

**MUNICIPAL PENSION  
& OPEB REPORT**

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**2023**



## INTRODUCTION



Oh what a year it was! The roller coaster ride of the previous fiscal year continued in 2022 with public plan sponsors facing lingering market fluctuations and growing inflation, affecting pension and post-retirement benefit (OPEB) plans throughout Connecticut.

The goal of our fifth annual Municipal Pension & OPEB Report is unchanged from previous years. The summary of information within the report serves to help public plan sponsors better understand how current market trends have impacted your pension and OPEB plans using data extracted from the Comprehensive Annual Financial Reports (CAFRs) submitted by local municipalities in Connecticut for the fiscal year ending June 30, 2022. CAFR data is extensive and difficult to understand in its raw form. Our actuaries have extrapolated main findings, making it easier for plan sponsors to use this information to benchmark their own plans against the report.

As predicted, higher interest rates coupled with inflation and equity market volatility yielded significant negative returns that erased the superior gains achieved in the previous year. As a result, funded ratios declined to FYE 2020 levels. Plan sponsors continued the trend of setting the assumed rate of return at lower targets as a way of reducing future liabilities. With hiring trends expected to continue in 2023, many municipalities are accelerating the use of technology as a way to connect employees with their pension data and also keep pace with the number of retirees now receiving benefits.

We hope you find the results of our 2023 Municipal Pension and OPEB Report useful. Please reach out to your pension/OPEB consultant should you wish to discuss report findings in more detail.

Sincerely,

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### PENSION PLANS

**200**

municipal pension plans

**70,000**

participants

**\$14.8 billion**

actuarial accrued liability

### OPEB PLANS

**175**

municipal OPEB plans

**117,000**

participants

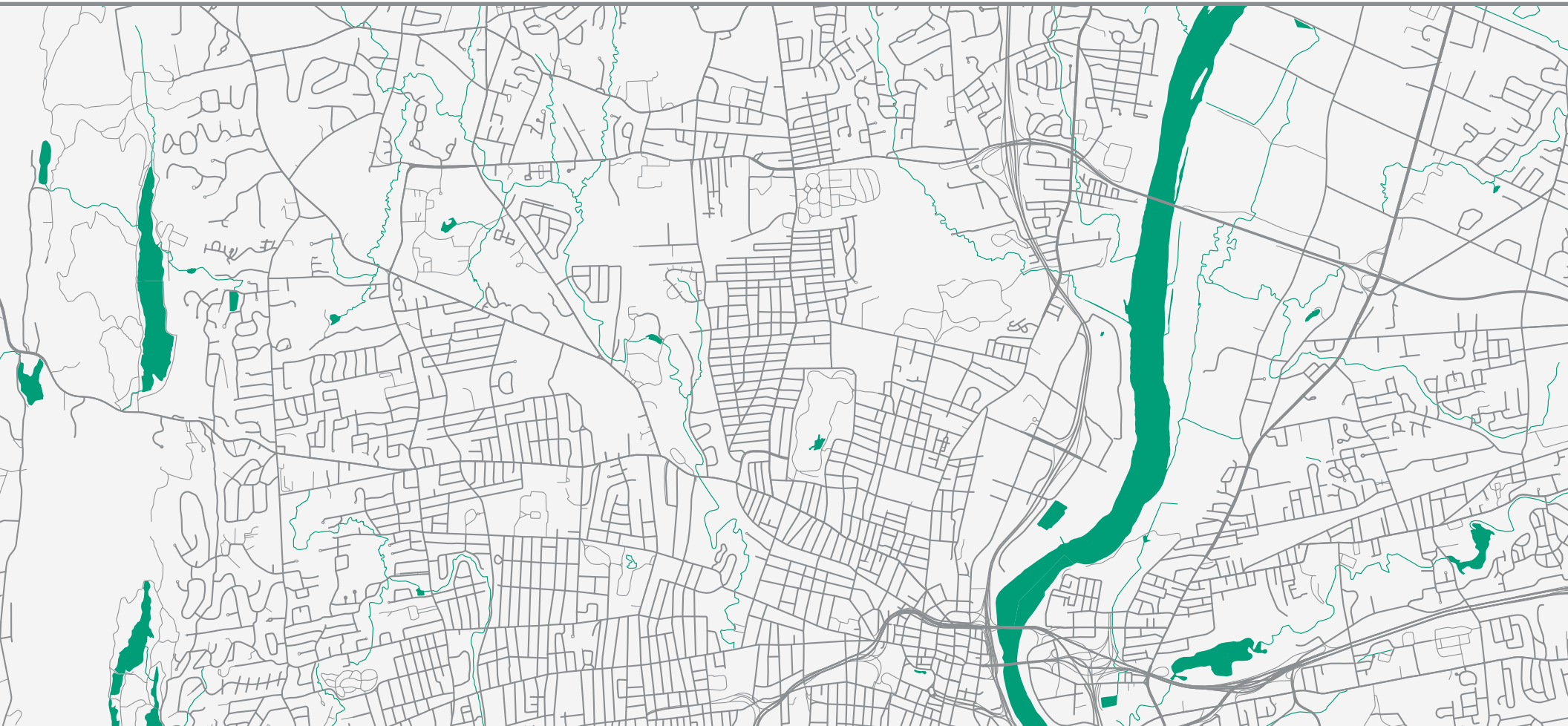
**\$6.6 billion**

actuarial accrued liability

CAFRs data FYE June 30, 2022

# PENSION

## MUNICIPAL PENSION DATA



## KEY TAKEAWAYS

### Municipalities with Pension plans:

#### FISCAL 2022 RETURNS WERE QUITE CHALLENGING FOR PLAN SPONSORS



LARGEST PLANS  
(\$50M+)

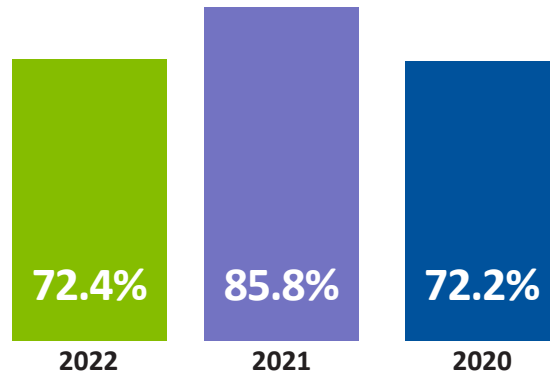


ALL PLANS

Our analysis of the money-weighted rate of return by plan size, both for FYE 2022 and for the equivalent 5-year period, revealed negative returns that erased the superior gains that most plan sponsors experienced for the prior fiscal year.

The FYE 2022 data shows that the largest plans (\$50M+) and the smallest plans (<\$10M) both had returns of -11.91%, while mid-sized plans (\$10-\$49M) had slightly lower returns averaging -12.29%.

