retire on or after 7/1/2022, normal retirement eligibility increases from Age 60 and 25 YOS or Age 62 and 10 YOS to Age 63 and 25 YOS or Age 65 and 10 YOS. Present employees may elect to pay the actuarial pension cost of maintaining the normal retirement eligibility that exists in the present plan which is scheduled to change effective July 1, 2022
5. New Tier III for individuals hired after 7/1/11, normal retirement eligibility Age 63 and 25 YOS or Age 65 and 10 YOS and salary based on final five year average



Actively Managing Benefits Levels

Synopsis of Tentative SEBAC Agreement

| Pension Changes | FY 2012 | FY 2013 | 20-Year Projection |
|--|-----------------------|-----------------------|-------------------------|
| • Cap salary that can be considered as part of an individual's pension benefit as provided under the Internal Revenue Code | \$ 2,400,000 | \$ 2,500,000 | \$ 52,000,000 |
| • Pension savings due to 2 year wage freeze | \$ 69,316,000 | \$ 71,198,000 | \$ 140,000,000 |
| • Change the minimum COLA for individuals who retire after 9/2/11 from 2.5% to 2.0% with the highest amount going from 6.0% to 7.5% | \$ 32,525,000 | \$ 34,315,000 | \$ 1,342,000,000 |
| • Change the Early retirement reduction factor from 3% to 6% for each year before eligible to take Normal Retirement with associated health care savings | \$ 35,000,000 | \$ 32,400,000 | \$ 728,000,000 |
| • Increase the Employee Contribution to 3% for Retiree health care trust fund for all employees (not just new employees) phased in beginning 7/1/13 | \$ - | \$ - | \$ 871,000,000 |
| • For current employees who retire after 7/1/2022, Normal Retirement eligibility increase from: <ul style="list-style-type: none"> - Age 60 and 25 YOS to Age 63 and 25 YOS - Age 62 and 10 YOS to Age 65 and 10 YOS | \$ 22,000,000 | \$ 22,000,000 | \$ 677,000,000 |
| • By 7/1/13, present employees may elect to pay the actuarial pension costs of maintaining the normal retirement eligibility that exists in the present plan which is scheduled to change effective July 1, 2022. | | | |
| • New Tier III for individuals hired after 7/1/11, Normal Retirement eligibility: <ul style="list-style-type: none"> - Age 63 and 25 YOS or Age 65 and 10 YOS and salary based on Final five year average - HD 20 Years of HD service and age 50 or 25 Years of HD Service regardless of age and salary based on final five year average pay - Early Retirement Age 60 and 15 YOS - Ten year cliff vesting | \$ - | \$ 9,649,000 | \$ 2,982,000,000 |
| • Provide the availability of individuals in the Alternate Retirement Plan to switch to a Hybrid-Defined benefit/Defined contribution type plan | \$ 10,750,000 | \$ 11,190,000 | \$ 235,000,000 |
| Pension Subtotal | \$ 171,991,000 | \$ 183,252,000 | \$ 7,027,000,000 |
| • Increase number of retirees due to absence of ERIP; reduce refills | \$ 65,000,000 | \$ 65,000,000 | \$ 1,365,000,000 |
| Total | \$ 236,991,000 | \$ 248,252,000 | \$ 8,392,000,000 |



Actively Managing Benefit Levels

Beneficial Impact on Liabilities

- Pension changes would increase the funded ratio from 44% to a preliminary projection of 46%
- The unfunded liability would decline from \$11.7 billion to a preliminary projection of \$10.8 billion
- The projected decline in the unfunded liability for active employees falls by nearly 13%
- We expect a sizable reduction in OPEB liability, but that has yet to be quantified

**The State's Actuarial
Methods are Solid and
Consistently Applied**





The State's Actuarial Methods are Solid and Consistently Applied

Actuarial Methods Overview

There are two aspects to the actuarial funding method:

1. How the cost of benefits is allocated over an active members working lifetime
 - Normal Cost is the cost allocated to the current year
 - Accrued Liability is the cost allocated to all prior years
 - Projected Unit Credit (PUC) and Entry Age Normal (EAN) are different approaches to this cost allocation
2. How the Unfunded Accrued Liability is paid down over time
 - Level percent amortization versus level dollar amortization
 - Length of amortization period



The State's Actuarial Methods are Solid and Consistently Applied

PUC Versus EAN

- SERS uses PUC and TRF uses EAN
- Based on a Milliman survey of data from recent CAFRs covering 81 state-wide pension systems:
 - 62 use EAN
 - 12 use PUC
 - 7 use Aggregate or related variations
- EAN and PUC represent different approaches to allocating the cost of pension benefits over an active member's working lifetime
- For younger populations, PUC is likely to produce a lower Normal Cost than EAN; the reverse is true for older populations
- The PUC / EAN relationship will also change over time in systems with closed tiers of benefits



The State's Actuarial Methods are Solid and Consistently Applied

PUC Versus EAN

- EAN is the preferred funding method for many state-wide multiple employer cost sharing plans for several reasons:
 - Less variation in the cost level from member to member, regardless of age
 - Less variation in the overall cost level from year to year in responses to changes in the demographic makeup of the active membership
 - For multiple employer cost sharing plans, EAN represents more stable and more equitable way to allocate costs to the individual members
- SERS is not a multiple employer cost sharing plan
- PUC is the required method for private sector accounting (FASB) because it better fits the philosophy underlying accrual accounting to allocate costs to the periods in which the benefits are earned
- Due to the current SERS demographic profile, and different tiers of benefits, PUC currently results in higher required contributions for SERS than under the EAN method

