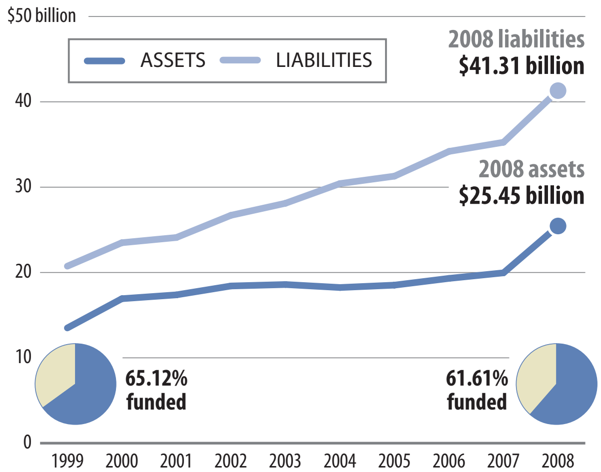
The Trillion Dollar Gap
Underfunded State Retirement Systems and the Roads to Reform
Connecticut

CONNECTICUT'S management of its long-term pension liability is cause for serious concern and the state needs to improve how it handles the bill coming due for retiree health care and other benefits. It has funded only 62 percent of its total pension bill, well below the 80 percent benchmark that the U.S. Government Accountability Office says is preferred by experts. Since 2000, the Constitution State's unfunded pension liability increased by more than $9 billion. In 2008, Connecticut funded 260 percent of its annual required contribution, in large part by issuing a $2 billion pension obligation bond for the severely underfunded teachers' system. This bond includes a covenant that requires the state to fully fund the teachers' plan on an actuarially sound basis. As of 2008, Connecticut had one of the largest long-term burdens, given the size of its payroll and population, for retiree health care and other non-pension benefits: $26 billion. But the state—like 19 others—has failed to contribute any funds to cover those costs.

PENSIONS, 1999 – 2008

Connecticut's pension liabilities grew 99 percent between 1999 and 2008, outpacing assets, which grew 89 percent in that period.



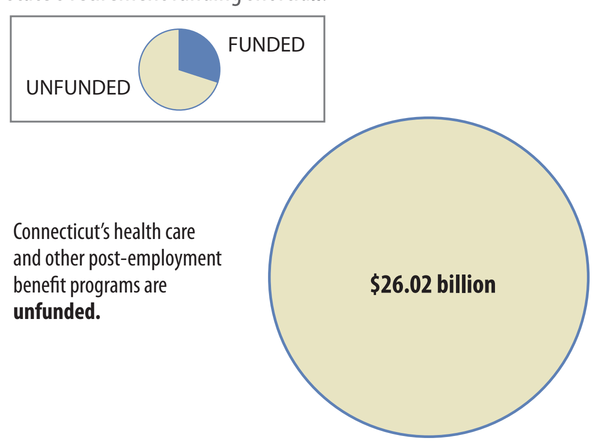
Total Bill Coming Due:	$41,311,400
Portion Unfunded:	$15,858,500
Annual Required Contribution (ARC):	$1,248,860
Percentage ARC Funded:	259.73%

Note: In thousands

PENSIONS: SERIOUS CONCERNS

HEALTH CARE & OTHER BENEFITS, 2008

Retiree health care and other benefit liabilities are 39 percent of Connecticut's total retirement bill but are 62 percent of the state's retirement funding shortfall.



Total Bill Coming Due:	$26,018,800
Portion Unfunded:	$26,018,800
Annual Required Contribution (ARC):	$1,718,862
Percentage ARC Funded:	28.19%

Note: In thousands

HEALTH CARE & OTHER BENEFITS: NEEDS IMPROVEMENT

Solid performer
Needs improvement
Serious concerns

Our grades assess states on how well they manage their retirement obligations. Each state can earn up to four points for its pension plans: two points for a funding ratio of at least 80 percent; one for an unfunded liability below covered payroll; and one for paying an average of at least 90 percent of the ARC during the past five years. Solid Performer = 4 points. Needs Improvement = 2–3 points. Serious Concerns = 0–1 points. Grading for health care and other benefits is simpler because most states have only recently begun to fund and collect data on these liabilities. States are solid performers if they have set aside assets equal to at least 7.1 percent of their liabilities (the 50-state average), or they need improvement if they have contributed less.
For more details, read the full report at www.pewcenteronthestates.org/TrillionDollarGap.

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