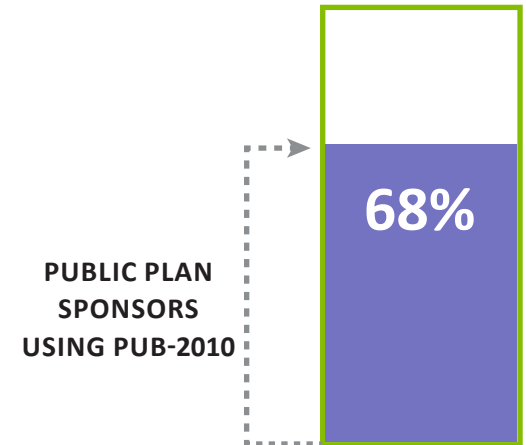
#### FUNDED RATIOS DECLINED TO FYE 2020 LEVELS



36% of the pension plans analyzed exceed the 80% funded mark, compared to 65% in the 2022 report. Those plans below the 50% funded level increased to 12% this year, compared to 9% in the 2022 report.

Only 7% of plans can boast pensions that are funded at 100% or higher, a large decrease versus 26% in last year's report.

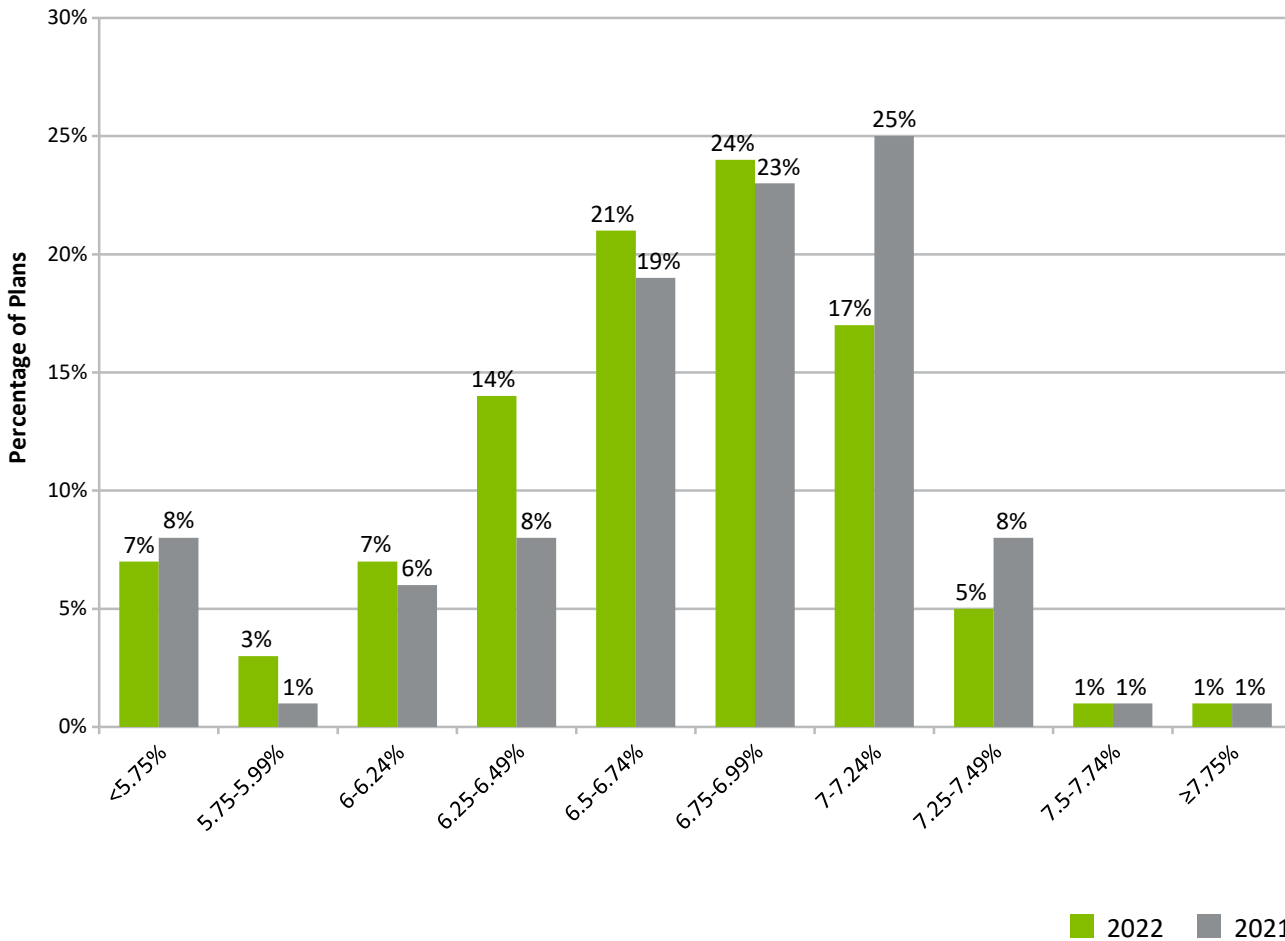
#### THE VAST MAJORITY OF PUBLIC SECTOR PLANS USE THE NEWEST MORTALITY TABLE



The Society of Actuaries (SOA) periodically publishes mortality studies reflecting updated life expectancies based on large databases of pensioner mortality experience. As of the June 30, 2022 CAFRs, 68% of Connecticut public plan sponsors were using the Pub-2010 public sector-specific mortality table, (an increase of 5%) versus those using that table in our 2022 report.

# PENSION

## LONG-TERM INVESTMENT RETURN ASSUMPTION (FYE 2022 VS. FYE 2021)



The average investment return assumption is 6.46% (median is 6.50%). This represents a decrease of 7 basis points from the 6.53% average (6.75% median) in our 2022 report.

This assumption is generally tied to either the July 1, 2021 or July 1, 2020 actuarial valuation used in determining the employer’s cash contribution amount (also known as the Actuarially Determined Employer Contribution, or ADEC).

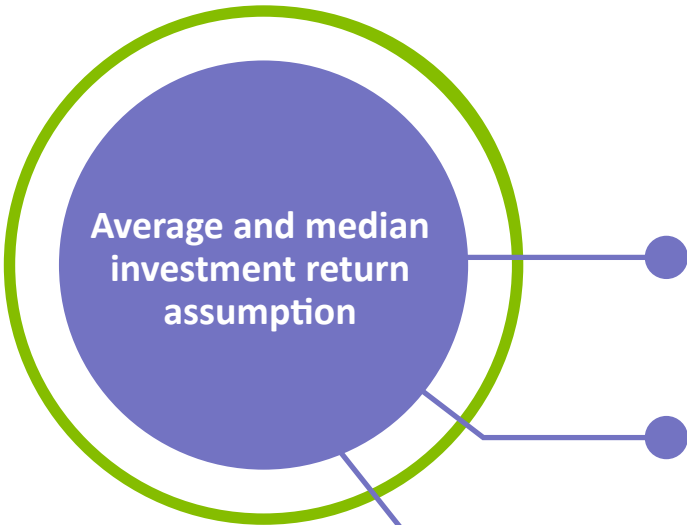
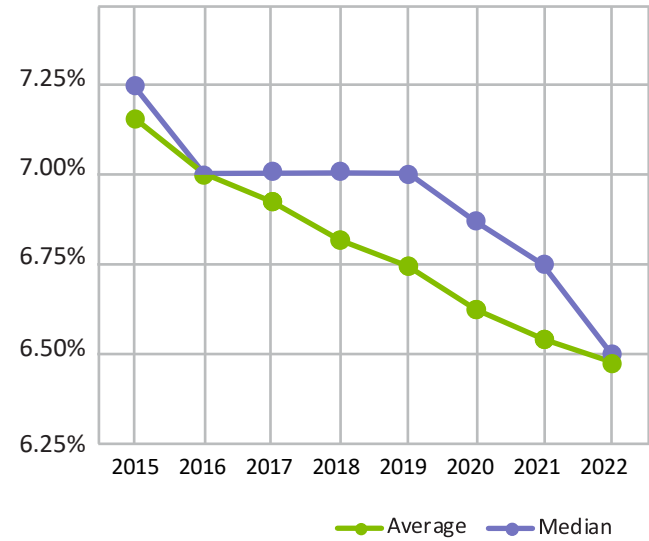


