

## Introduction

This policy brief provides an overview of other post-employment benefits (OPEBs) that the State of Connecticut is responsible for paying, and summarizes recent changes in labor agreements that affect these benefits. OPEBs are the benefit packages, not including pensions, received by state or local employees upon retirement.<sup>1</sup> Across the country, these OPEBs can include health care, life insurance, disability coverage, and legal services.<sup>2</sup> In Connecticut, these benefits are defined as medical, prescription drug, and dental and life insurance.<sup>3</sup> The State of Connecticut is required by law to collectively bargain for state employee retirement and health benefits with a coalition representing state unionized employees.<sup>4</sup> This coalition is known as the State Employee Bargaining Agent Coalition (SEBAC). In 1997, Governor John Rowland negotiated a 20-year contract with SEBAC, but the agreement was modified in 2009, 2011, and 2017. The most recent agreement extended the contract for 10 years through June 30, 2027.<sup>5</sup>

The Connecticut General Assembly's Office of Fiscal Analysis also includes the Connecticut Teacher Retirement Board Retirees Health Service Cost and the Municipal Retirees Health Insurance Costs as OPEBs for the purposes of calculating Connecticut's fixed costs, pursuant to state statute.<sup>6,7</sup> However, the Connecticut Teacher Retirement Board Retirees Health Service Cost and the Municipal Retirees Health Insurance Costs account for only 2.7 percent of total General Fund OPEBs.<sup>8</sup> The Retired State Employees Health Service Cost accounts for the remaining 97.3 percent.<sup>9</sup> As a result, with regard to appropriations, this policy brief focuses only on the state's Retired State Employees Health Service Cost.

## Plan Structure & Governance

The State's OPEB program is a defined benefit program that applies to any retired state employee who has received benefits from a State-sponsored retirement system, with the exception of the Connecticut Teachers' Retirement System (TRS) and the Municipal Employees' Retirement System (MERS).<sup>10</sup> The state employee OPEB program is administered by the Office of the State Comptroller's Healthcare Policy and Benefits Division, as directed by the Connecticut State Employees Retirement Commission.<sup>11</sup> Connecticut also operates a defined benefit OPEB plan for eligible retirees of TRS, which is not discussed in this policy brief.<sup>A</sup>

Connecticut, like most states, operates a "pay-as-you-go" system with regard to the cost of providing plan benefits to retired state employees.<sup>12</sup> This means OPEB liabilities are paid as they are incurred.<sup>13</sup> This cost is funded through an annual appropriation in the General Fund, which is detailed in the Funding, Contributions, & Expenditures section of this policy brief.<sup>14</sup>

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<sup>A</sup> Gary, E.H. & Paine, A.A. (2016). *Connecticut State Teachers' Retirement System Retiree Health Insurance Plan Actuarial Valuation as of June 30, 2016*. Kennesaw, GA: Cavanaugh Macdonald Consulting, LLC. Retrieved from [http://www.ct.gov/trb/lib/trb/formsandpubs/act\\_val\\_retiree\\_health\\_2016.pdf](http://www.ct.gov/trb/lib/trb/formsandpubs/act_val_retiree_health_2016.pdf).

## Benefits and Eligibility

Recent SEBAC agreements have brought changes to the health care benefits available for retired state employees as well as to the eligibility of state employees to receive such benefits. For an up-to-date summary of retired state employee health care benefits, please see “Section 3: Supporting Information for the State of Connecticut Other Post-Employment Benefits Program June 30, 2017 Measurement Under GASB 74” in the most recent OPEB valuation report.<sup>B</sup> A summary of the changes in eligibility for state employee retiree health care benefits in each recent SEBAC agreement are detailed in Table 1 below.

