



TEACHERS' RETIREMENT BOARD
165 Capitol Avenue
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Teachers' Retirement Board Budget Workshop
March 3, 2025

HB 6866 data on the proposal for reducing the state share of retiree health care to 1/4th from 1/3rd

The TRB sponsors a choice of two fully insured comprehensive group retiree health benefit plans which include medical, prescription, dental, vision and hearing for qualifying members, spouses, surviving spouses, or disabled dependents if there is no spouse who are participating in Medicare Parts A and B. The TRB is statutorily required to, and has identified, the Medicare Advantage Plan as the base plan. The base plan is used for calculating the cost share of plan premiums.

The current cost structure is shared equally in three ways: One- third is paid for by the member, one-third is paid for by the State of Connecticut and one-third is paid for by the active teacher's contributions into the health fund. The Medicare Supplement plan is offered to members as an alternative option to the base plan. The TRB retiree program has approximately 28,500 plan participants in the Medicare Advantage base plan and 4,300 in the Medicare Supplement plan.

The health fund projections provided by Segal, the healthcare consultant representing TRB, are based on current expenses, claims, premium rates and income. There are many other variables that come into play, such as the healthcare environment, a shift in population, changes to competitive market, etc., which must be considered when making assumption for both short and long-term projections.

As of January 31, 2025, the health fund balance is \$270 million. The change from the 1/3% funding to the 1/4% funding impacts the 2026 and 2027 budget negatively by \$13 million and \$15 million, respectively. The projected operating gain (loss) for the fiscal year ending 2026 and 2027 is a \$4.0 million gain and (\$3.9) million loss, respectively. The projected operating losses continue to increase and are projected to (\$10.3) million and (\$17.0) million for fiscal years 2028 and 2029, respectively.

In addition, the latest GASB 74 & 75 reports indicate the fund is solvent but cost and utilization have quickly increased due to the uncertainties of the market which include the Inflation Reduction Act. The change in contribution will slowly begin to harm the fund. The reports are available on the TRB website.

What is TRB's position on the addition of CAS and CIAC to TRB as proposed in HB 5824?

The Connecticut Teachers' Retirement System (TRS) is a contributory defined benefit pension plan established for the benefit of Connecticut public school teachers and professional staff employed in an educational role or capacity.

TRS is administered as a tax-qualified governmental retirement plan under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, TRS was established by Connecticut law and the terms of such are codified in Chapter 167a of the Connecticut General Statutes (the "Statutes").

Neither CAS nor CIAC is eligible to participate in TRS because they do not meet the definition of a governmental employer. It is also TRB's understanding that CAS does not claim to be a governmental entity. This was confirmed in an email sent to the TRB Chief Administrative Officer by CAS lobbyist, Michael Rell of International Government Strategies LLC, on March 29, 2022.

Background

There are two issues with permitting non-governmental employees to participate in TRS. First, it would violate the definition of a "governmental plan" under the Internal Revenue Code. Second, it could cause TRS to become subject to ERISA.

Losing its status as a governmental plan would cause TRS to become subject to additional Internal Revenue Code provisions that it has not been operating under due to having governmental plan status. Among those consequences would be having to change the TRS distribution rules, having to change the TRS vesting rules, losing the ability for employees to contribute on a pre-tax basis and, most importantly, having to comply with certain minimum funding requirements. These funding requirements would be onerous given the current funded status of TRS. Moreover, TRS losing its governmental plan status would cause TRS to become subject to ERISA and would impose a number of burdensome and costly requirements on TRS.

While losing its ERISA-exempt status would be detrimental to TRS, the disqualification of TRS would cause significant adverse tax consequences to the TRS members. A member in a disqualified plan must include in taxable income the value of their vested accrued benefit at the time the plan is disqualified and, thereafter, the increase in the value of the accrued benefit (to the extent vested). In addition, disqualification would lead to TRS losing certain tax advantages otherwise available to member contributions as only employees of governmental employers may contribute to a defined benefit plan on a pre-tax basis. ***The financial cost of disqualification to members of TRS would exceed tens of millions of dollars (and certainly hundreds of millions of dollars if the disqualification included past tax years).***

TRS Participating Employer

To the best of TRB's knowledge, CAS has never claimed to be a governmental employer. This was confirmed by its own lobbyist in an email sent to the TRB Chief Administrative Officer. According to its 2023-2024 Articles of Incorporation, CAS is a 501(c)(3) tax-exempt organization whose membership consists of both public and non-public schools. To date, TRB has not been provided with any analysis by CAS of its ability to participate in TRS as a governmental entity in accordance with Internal Revenue Code and ERISA requirements.

Separately, should CAS claim governmental status, a review of the relationship between CAS and CIAC is also needed. As communicated to the Executive Director of CAS-CIAC by letter dated March 25, 2022, CIAC was previously determined to be ineligible by TRB to participate in TRS because CIAC is not a governmental entity. Moreover, it appears that CIAC is no longer a separate legal entity. It appears that CAS and CIAC are related and share the same operations, employees, control and functions. It is unclear what distinction, if any, can be made between CAS and the prior determination made as to CIAC's ineligibility to participate in TRS.

In conclusion, TRS is a tax-qualified government plan. If it should lose its status, the consequences to TRS members would be catastrophic.