### What is ADEC?

Actuarially Determined Employer Contribution (ADEC): The amount actuarially calculated each year that is required to be contributed by an employer to a pension plan’s pool of assets in order to ensure there will be enough funds to pay promised pension benefits.

AVERAGE AND MEDIAN INVESTMENT RETURN ASSUMPTION TRENDS

All else being equal, a lower investment return assumption results in higher actuarial liability and ADEC, and a lower funded ratio.



Average and median investment return assumption

When looking at trends, the average long-term rate of return assumption has declined by 68 basis points (from 7.14% to 6.46%) from FYE 2015 to 2022.

The median assumption declined 75 basis points (from 7.25% to 6.50%) during that same period.

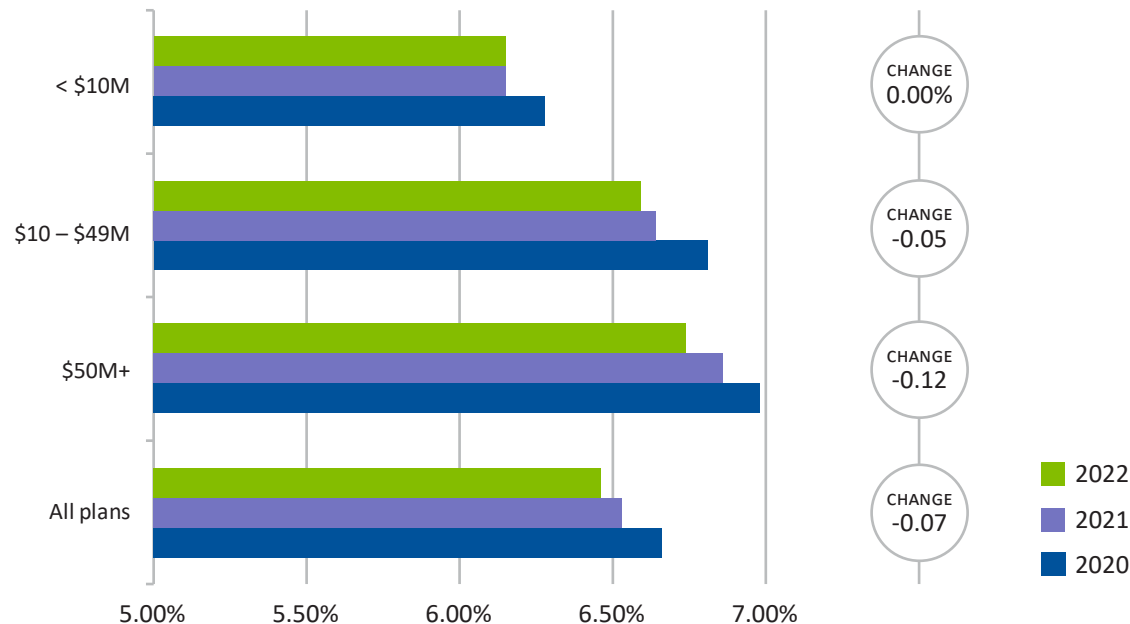
Approximately 42% of plans reduced the long-term rate of return assumption from FYE 2021 to FYE 2022, with the most common reductions being 25 and 12.5 basis points.

# PENSION

## AVERAGE INVESTMENT RETURN ASSUMPTION BY PLAN SIZE

Plan assets (\$ millions)	% of plans	Average Investment Return Assumption			% Change
		2022	2021	2020	
< \$10	37%	6.15%	6.15%	6.28%	0.00%
\$10 – \$49	37%	6.59%	6.64%	6.81%	-0.05%
\$50+	26%	6.74%	6.86%	6.98%	-0.12%
All plans	100%	6.46%	6.53%	6.66%	-0.07%

We also analyzed the investment return assumption based on plan size by assets (under \$10 million, \$10 to \$49 million, \$50 million plus). The results show that as plan size increases, the average investment return assumption increases as well. Within each range, the average assumption decreased from 0 to 12 basis points from 2021 to 2022, and the average decrease for all plans was 7 basis points (from 6.53% to 6.46%).