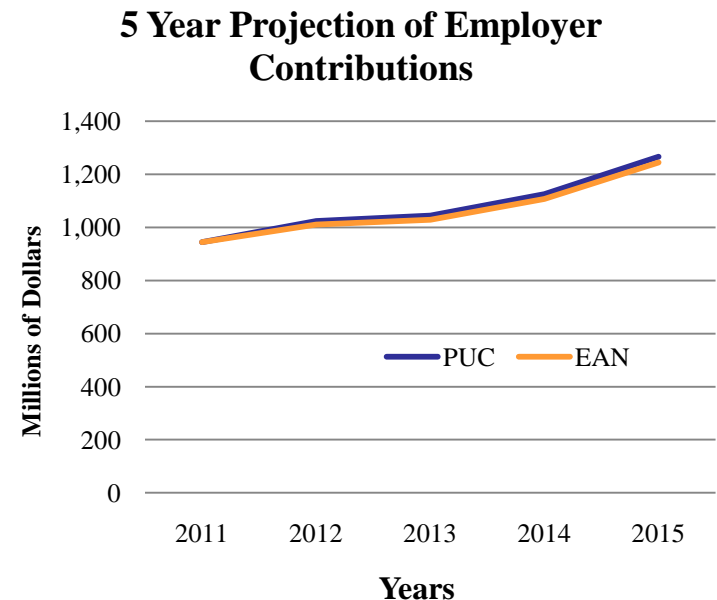


The State's Actuarial Methods are Solid and Consistently Applied

PUC Versus EAN

For SERS, there would be very little impact on the Unfunded Accrued Liability or Annual Required Contribution (ARC) if the funding method were EAN. In fact, the State is required to fund a larger contribution to SERS using PUC

| June 30, 2010 Valuation (\$000s) | PUC | EAN |
|---|--------------|--------------|
| Accrued liability for members in pay status and deferred vested members | \$14,073,812 | \$14,073,812 |
| Accrued liability for active members | 6,980,385 | 7,815,757 |
| Total accrued liability | 21,054,197 | 21,889,569 |
| Actuarial value of assets | 9,349,605 | 9,349,605 |
| Unfunded accrued liability | 11,704,592 | 12,539,964 |
| Funded ratio | 44.4% | 42.7% |
| Normal cost | 296,568 | 223,710 |
| Amortization payment | 726,883 | 786,904 |
| Annual Required Contribution (ARC) | 1,023,451 | 1,010,614 |





The State's Actuarial Methods are Solid and Consistently Applied

Level Percent Amortization

- Level percent amortization is a widely accepted method of funding
- Connecticut utilizes the level percent of payroll method for both SERS and TRF
- Based on a Milliman survey of data from recent CAFRs covering 81 state-wide pension systems:
 - 62 use level percent amortization
 - 16 use level dollar amortization
 - 3 do not use a funding method that includes amortizing unfunded liabilities
- Level percent amortization provides for budget expenditures that are relatively stable compared to overall compensation and benefit costs
- Both methods result (all other things being equal) in fully funded plans

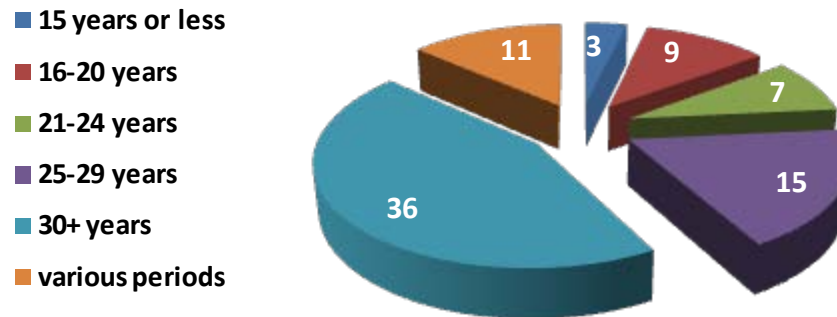


The State's Actuarial Methods are Solid and Consistently Applied

Amortization Period

- The State is committed to funding its ARC, and the remaining amortization period for CT is shorter than other states
- Both plans started at 40 years and SERS has 21 years remaining and TRF has 25 years remaining. Given this, greater progress will be made paying down UAAL in coming years
- Based on a Milliman survey of data from recent CAFRs covering 81 state-wide pension systems:
 - 36 use an amortization period of 30+ years, some use rolling years
 - Only 12 use an amortization period shorter than SERS

Remaining Amortization Period Used By 81 State-Wide Pension Systems



Commitment to Funding





Commitment to Funding

Connecticut Is Unique in Its Commitment to Funding

Connecticut's fiscal and public policy commitment to fully funding its post-employment systems is backed by the force of additional binding legal commitments and is unique and much stronger than other states.

State Employees Retirement System– The State has committed to fully fund the ARC for SERS in the 1992 labor agreement through 2017 and the proposed extension of the agreement will lock in such full funding through 2022. When the agreement expires, the State will have only 10 years remaining on its amortization period for the unfunded liability.