**Table 1: Changes to Retiree Health Care Eligibility in Recent SEBAC Agreements**

Agreement	Eligibility Change
SEBAC 2009 <sup>15</sup>	<ul style="list-style-type: none"> <li>• Employees were eligible for retiree health care if the following requirements were met:               <ol style="list-style-type: none"> <li>1. They had at least 10 years of state service as of July 1, 2009.</li> <li>2. Their age plus years of state service equaled at least 75 (“Rule of 75”).</li> <li>3. They had at least 10 years of state service and transitioned directly into retirement (normal or early).</li> </ol> </li> </ul>
SEBAC 2011 <sup>16</sup>	<ul style="list-style-type: none"> <li>• New hires were eligible for retiree health care if the following requirements were met:               <ol style="list-style-type: none"> <li>1. They had at least 15 years of state service, and;</li> <li>2. Their age plus years of service equaled at least 75 (the “Rule of 75”).</li> </ol> </li> <li>• Current employees remained under eligibility provisions of SEBAC 2009 agreement.</li> </ul>
SEBAC July 2017 <sup>17</sup>	<ul style="list-style-type: none"> <li>• No changes from the SEBAC 2011 agreement.</li> </ul>

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<sup>B</sup> Rhodes, D.J., & DeMattie, T.A. (2018). *State of Connecticut Other Post-Employment Benefits Program: Governmental Accounting Standards Board (GASB) Statement No. 74 Accounting Valuation Report for Reporting Date June 30, 2017*. Boston, MA: Segal Consulting. Retrieved from <http://www.osc.ct.gov/empret/OPEBActuarialReports/OPEBreport2017.pdf>.

Changes in retiree benefits for each SEBAC agreement are quite extensive and summations of these changes can be found in Table 2. Please note that changes to active employee health care are not included in this summation. For further detail on the changes to benefits, please refer to the relevant cited SEBAC agreement.

**Table 2: Changes to Retiree Health Care Benefits in Recent SEBAC Agreements**

Agreement	Benefit Change
SEBAC 2009 <sup>18</sup>	<ul style="list-style-type: none"> <li>• Prescription drug co-pays were increased.</li> <li>• Generic substitution for prescription drugs were mandated except in cases of medical necessity.</li> <li>• Preventive care co-pays were reduced.</li> <li>• Preferred plan is closed, except to retirees under the 2009 Retirement Incentive Program, or those active employees enrolled in the Preferred plan immediately before retirement.</li> </ul>
SEBAC 2011 <sup>19</sup>	<ul style="list-style-type: none"> <li>• Maintained the current premium structure for current retirees.</li> <li>• Future retirees could maintain the current premiums by participating in the Health Enhancement Program<sup>c</sup> created by this agreement.</li> <li>• Future retirees who declined to participate in the Health Enhancement Program had their premiums increased and were subject to an annual deductible.</li> <li>• Early retirees had increased premiums based on how early they retire and their years of service.</li> </ul>
SEBAC July 2017 <sup>20</sup>	<ul style="list-style-type: none"> <li>• All Medicare-covered current retirees were moved to a Medicare Advantage plan.</li> <li>• Non-Medicare-covered current and future retirees experienced premium share increases and plan design changes.</li> <li>• Future retirees retiring after June 30, 2022 will experience income-based increases in the retiree cost share for Medicare Part B.</li> </ul>

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<sup>c</sup> The SEBAC 2011 agreement created a new Health Enhancement Program, which attempted to decrease long-term expenses by increasing disease prevention and early intervention services. State of Connecticut, Office of the Governor. (2011). *Revised SEBAC 2011 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2011.pdf>.

## Funding, Contributions, & Expenditures

Recent SEBAC agreements have brought changes to the contributions of both the employer and employee for retired state employee health care, and have expanded the employee contribution requirement for retiree health care from most to all state employees. Changes in contributions from employees and the State of Connecticut in each SEBAC agreement are detailed in Table 3 below.

As Table 3 shows, the SEBAC 2011 agreement requires the State to begin making, in fiscal year 2018, an employer contribution that matches the employee contribution.<sup>21</sup> The amount appropriated for this matching contribution in FY 2018 is \$91.2 million for the General Fund and \$6 million for the Special Transportation Fund.<sup>22</sup>

**Table 3: Changes to OPEB Contributions in Recent SEBAC Agreements**

Agreement	Employee Change	Employer Change
SEBAC 2009 <sup>23</sup>	<ul style="list-style-type: none"> <li>New employees, and employees with less than five years of state service as of July 1, 2010, contribute three percent of their compensation to the Retiree Health Care Trust Fund<sup>D</sup> to offset the cost of future retiree health coverage.<sup>24</sup></li> </ul>	No change from SEBAC 1997 agreement.
SEBAC 2011 <sup>25</sup>	<ul style="list-style-type: none"> <li>All employees contribute to the Retiree Health Care Trust Fund for 10 years or until retirement, whichever comes first.</li> <li>Employees who had previously not contributed three percent of their compensation to the Retiree Health Care Trust Fund begin contributing three percent, phased in over three years. These employees must contribute for 10 years or until retirement, whichever comes first.</li> </ul>	The State will begin matching the Retiree Health Care Trust Fund contributions made by employees effective July 1, 2017.
SEBAC July 2017 <sup>26</sup>	<ul style="list-style-type: none"> <li>New employees must contribute three percent of their compensation to the Retiree Health Care Trust Fund for 15 years.</li> </ul>	No change from SEBAC 2011 agreement.