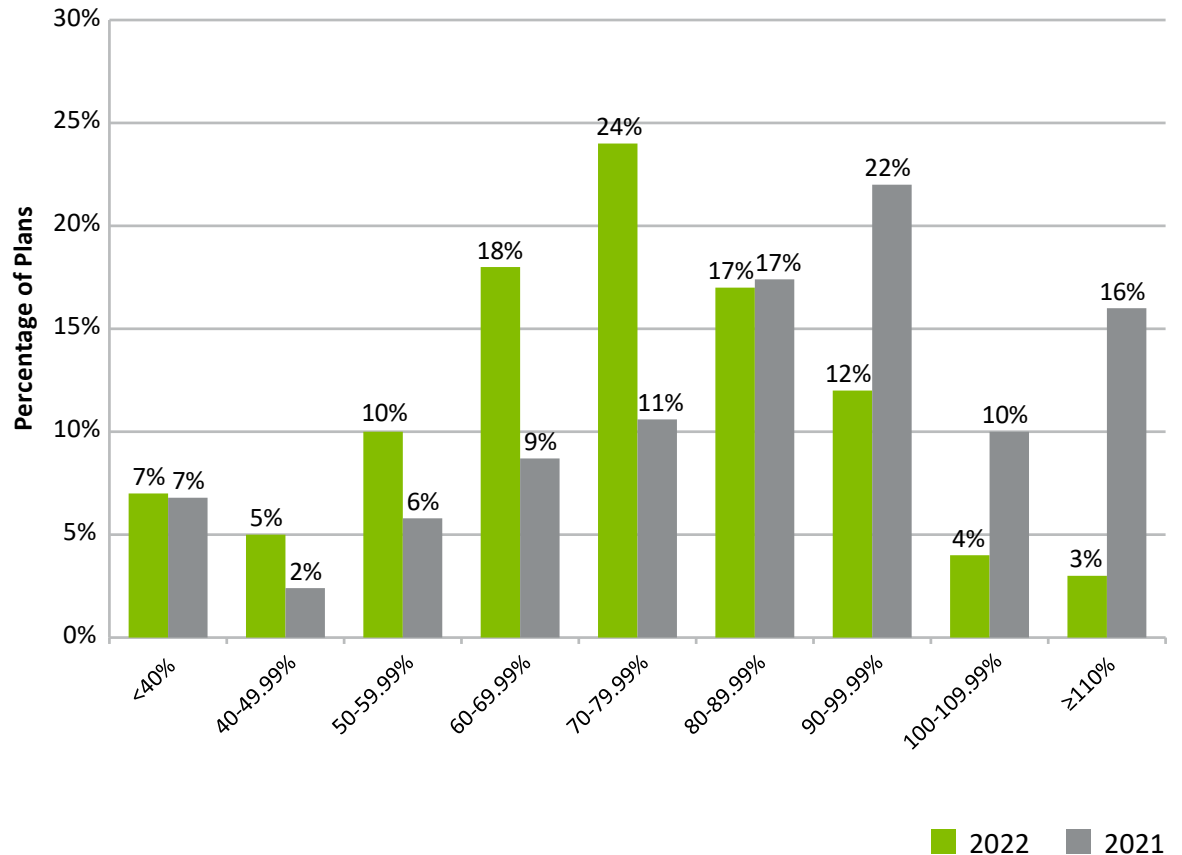
# PENSION

## FUNDED RATIO

Primarily due to the challenging markets for FYE 2022, funded ratios for municipal pension plans have been driven back to where they were at FYE 2020.

This year, 36% of the pension plans analyzed exceed the 80% funded mark, a drastic decrease from 65% in the 2022 report. Those plans below the 50% funded level increased to 12% this year, compared to 9% last year.

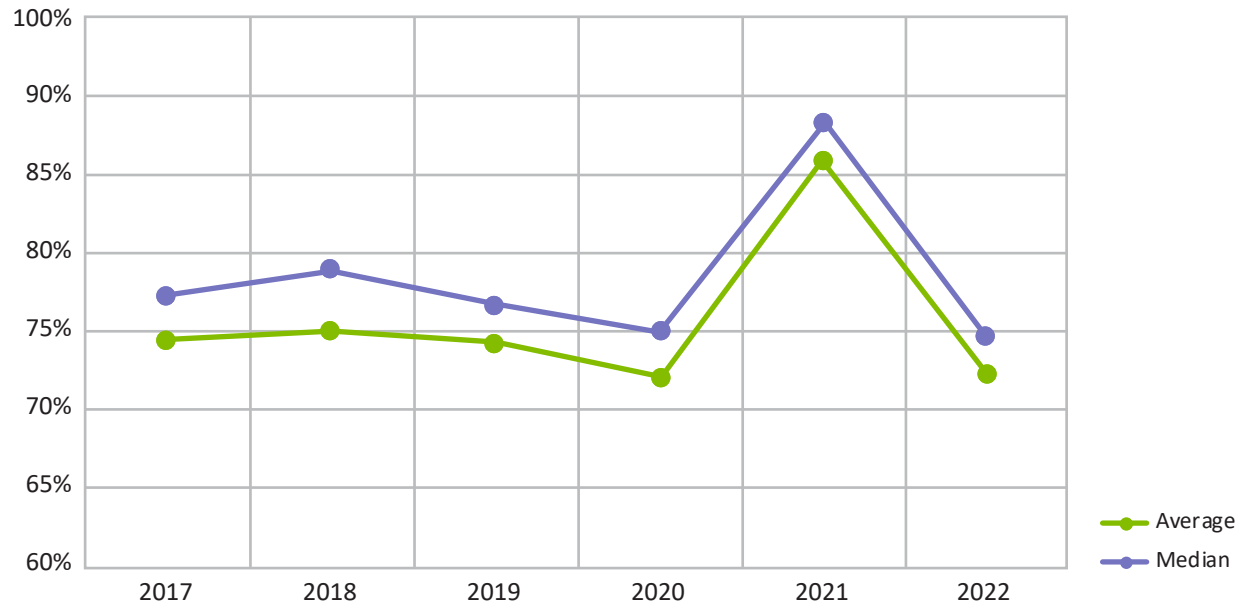
These percentages are consistent with decreases in the average and median funded ratios when compared with 65% of plans exceeding the 80% mark in our 2022 report. Only 7% of plans can boast pensions that are funded at 100% or higher, a large decrease versus 26% in last year's report.





# PENSION

## AVERAGE AND MEDIAN FUNDED RATIO TRENDS



We analyzed the funded ratio (Market Value of Assets divided by Accrued Liability) for each plan. As of FYE 2022, the average funded ratio was 72.4% (median of 74.9%), a notable decrease versus an average of 85.8% (88.2% median) in our 2021 report and at a similar level when compared to the 2020 report (72.2% average/75.1% median).

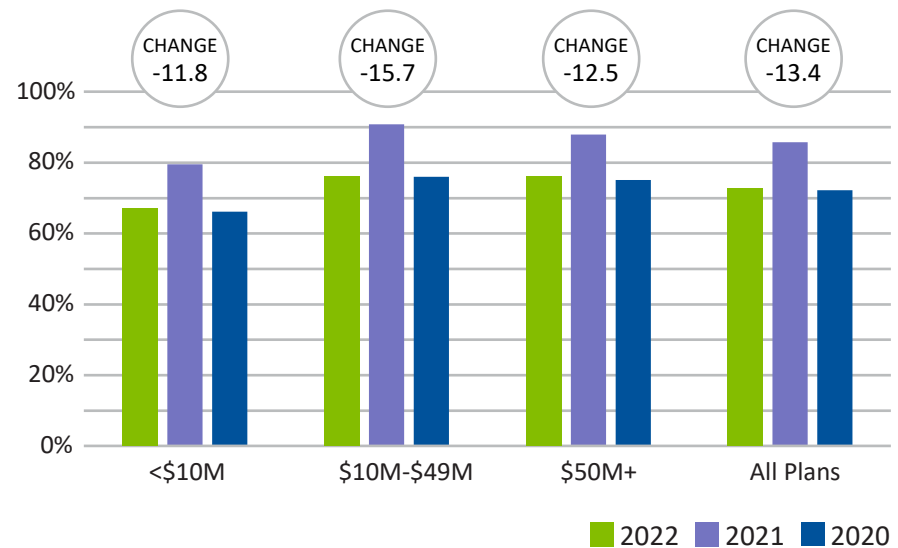
# PENSION

## AVERAGE FUNDED RATIO BY PLAN SIZE

The average funded ratio based on plan size continues to show that as plan size increases, the average funded ratio tends to increase as well.

The data shows that Connecticut municipal pension plans have lower funded ratios in the past year in all plan size categories. In 2022, the average funded ratio decreased between 11.8% and 15.7%, with an average decrease of 13.4% for all plans. In this year's report, double-digit decreases are evident across the board in all plan size categories effectively erasing all of the increases experienced by plans in our 2021 report.