Teachers' Retirement Fund - Through the issuance of pension obligation bonds in 2008, the State covenanted to fully fund the ARC each year for the life of the bonds. The bonds were structured to mature at the end of the fund's amortization period. This is the first time this has ever been done in the nation.

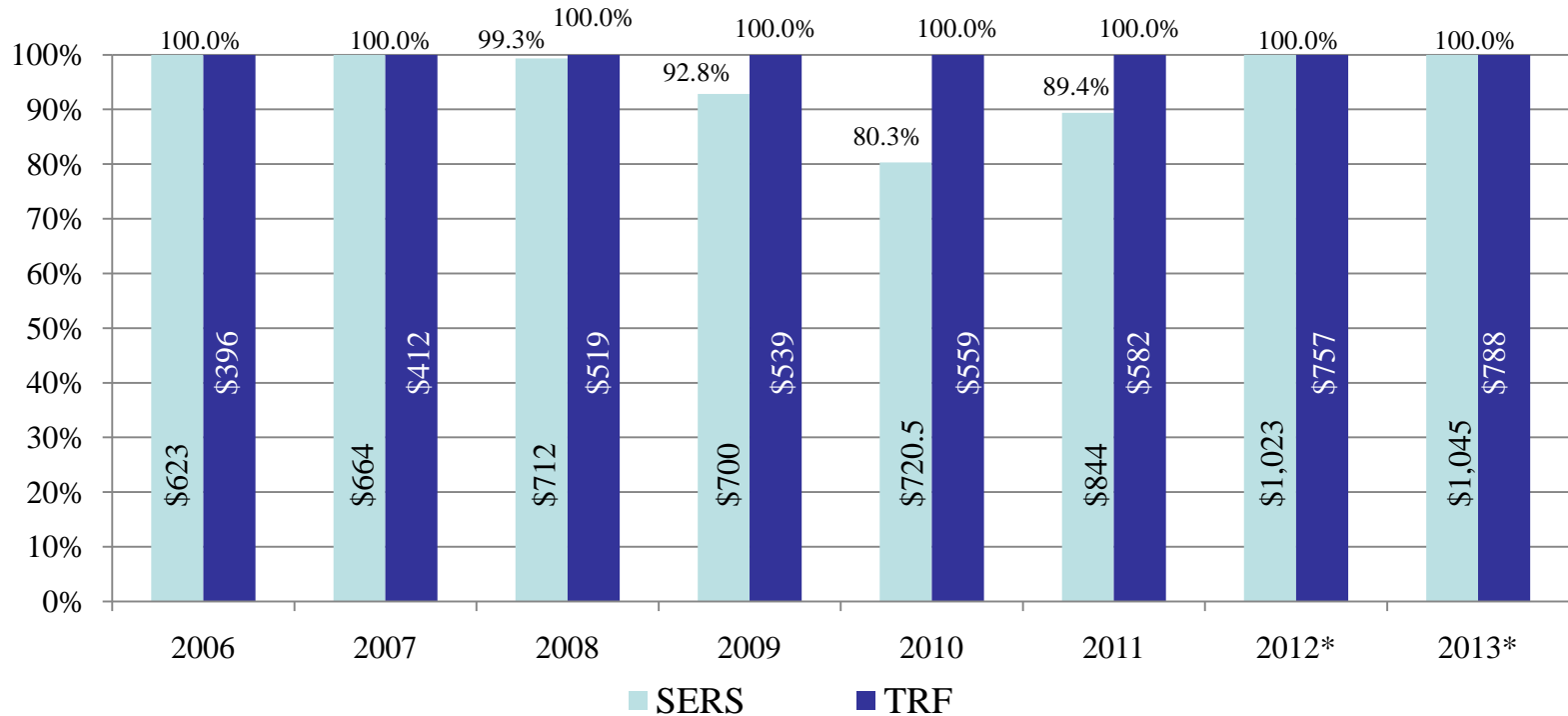


Commitment to Funding

Strong Financial Management of Pension Systems

- The State has funded about 98% of the ARC for the eight-year period 2006 to 2013, and the Governor has committed to future funding at 100% of the ARC