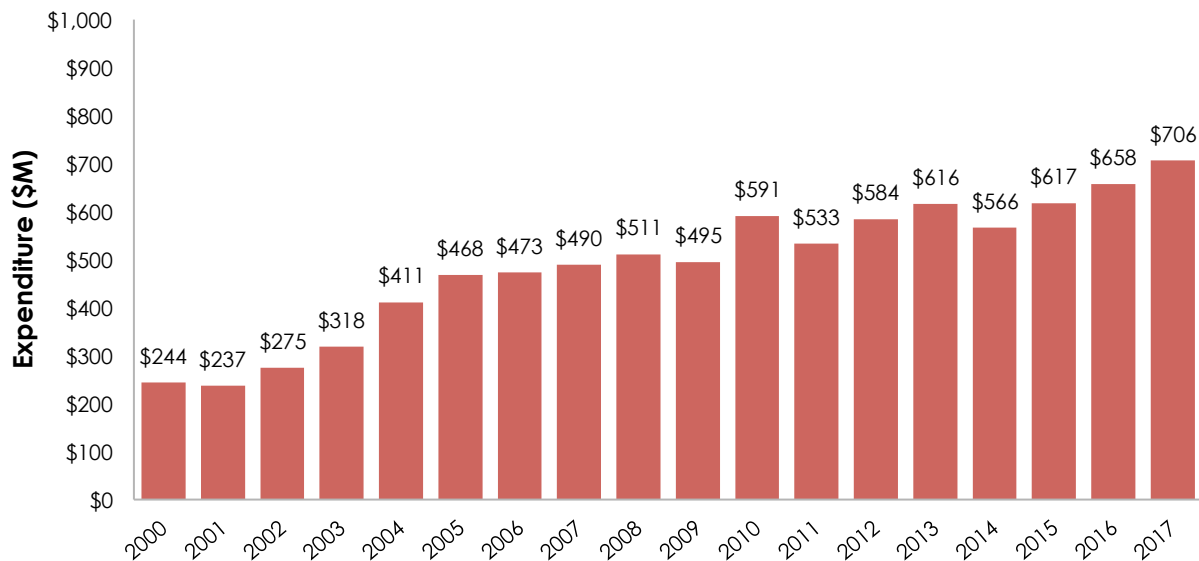
<sup>D</sup> The Retiree Health Care Trust Fund is the vehicle established in the SEBAC 2009 agreement for employee and employer contributions to retiree health care. The SEBAC 2011 agreement states the fund, administered by the state treasurer, must be used "solely to pay the retiree health care costs of contributors to the fund." Employees who have paid into the fund, but leave state service before they are eligible for retiree benefits, can have their contributions refunded.

State of Connecticut, Department of Administrative Services. (2009). *SEBAC 2009 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2009.pdf>.

State of Connecticut, Office of the Governor. (2011). *Revised SEBAC 2011 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2011.pdf>.

Chart 1 below details Connecticut's General Fund OPEB expenditures per fiscal year, adjusted for inflation to 2017-dollars. When adjusted for inflation, the amount expended by the State has increased by \$470 million since FY 2000.<sup>27</sup> While the State spent \$706 million in FY 2017 on OPEB, the most recent valuation report calculates an Actuarially Determined Contribution of \$1.04 billion for FY 2017; a difference of \$334 million.<sup>28</sup>

**Chart 1: Connecticut OPEB Expenditures per Fiscal Year (adjusted to 2017-dollars)<sup>29,E</sup>**



The State of Connecticut OPEB Program has a Net OPEB Liability of approximately \$17.4 billion as of June 30, 2017.<sup>30</sup> The Net OPEB Liability is the difference between the Total OPEB Liability and the market value of the plan, which is known as the Fiduciary Net Position. As this valuation is the first to include the valuation changes required by GASB No. 74 and No. 75<sup>F</sup>, historical changes in Net OPEB Liability are not available. This calculation does, however, include changes to the OPEB program brought about by the SEBAC July 2017 agreement.<sup>31</sup>