Plan assets (\$ millions)	% of plans	Average Funded Ratio			
		2022	2021	2020	% Change
< \$10	37%	67.7%	79.5%	66.2%	-11.8%
\$10 – \$49	37%	75.1%	90.8%	76.0%	-15.7%
\$50+	26%	75.4%	87.9%	75.1%	-12.5%
All plans	100%	72.4%	85.8%	72.2%	-13.4%

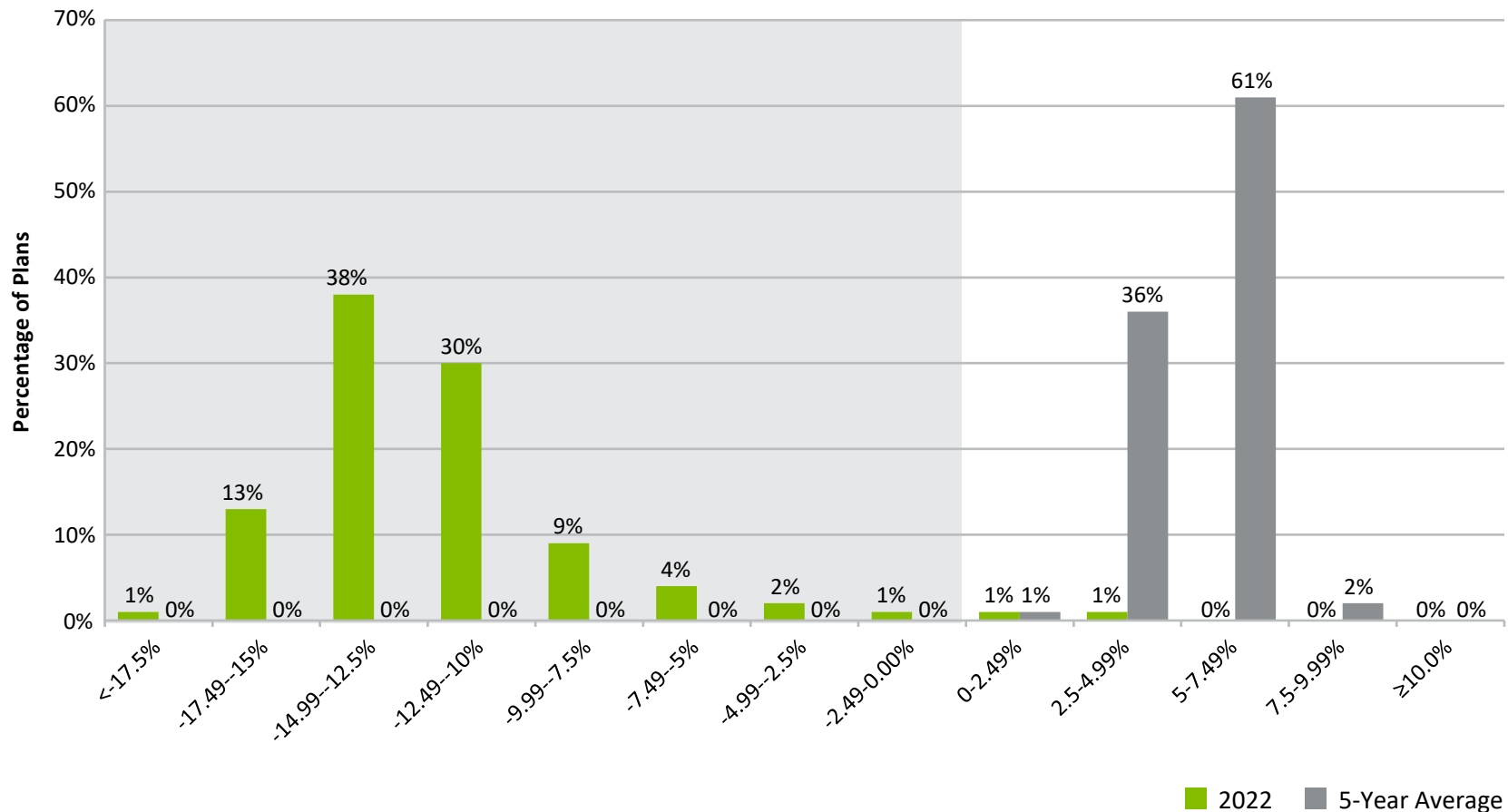


# PENSION

## FYE 2022 RETURN VS. 5-YEAR AVERAGE RETURN

The average money-weighted rate of return for FYE 2022 was -12.06% (median of -12.70%). This rate was compared to the most recent 5-year compounded average money-weighted rate of return (5.30% average and 5.31% median).