Percentage of Annual Required Contribution



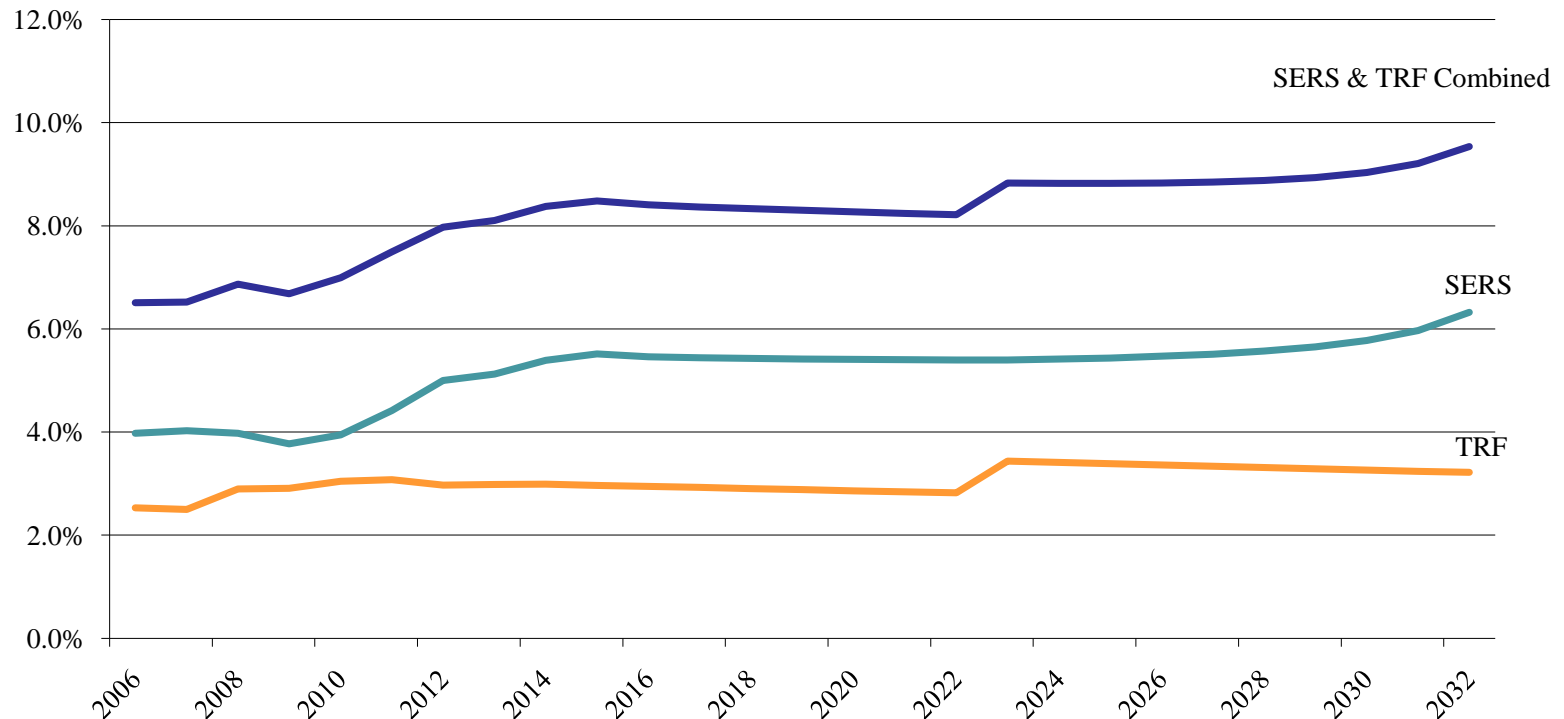
* Enacted, subject to change per ratification of SEBAC 2011 agreement



Commitment to Funding

The Annual Contributions are Affordable

State ARC Payments to SERS & TRF as a Percent of General Fund Expenditures Before New Labor Agreement Proposal (Actual and Projected)



Source: Connecticut State Post-Employment Benefits Commission Report, October 28, 2010

Assumes 4.75% annual growth in general fund expenditures

SERS and TRF projections provided by Cavanaugh Macdonald, Actuary for SERS



Commitment to Funding

Current Funding Levels

- State Employees Retirement System- The State has essentially fully funded the ARC since the early 1990s. The system was originally a pay go system. Periodic early retirement programs have impacted the system. The State is committed to not offering additional early retirement programs and has implemented incentives for employees to work longer ("Rule of 75")
- Teachers' Retirement Fund-The TRF system is sound and the TRF funded ratio is not the result of actuarial methods or assumptions but is primarily the result of chronic past underfunding. This underfunding was stopped and permanently eliminated with the POB

How Do We Compare?