<sup>E</sup> While employees in the Connecticut Department of Transportation are eligible for OPEB, the State's method for paying the annual cost of OPEB is an appropriation from the General Fund. Lembo, K. (2017). *Comprehensive Annual Financial Report, FY 2017*. Hartford, CT: State of Connecticut, Office of the State Comptroller. Retrieved from <http://www.osc.ct.gov/reports/2017CAFRrev012918.pdf>.

<sup>F</sup> GASB No. 74 and No. 75 are accounting standards for public sector post-employment benefit programs released by the Government Accounting Standards Board in June 2015, replacing GASB No. 43 and No. 45. GASB No. 74 applies to the Connecticut OPEB plan as the plan is administered through an irrevocable trust. GASB No. 74 introduced the requirement for plans to report on the balance sheet a liability for OPEB (known as the Net OPEB Liability), changed the discount rate to the method detailed in GASB No. 67 and No. 68 (blended rate base on a municipal bond index rate), and expanded the required supplemental information presented in the valuation reports. Governmental Accounting Standards Board. (2015). *Statement No. 74 of the Governmental Accounting Standards Board: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (No. 349)*. Norwalk, CT: Author. Retrieved from [http://www.gasb.org/jsp/GASB/Document\\_C/DocumentPage?cid=1176166143121&acceptedDisclaimer=true](http://www.gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176166143121&acceptedDisclaimer=true).

Changes in assumptions (including the discount rate) result in an estimated \$1.9 billion decrease in the Total OPEB Liability, while changes in benefit terms (including the implementation of the Medicare Advantage plan) result in an estimated \$8.6 billion decrease in the same measure.<sup>32</sup> These changes, coupled with service cost, interest, differences between expected and actual experience, and benefit payments result in a net change in Total OPEB Liability from an estimated \$27.5 billion (beginning) to an estimated \$17.9 billion (ending) over FY 2017.<sup>33</sup> Additionally, employee and employer contributions are considered increases in the Fiduciary Net Position of the OPEB Plan. As a result, in any given fiscal year, the decrease to the Net OPEB Liability attributable to changes in the schedule of employee and employer contributions is equal to the changes in the value of these contributions.<sup>34</sup>