**Fiscal 2022 returns were quite challenging for plan sponsors.**



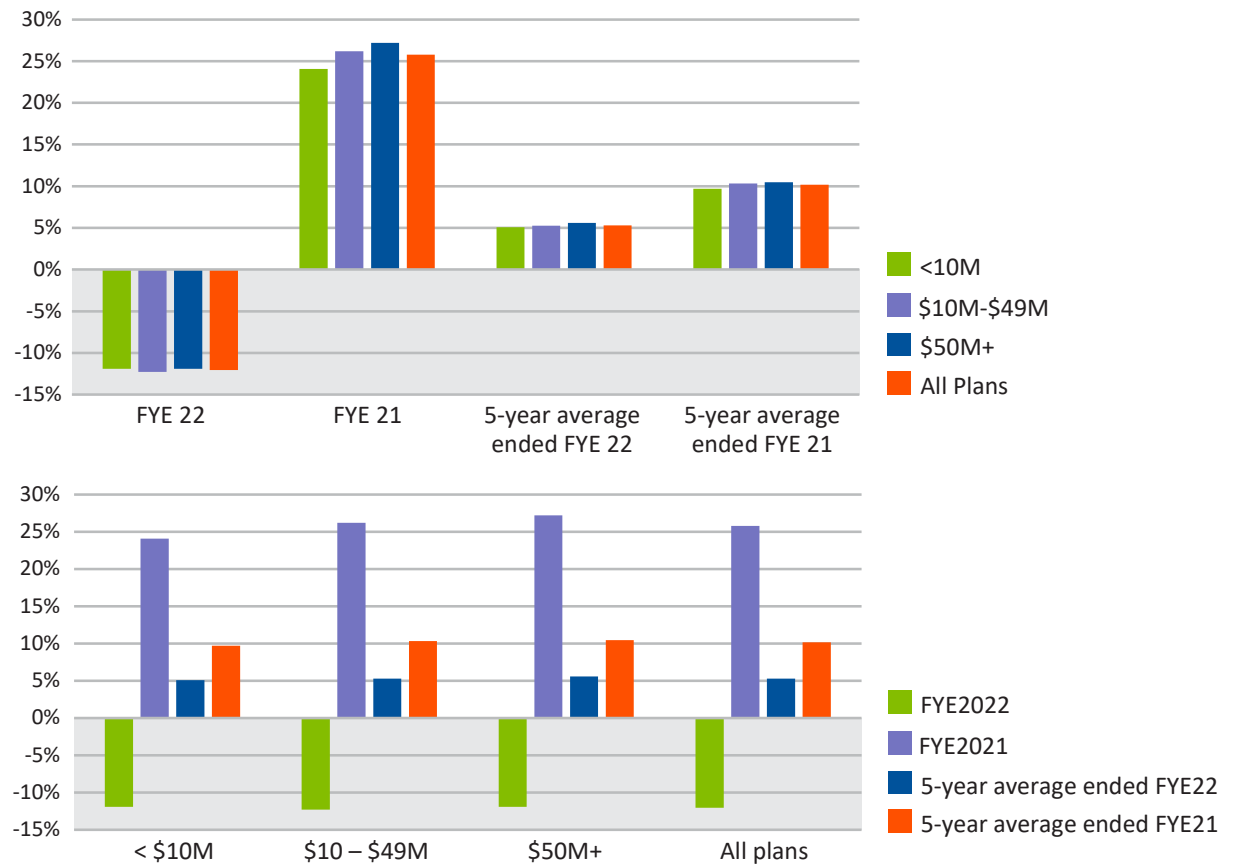
# PENSION

## MONEY-WEIGHTED RATE OF RETURN BY PLAN SIZE

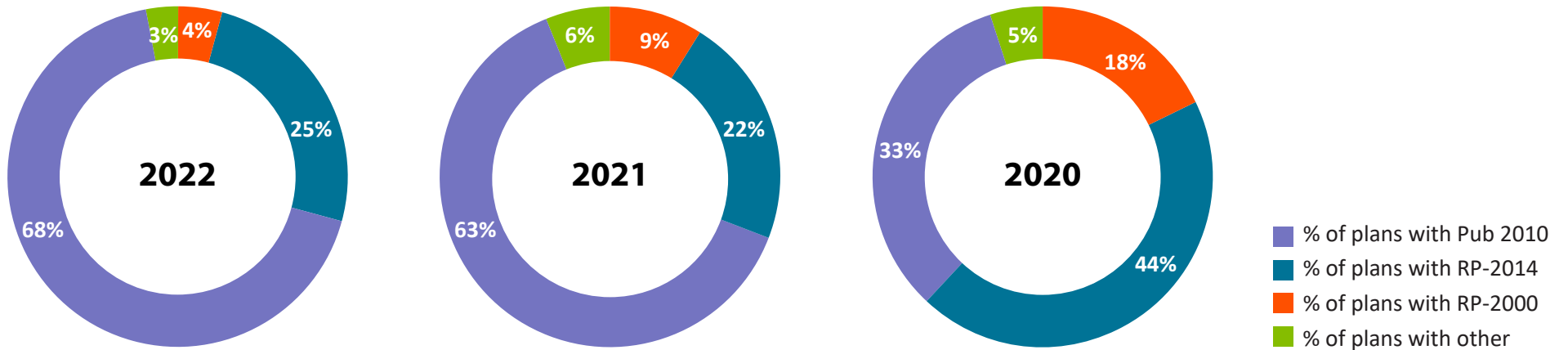
Our analysis of the money-weighted rate of return by plan size, both for FYE 2022 and for the equivalent 5-year period, revealed a challenging market performance versus FYE 2021 in all plan size categories.

Consistent with the results of our analysis of the investment return assumption, we found that larger plans generally achieved a higher average money-weighted rate of return versus smaller plans.

Plan assets (\$ millions)	FYE 22	FYE 21	5-year average ended FYE 22	5-year average ended FYE 21
< \$10	-11.91%	24.06%	5.09%	9.71%
\$10 – \$49	-12.29%	26.20%	5.28%	10.33%
\$50+	-11.91%	27.20%	5.59%	10.46%
All plans	-12.06%	25.76%	5.30%	10.17%



MORTALITY TABLE ASSUMPTION

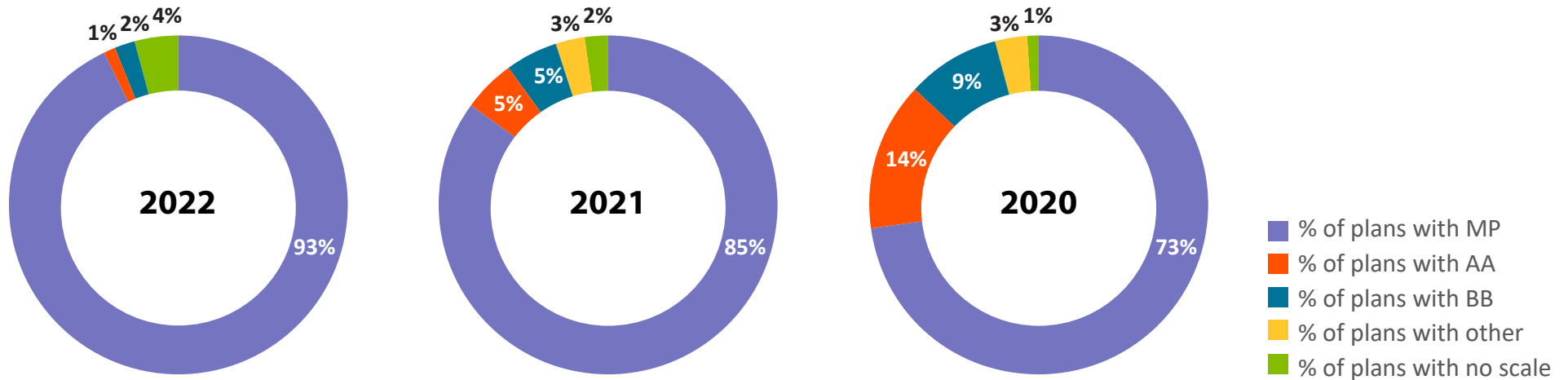


The Society of Actuaries (SOA) periodically publishes mortality studies reflecting updated life expectancies based on large databases of pensioner mortality experience. As of the June 30, 2022 CAFRs, 68% of Connecticut public plan sponsors were using the Pub-2010 public sector-specific mortality table, which represents an increase of 5% versus those using that table in our 2022 report.

The next two most common mortality tables in use by Connecticut public pension plans were the RP-2014 Mortality Table (25%, versus 22% in 2021) and the RP-2000 table (4% vs 9%). Only 3% of Connecticut plans were using an assumption reflecting another mortality basis, which is half as many using that method in 2022.