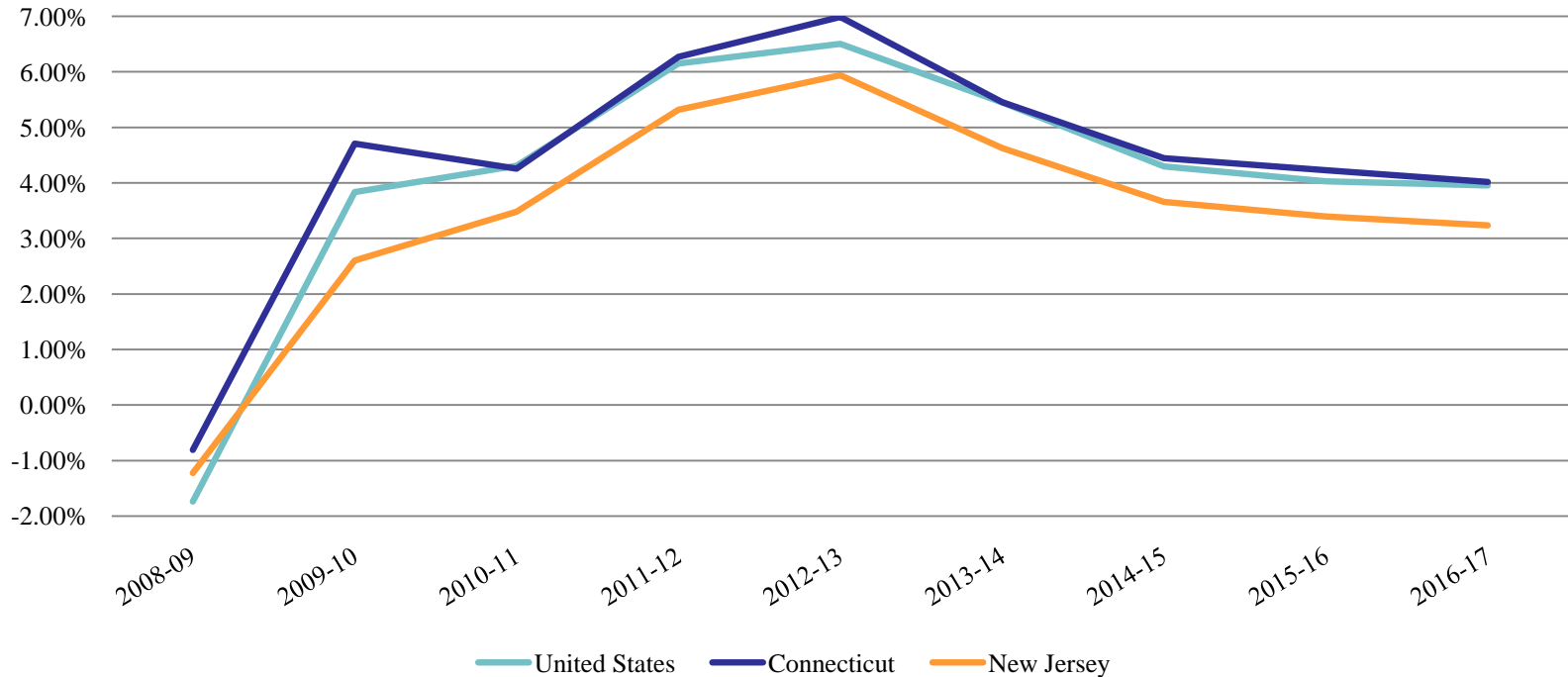




How Do We Compare?

Moody's forecast calls for the CT economy to outperform NJ's going forward, and closely track and even outperform the US

Real Gross Domestic Product Yearly % Change

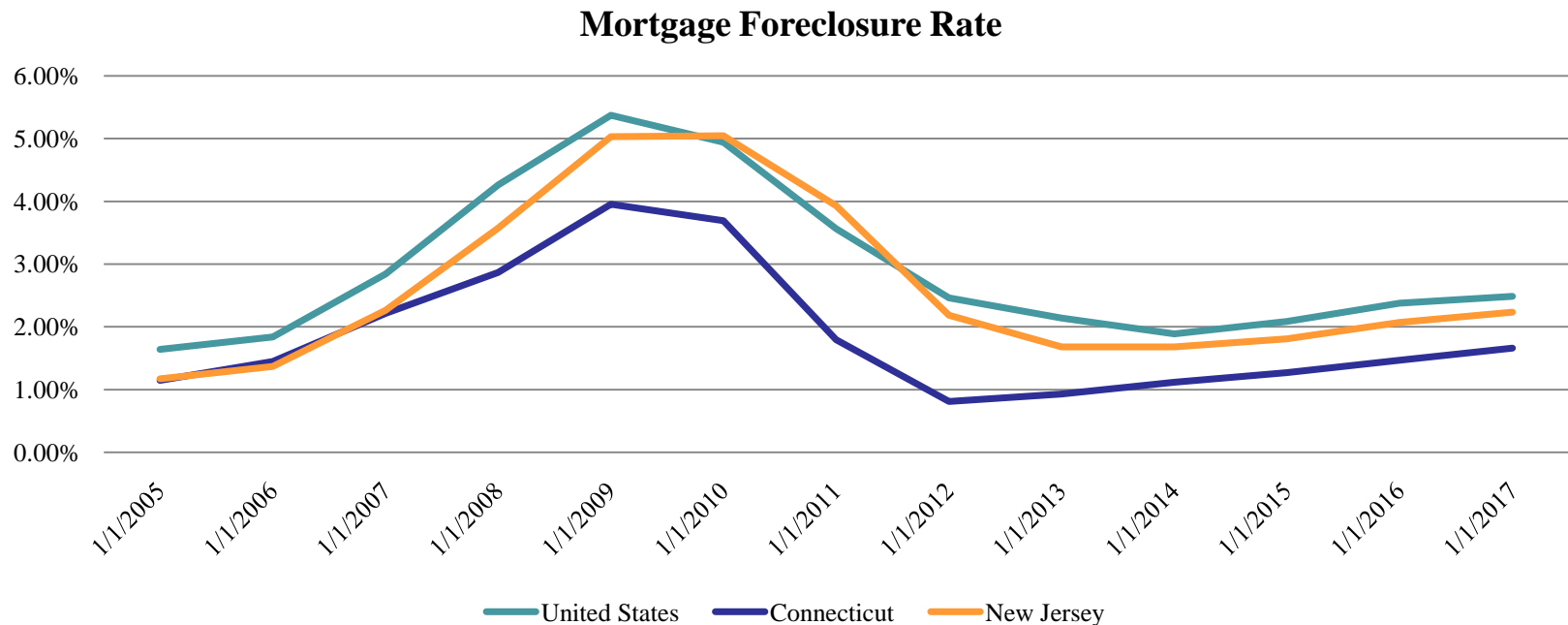




How Do We Compare?

