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Final Report on Connecticut State Retirement Systems.

Connecticut is considering an overhaul of its largest pension system as the retiree fund careens toward insolvency. The state employee fund, SERS, has less than half of the assets it needs to meet liabilities and many believe that its generous accounting standards hide something even worse. The plan has started paying out more to retirees than it is receiving in contributions. Meanwhile, observers expect state payments to SERS to balloon to $6 billion — a third of the current state budget — by 2032. Lawmakers are now asking for some creative solutions to the problem.

On Nov. 10, the Center for Retirement Research presented its recommendations to the state. The main suggestions were to lower the plan's assumed rate of return it uses to calculate its overall pension liabilities. Connecticut's 8 percent return assumption is higher than the median 7.75 percent across all state pension plans. Many experts also say the past decade of slightly lower investment returns than the historical average should force plans to lower their return assumptions to at least below 7 percent so that governments and employees will put in more money now to keep the fund from running out of money. The other main recommendation is something that Gov. Dannel Malloy supports — splitting the plan in two. The pension fund would keep workers hired after 1984, who have less expensive benefits than the pre-1984 hires. The older hires' benefits would be paid for directly out of the state's annual budget. The split would essentially remove the unfunded liabilities from the pension plan's overall liabilities.

The plan has received unenthusiastic reviews. The state's treasurer has questioned the legality of the split. Pension blogger Mary Pat Campbell pointed out splitting the plan into one part that is funded and one part that isn't (as opposed to having one big underfunded pool) won't to make the pensions more secure. "I love these plans where the already accrued pension promises aren't affordable right now will somehow magically become affordable in the future," she wrote.

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