# PENSION

## MORTALITY IMPROVEMENT SCALE ASSUMPTION



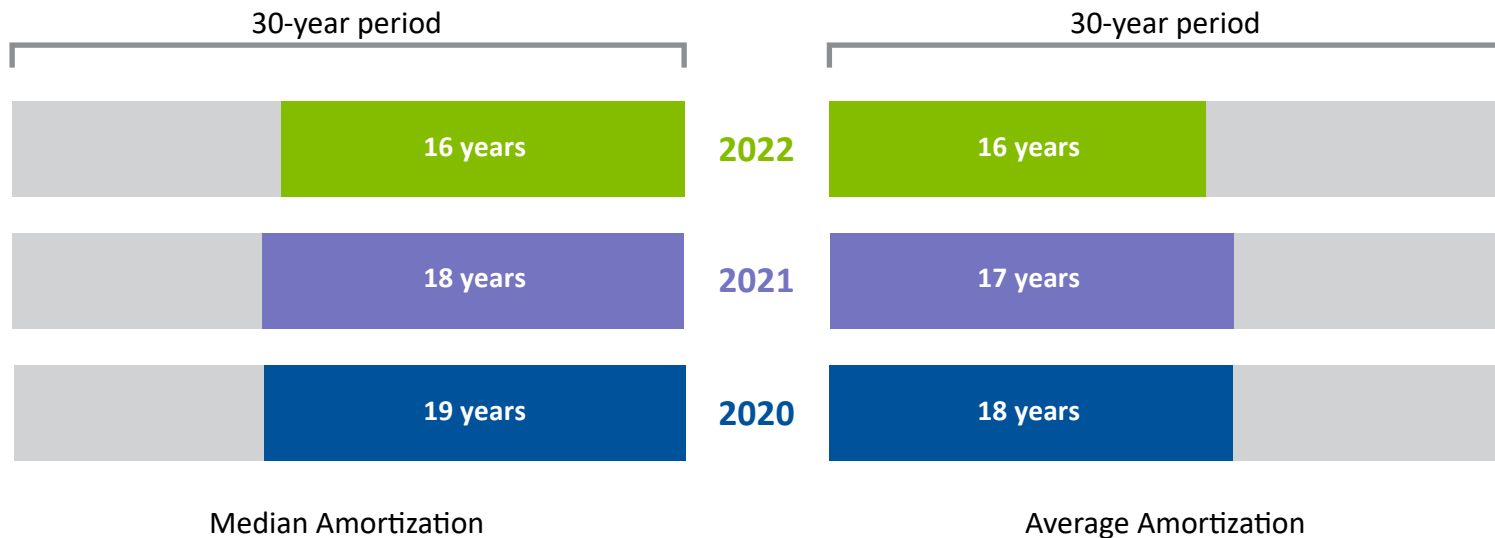
Because actuarial valuations involve calculating liability associated with providing benefits to participants, both today and for many years into the future, actuaries also consider the potential effect of future improvements in life expectancies. This effect is captured most often by way of a mortality improvement scale assumption, with the most common scale being Scale MP (93% of plans vs. 85% in our 2022 report).

Very few plans are now using the next most common scales, which are often used in conjunction with the Mortality Table are Scale AA (1% of plans, down from 5% in our 2022 report) and Scale BB (2% of plans, down from 5% last year). 4% of plans in the study are using no scale for the mortality improvement assumption.

# PENSION

## AMORTIZATION PERIOD

Connecticut's public pension plans continue to compare favorably with the 30-year amortization period that is generally considered to be the maximum for public sector pension plans.



The ADEC most commonly reflects two components: 1) the normal cost, which is the value of benefits expected to be earned by active participants during the upcoming year, and 2) an amortization payment, which is a contribution towards eliminating the pension plan's unfunded actuarial liability (or surplus, if applicable) over time.

Since a pension plan's unfunded actuarial liability is generally considered a long-term expense, the amortization payment, similar to making a payment against a home mortgage, is recognized over time.

Connecticut public pension plans' amortization periods are reasonably consistent with national

and compare favorably with the 30-year period that is generally considered to be the maximum for public sector plans.

Both the average and median period for plans in the study have come down slightly when compared with the results of our 2022 report.

# OPEB

## MUNICIPAL OPEB DATA

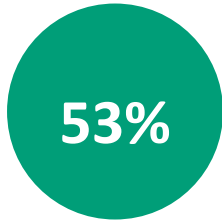




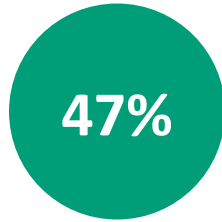
## KEY TAKEAWAYS

### Municipalities with OPEB plans:

#### PERCENTAGE OF FUNDED OPEB PLAN INCREASES



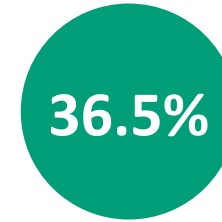
UNFUNDED



FUNDED BY  
OPEB TRUST

Fifty-three percent of OPEB plans are unfunded (vs. 55% from our 2022 study), with 47% of plans funded with an OPEB trust (an increase of 2% vs. our 2022 report).

#### DECREASE IN AVERAGE FUNDED RATIO



For those plans funded using an OPEB trust, the average funded ratio is 36.5%, a 6.6% decrease vs. the average funded ratio of 43.1% in our 2022 report.

#### HEALTH CARE TREND ASSUMPTIONS CONTINUE TO DECLINE



INITIAL YEAR



ULTIMATE

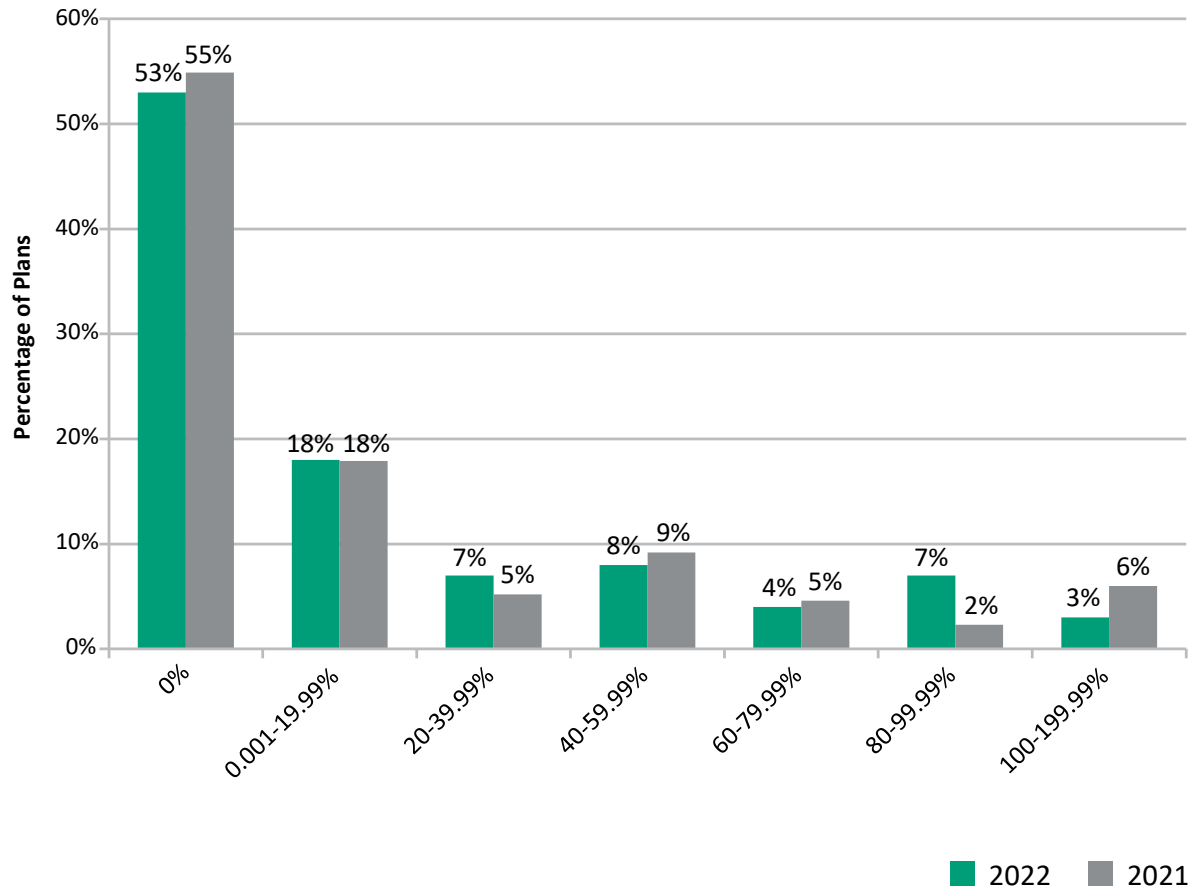
The average initial year health care trend assumption is 6.20% (median is 6.50%), and the average ultimate year health care assumption is 4.38% (median is 4.40%). These statistics compare with last year's average initial year health care trend assumption of 6.30% (median 6.50%) and an average ultimate year health care assumption of 4.41% (median is 4.40%).