The rate of home foreclosure has been less severe in CT than in the nation or in NJ and is expected to fall below pre-crisis rates by 2012

- Economists view the weakness of the US housing market as the most serious drag on economic recovery



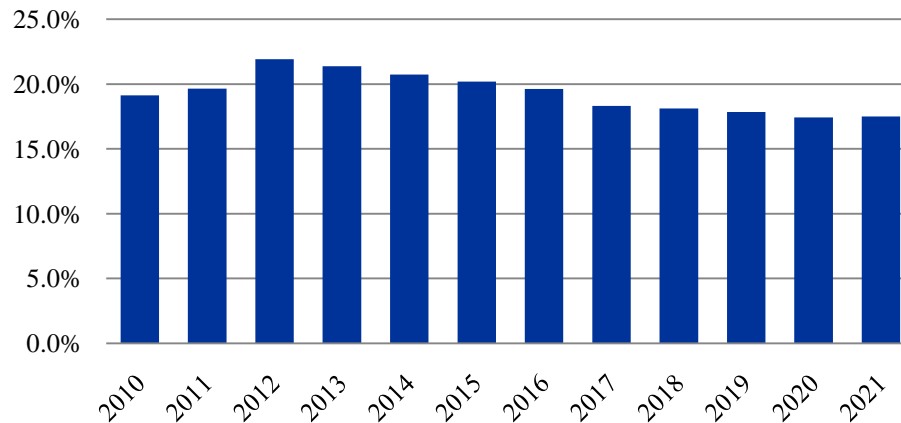


How Do We Compare?

Fixed Costs – Pension and Debt Obligations

- Fixed costs are a stable percentage of CT's budget, rising only modestly in the next four years and then declining (peaking at 22% in 2012)
 - By way of contrast, NJ's ratio is projected to increase from 13% in 2010 to 30% within the next 8 years
- These projections do not reflect the savings from the recent tentative labor agreement, which will have a significant, positive impact on these trends
- The increase in the retirement age will affect OPEB favorably

Estimated Fixed Costs as a Percentage of
General Fund and STO Revenues



Assumes revenues grow by an average of 3.6% over the projection period



How Do We Compare?

Debt Service Structure, Payout of Existing Debt

- In contrast to NJ, CT's fixed out-year debt service costs decline
 - CT's current debt structure declines by 49% from 2012 to 2021
 - NJ's current debt structure peaks in 2018 (an increase of 19% from 2012) then decreases slightly to 2021 (total increase from 2012-2021 of 9.4%)
- CT has not relied on debt restructurings and “scoop and toss” refundings for budget relief and amortizes its debt much more rapidly than NJ
- In contrast to NJ, CT has ample fiscal capacity to raise the funds to maximize Federal transportation funding

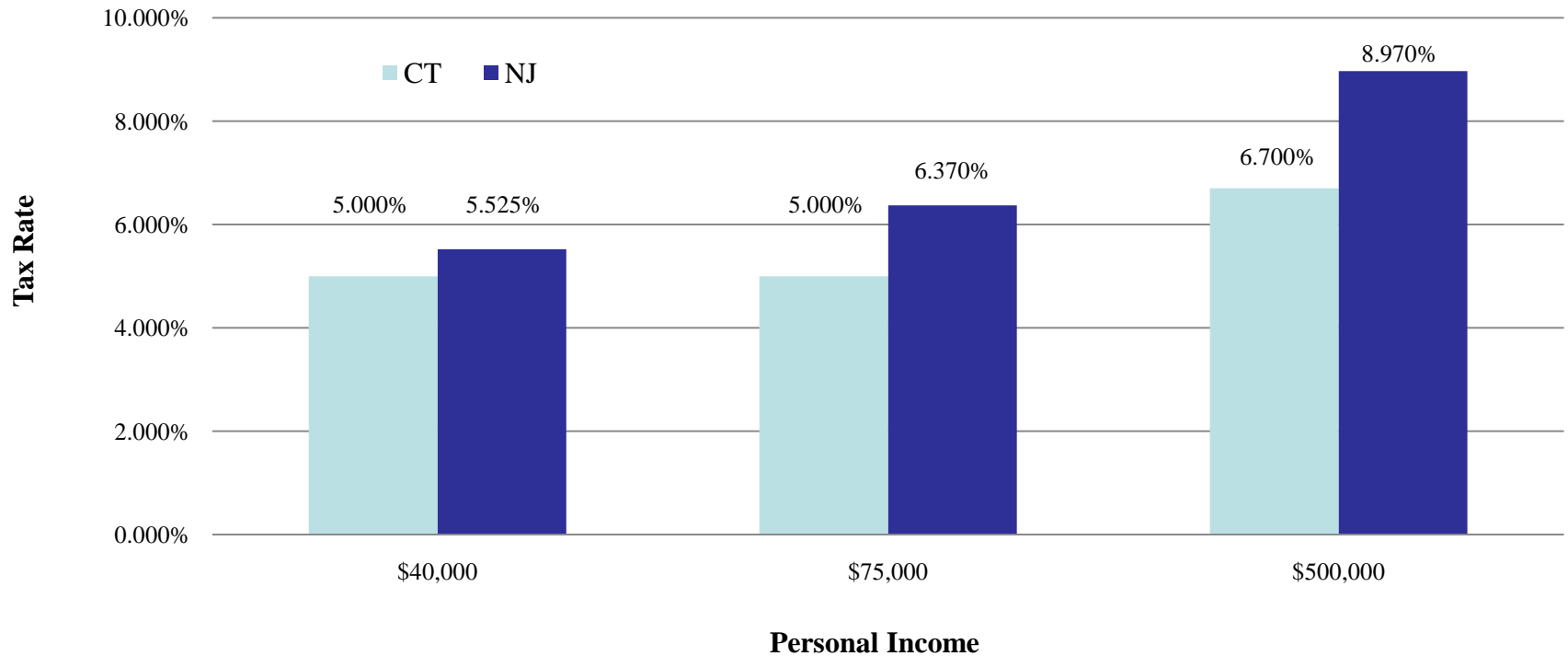
| Fiscal Year | Connecticut | | New Jersey | |
|----------------|--------------------------|----------|--------------------------|----------|
| | Existing Debt Service | % Change | Existing Debt Service | % Change |
| 2012 | 2,213,781 | 17.74% | 2,249,557 | 0.22% |
| 2013 | 2,139,681 | -3.35% | 2,242,904 | -0.30% |
| 2014 | 1,994,766 | -6.77% | 2,473,644 | 10.29% |
| 2015 | 1,873,293 | -6.09% | 2,473,728 | 0.00% |
| 2016 | 1,761,044 | -5.99% | 2,491,535 | 0.72% |
| 2017 | 1,452,165 | -17.54% | 2,615,688 | 4.98% |
| 2018 | 1,391,471 | -4.18% | 2,675,015 | 2.27% |
| 2019 | 1,301,746 | -6.45% | 2,673,306 | -0.06% |
| 2020 | 1,157,782 | -11.06% | 2,544,264 | -4.83% |
| 2021 | 1,129,181 | -2.47% | 2,461,737 | -3.24% |