## Endnotes

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- <sup>1</sup> Governmental Accounting Standards Board. (n.d.). Other Postemployment Benefits (OPEB). Retrieved
- <sup>2</sup> Ibid.
- <sup>3</sup> Rhodes, D.J., & DeMattie, T.A. (2018). *State of Connecticut Other Post-Employment Benefits Program: Governmental Accounting Standards Board (GASB) Statement No. 74 Accounting Valuation Report for Reporting Date June 30, 2017*. Boston, MA: Segal Consulting. Retrieved from <http://www.osc.ct.gov/empret/OPEBActuarialReports/OPEBreport2017.pdf>.
- <sup>4</sup> Conn. Gen. Statutes ch. 68, § 5-278.
- <sup>5</sup> State of Connecticut, Department of Labor. (2017). *SEBAC 2017 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2017-Contract.pdf>.
- <sup>6</sup> Conn. Gen. Statutes ch. 16, § 2-36b.
- <sup>7</sup> Connecticut General Assembly, Office of Fiscal Analysis. (2016). *OFA Fiscal Accountability Report, FY 17 - FY 20*. Retrieved from [https://www.cga.ct.gov/ofa/Documents/year/FF/2017FF-20161115\\_Fiscal%20Accountability%20Report%20FY%2017%20-%20FY%2020.pdf](https://www.cga.ct.gov/ofa/Documents/year/FF/2017FF-20161115_Fiscal%20Accountability%20Report%20FY%2017%20-%20FY%2020.pdf).
- <sup>8</sup> Lembo, K. (2017). *Annual Report of the State Comptroller, FY 2017*. Hartford, CT: State of Connecticut, Office of the State Comptroller. Retrieved from <http://www.osc.ct.gov/reports/annual/2017/Budgetary2017.pdf>.
- <sup>9</sup> Ibid.
- <sup>10</sup> Conn. Gen. Statutes ch. 67, § 5-259.
- <sup>11</sup> Lembo, K. (2017). *Comprehensive Annual Financial Report, FY 2017*. Hartford, CT: State of Connecticut, Office of the State Comptroller. Retrieved from <http://www.osc.ct.gov/reports/2017CAFRrev012918.pdf>.
- <sup>12</sup> Ibid.
- <sup>13</sup> The Pew Charitable Trusts, & MacArthur Foundation. (2016). *State Retiree Health Plan Spending*. Retrieved from [http://www.pewtrusts.org/~media/assets/2016/09/state\\_retiree\\_health\\_plan\\_spending.pdf](http://www.pewtrusts.org/~media/assets/2016/09/state_retiree_health_plan_spending.pdf).
- <sup>14</sup> Lembo, K. (2017). *Comprehensive Annual Financial Report, FY 2017*. Hartford, CT: State of Connecticut, Office of the State Comptroller. Retrieved from <http://www.osc.ct.gov/reports/2017CAFRrev012918.pdf>.
- <sup>15</sup> State of Connecticut, Department of Administrative Services. (2009). *SEBAC 2009 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2009.pdf>.
- <sup>16</sup> State of Connecticut, Office of the Governor. (2011). *Revised SEBAC 2011 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2011.pdf>.
- <sup>17</sup> State of Connecticut, Department of Labor. (2017). *SEBAC 2017 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2017-Contract.pdf>.
- <sup>18</sup> State of Connecticut, Department of Administrative Services. (2009). *SEBAC 2009 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2009.pdf>.
- <sup>19</sup> State of Connecticut, Office of the Governor. (2011). *Revised SEBAC 2011 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2011.pdf>.
- <sup>20</sup> State of Connecticut, Department of Labor. (2017). *SEBAC 2017 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2017-Contract.pdf>.
- <sup>21</sup> State of Connecticut, Department of Labor. (2017). *SEBAC 2017 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2017-Contract.pdf>.
- <sup>22</sup> Conn. Acts 17-2 (June Special Session).
- <sup>23</sup> State of Connecticut, Department of Administrative Services. (2009). *SEBAC 2009 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2009.pdf>.

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<sup>24</sup> Woodruff, T.C. (2013). *Division Memorandum 2013-02 to the Heads of All State Agencies RE: Retiree Health Fund Contributions Starting July 2013*. Hartford, CT: State of Connecticut, Office of the State Comptroller, Healthcare Policy & Benefit Services Division. Retrieved from <http://www.osc.ct.gov/2013memos/healthcare/201302hp.htm>.

<sup>25</sup> State of Connecticut, Office of the Governor. (2011). *Revised SEBAC 2011 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2011.pdf>.

<sup>26</sup> State of Connecticut, Department of Labor. (2017). *SEBAC 2017 Agreement between State of Connecticut and State Employees Bargaining Agent Coalition (SEBAC)*. Hartford, CT: Author. Available from <https://ctstatefinance.org/assets/uploads/files/SEBAC-2017-Contract.pdf>.

<sup>27</sup> *Annual Report of the State Comptroller* (Various Years). Reports are available at <http://www.osc.ct.gov/reports/>.

<sup>28</sup> Rhodes, D.J., & DeMattie, T.A. (2018). *State of Connecticut Other Post-Employment Benefits Program: Governmental Accounting Standards Board (GASB) Statement No. 74 Accounting Valuation Report for Reporting Date June 30, 2017*. Boston, MA: Segal Consulting. Retrieved from <http://www.osc.ct.gov/empret/OPEBActuarialReports/OPEBreport2017.pdf>.

<sup>29</sup> *Annual Report of the State Comptroller* (Various Years). Reports are available at <http://www.osc.ct.gov/reports/>.

<sup>30</sup> Rhodes, D.J., & DeMattie, T.A. (2018). *State of Connecticut Other Post-Employment Benefits Program: Governmental Accounting Standards Board (GASB) Statement No. 74 Accounting Valuation Report for Reporting Date June 30, 2017*. Boston, MA: Segal Consulting. Retrieved from <http://www.osc.ct.gov/empret/OPEBActuarialReports/OPEBreport2017.pdf>.

<sup>31</sup> Ibid.

<sup>32</sup> Ibid.

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.