OFFICE OF LEGISLATIVE RESEARCH
Objective Research for Connecticut's Legislature

Issue Brief

Funding the State Employees Retirement System (SERS)

What is SERS?

SERS is the pension system for the large majority of state employees. SERS members fall into one of five different "tiers" based on when they began working for the state:

- **Tier I:** before 7/1/1984
- **Tier II:** 7/1/1984 – 6/30/1997
- **Tier IIA:** 7/1/1997 – 6/30/2011
- **Tier III:** 7/1/2011 – 6/30/2017
- **Tier IV:** on or after 7/1/2017

Each tier has different provisions (e.g., employee contribution requirements, retirement criteria, benefit calculations). Tiers I through III are defined benefit plans and Tier IV is a hybrid plan that also includes a defined contribution plan.

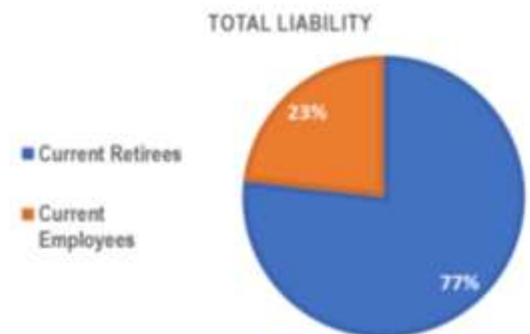
How is the Pension Fund Doing?

According to the November 2024 actuarial valuation, as of June 30, 2024, SERS had a total actuarial accrued liability of roughly $42.87 billion. This is the estimated total amount that will have to be paid to current retirees, beneficiaries of deceased retirees, vested former employees who have not yet begun collecting benefits, and current active employees over the course of their (and their beneficiaries') lives.

This breaks down as:

- $32.93 billion for current retirees (and beneficiaries) and vested former employees

- $9.94 billion for current employees

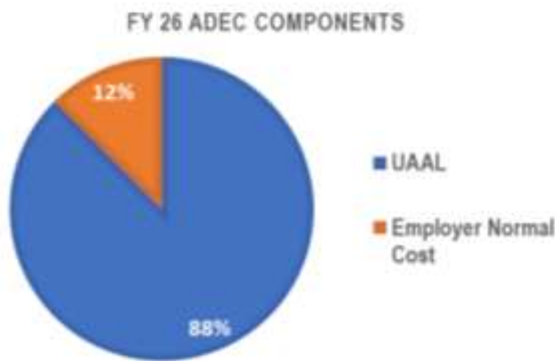


To meet the total liability,
SERS has $23.68 billion in actuarially valued assets, with $19.19 billion remaining as an unfunded actuarial accrued liability (UAAL).

How is SERS Funded?

SERS is funded with contributions from the state and employees, plus any investment returns (or minus any losses) generated by the pension fund's assets. How much employees contribute depends on their membership tier and whether they work in a hazardous duty position. In recent years, the fund has also benefitted from supplemental transfers from the Budget Reserve Fund.

Actuarially Determined Employer Contribution (ADEC)



The annual amount the state must contribute to ensure that all future pension obligations can be met is called the actuarially determined employer contribution. It consists of two parts: (1) the "employer normal cost," which is the amount needed to pre-fund the benefits earned by active employees that year, minus the employee contributions, and (2) an amortized payment towards the UAAL. According to the 2024 valuation, the state's ADEC for FY 26 will be roughly $1.98 billion. Of this amount, $246.5 million is for the employer normal cost and $1.7 billion is for the amortized payment for the unfunded liabilities.

Supplemental Budget Reserve Fund Transfers

Legislation enacted in 2017 created a "volatility cap," which generally diverts certain volatile tax revenue to the state's Budget Reserve Fund. Once the amount in the fund reaches a certain threshold, the law requires the surplus from this revenue to automatically be appropriated for reducing the UAAL in SERS and the Teachers' Retirement System. According to the information released by the Comptroller's Office, the supplemental payment to SERS each year from 2020 through 2024 was $61.6 million in 2020, $714.7 million in 2021, $3.2 billion in 2022, $1.1 billion in 2023, and $513.9 million in 2024. These additional payments helped reduce the ADEC by over $477 million over those years and will reduce the ADEC by $11.9 billion over 25 years.

Why is SERS Underfunded?

According to a 2015 report by Boston College's Center for Retirement Research, SERS's unfunded liability stems from a combination of the following:

- **Legacy Costs:** the years from the late 1930s through the early 1970s, when the state did not pre-fund benefits by putting aside money while the employees were working
- **Inadequate Contributions:** the years, from the early 1970s through 2010, when the state did not make the full amortization payment needed to keep the initial unfunded liability from growing
- **Actuarial Experience:** the years when actuarial estimates underestimated the system's future liability
- **Underperforming Investment Returns:** the years when the system's actual investment returns did not meet its assumed returns

What is the Legislature's Role?

By law, the state and the State Employee Bargaining Agents Coalition (SEBAC) must collectively bargain over any changes to SERS. When the parties reach an agreement, the legislature can approve it as a whole by a majority vote of each chamber or reject it as a whole by a majority vote of either chamber. If the legislature takes no action on it by a certain deadline, the agreement is deemed rejected. Once the legislature approves an agreement, it must also appropriate the funds needed to comply with it (CGS § 5-278). The current agreement (SEBAC 2017) is effective through June 30, 2027.

Learn More

"The State Employees Retirement System," OLR Report 2024-R-0199

"CT's Volatility Cap and Budget Reserve Fund," OLR Report 2024-R-0019

SERS Actuarial Valuation (2023)

"Final Report on Connecticut's State Employees Retirement System," Center for Retirement Research at Boston College (2015)