How Do We Compare?

Personal Income Tax Rates are lower in CT than NJ

Income Tax Comparison (Joint Filers)





How Do We Compare?

Property Tax Burdens

- CT's property tax burdens are moderated by still-generous state aid to localities
- CT has not balanced the state budget on the backs of the localities
- CT's budget solution does not result in large scale unemployment of state and local employees
- 14 of NJ's 22 counties rank higher than CT's highest ranked county based on a national study analyzing local property taxes as a % of home value

| Connecticut | | |
|--------------------|---|---|
| County | Property Taxed as % of Home Value - National Ranking | Property Taxed as % of Income - National Ranking |
| Hartford County | 233 | 66 |
| New Haven County | 292 | 47 |
| Tolland County | 297 | 95 |
| Middlesex County | 537 | 81 |
| Litchfield County | 576 | 74 |
| New London County | 693 | 170 |
| Fairfield County | 765 | 34 |
| Windham County | 774 | 182 |

| New Jersey | | |
|-------------------|---|---|
| County | Property Taxed as % of Home Value - National Ranking | Property Taxed as % of Income - National Ranking |
| Camden County | 18 | 12 |
| Gloucester County | 43 | 27 |
| Salem County | 44 | 40 |
| Cumberland County | 62 | 54 |
| Burlington County | 69 | 24 |
| Mercer County | 90 | 19 |
| Essex County | 92 | 2 |
| Passaic County | 123 | 1 |
| Sussex County | 131 | 16 |
| Hunterdon County | 136 | 8 |
| Union County | 157 | 5 |
| Warren County | 158 | 15 |
| Somerset County | 192 | 13 |
| Middlesex County | 231 | 20 |
| Bergen County | 259 | 4 |
| Atlantic County | 282 | 22 |
| Hudson County | 295 | 9 |
| Monmouth County | 361 | 14 |
| Morris County | 373 | 18 |
| Ocean County | 557 | 23 |
| Cape May County | 1061 | 45 |

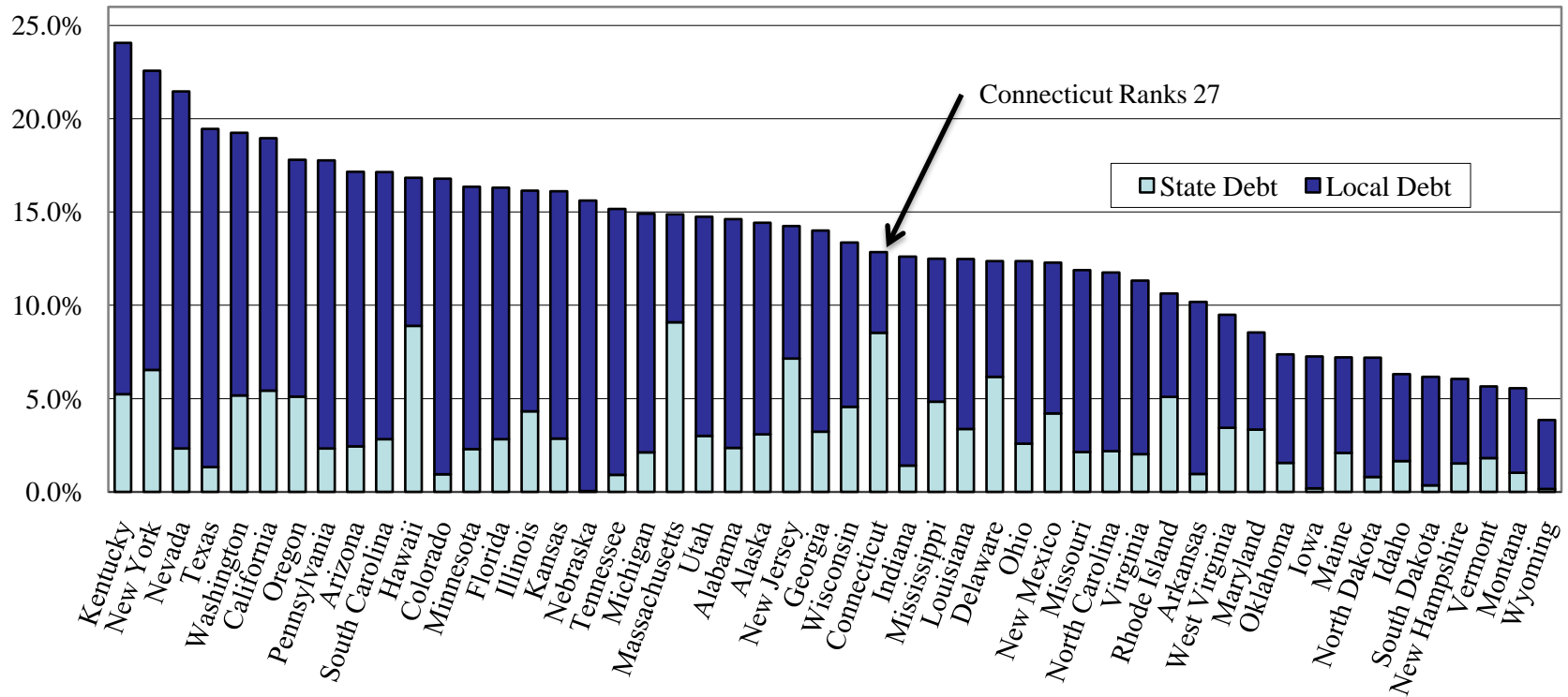


How Do We Compare?

Connecticut Compares Favorably When State and Local Debt are Combined and Compared to State Personal Income

- CT has the lowest percentage of local debt of any state (33.6%)

Combined State and Local Debt Compared to State Personal Income



State debt based on Moody's 2010 State Debt Medians Report
Local debt from U.S. Census data

Conclusion





Conclusion

Funding Improvement Plan

1. Adhere to a consistent funding policy of 100% of the ARC
2. Address long term liabilities by negotiation with unions and addressing the size of the State's workforce
3. Look to improve funded ratio further through extra funding from one time sources including budget surpluses
4. Review and update actuarial assumptions as appropriate. Pending legislative proposals would result in both the Treasurer and Secretary of OPM having seats on both the SERs and TRFs Boards to provide capital market and budget input
5. Provide additional incentive for employees to work longer



Conclusion

- Actuarial Assumptions and Methods are Solid and Consistent With Peers
- The State is Committed to Fully Funding its Pension Obligations
- The State is Actively Addressing Pension Liabilities
- The credit rating agencies should give the State more time to address these matters. We have a new administration that is tackling the budget issues straight on with the proposal and agreement on a structurally balanced budget. These liabilities did not arise overnight, and the solutions will take time to implement. The actuarial reports were released last fall and since then there has only been positive progress – full funding commitment, negotiations with unions, strong investment performance, etc.
- As long as we keep our funding course, funded ratios will improve over time and full funding will be achieved at the end of the period.
- And most importantly, we do have a plan to address Long term post-employment liabilities.



Conclusion

And by the Way...

- Passed Budget in Record Time
- No Borrowing for Operating Expenses
- Restructuring of Government and Consolidation of Agencies
- Conversion to GAAP
- Budgeting Surpluses
- No Early Retirement, and No Securitization
- Full Funding of Pension Obligations
- Job Creation and Economic Development Initiatives

Appendix A





Appendix A

| Indicators | State Employees Retirement System (SERS) | Teachers' Retirement Fund (TRF) |
|---|---|---------------------------------------|
| Assets - Actuarial Value as of 6/30/10 (\$M) | \$9,349.6 | \$14,430.2 |
| Liabilities - Actuarial Value as of 6/30/10 (\$M) | \$21,054.2 | \$23,495.9 |
| Unfunded Liabilities | \$11,704.6 | \$9,065.7 |
| | | |
| Funded Ratio | 44.4% | 61.4% |
| | | |
| Interest Rate Assumption | 8.25% | 8.50% |
| Smoothing Period for Market Gains/Losses | 5 yrs. | 4 yrs. |
| | | |
| Annual Required Contribution FY 2010 | \$897.4 | \$559.2 |
| Actual State Contribution FY 2010 | \$720.5 | \$559.2 |
| % of Annual Contribution Requirement | 80.3% | 100% |
| | | |
| Actuarial Cost Method | Projected Unit Credit | Entry Age Normal |
| Amortization Method | Level Percent of Payroll | Level Percent of Payroll |
| Remaining Amortization Period | 21 Years | 25.3 Years |
| Initial Amortization Period | 40 Years | 40 Years |
| # of Retirees | 41,782 | 30,219 |
| | | |
| # of Active Members | 50,064 | 51,368 |
| Tier I | 9% | |
| Tier II | 39% | |
| Tier IIA | 52% | |