#### NUMBER OF YEARS TO REACH THE ULTIMATE TREND ASSUMPTION INCREASES SLIGHTLY



The median number of years to reach the ultimate trend assumption is 11 years, which is an increase of 1 year from the median period of 10 years in our 2022 report.

FUNDED RATIO FOR ALL PLANS



The rules governing how municipalities should report pension costs and other post-employment obligations are covered by the Government Accounting Standards Board (GASB). GASB is a private non-governmental organization that creates accounting reporting standards for state and local governments.

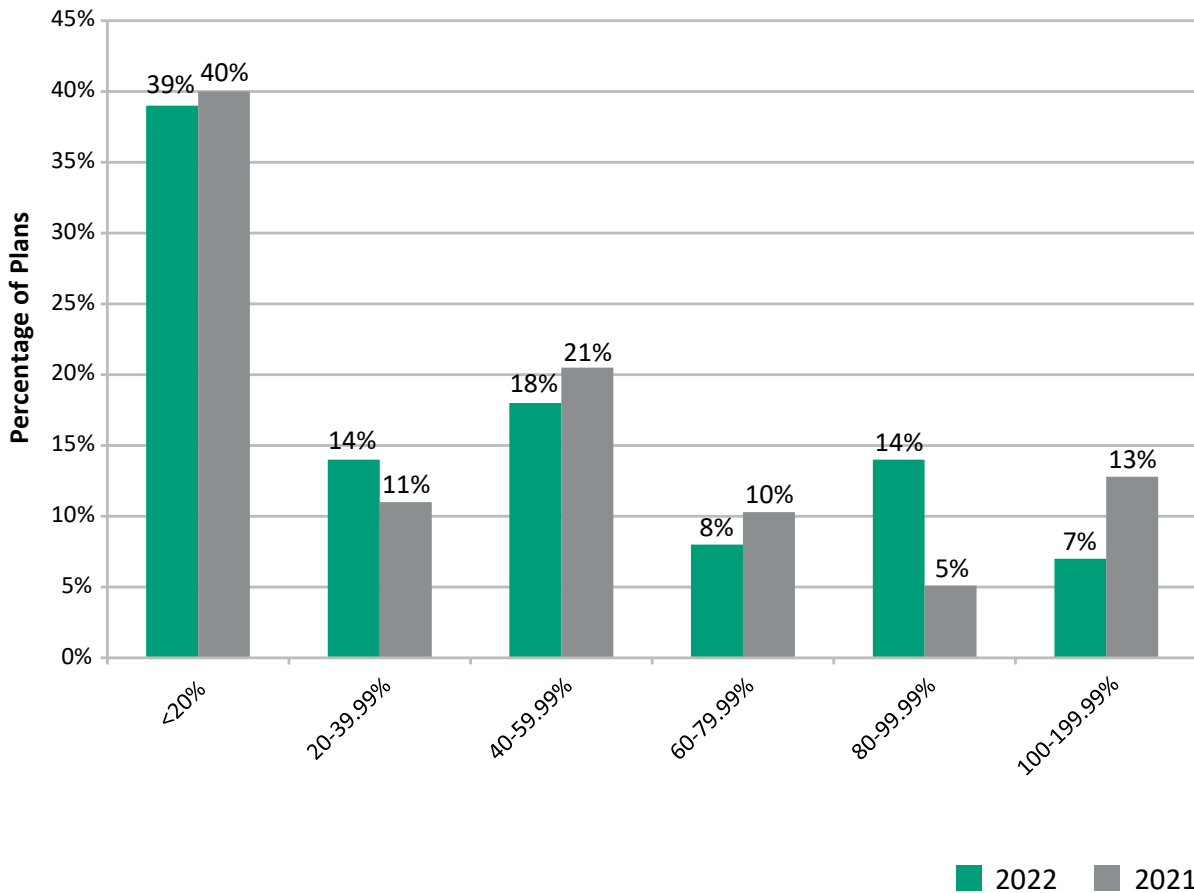
Many public sector OPEB plans continue to be unfunded arrangements, as GASB did not define actuarial measurements of liabilities until 2009.

As of FYE 2022, approximately 53% of the OPEB plans in Connecticut are unfunded (vs. 55% last year), with the remaining 47% of plans funded via an OPEB trust, compared to our 2022 report.

# OPEB

## FUNDED RATIO FOR FUNDED PLANS ONLY

7% of plans are 100% funded vs. 13% of plans funded at 100% as of FYE 2021.

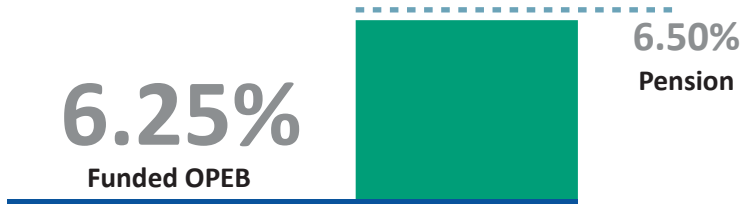


When looking only at the OPEB plans funded via a trust, the average funded ratio as of FYE 2022 is 36.5% (median of 33.6%) versus an average of 43.1% (median of 34.7%) in the 2021 CAFRs.

Thirty-nine percent of plans have a funded ratio of less than 20%, a slight decrease compared to 40% in our 2022 report.

Fewer plans are 100% funded (7%) compared to plans funded at 100% (13%) as of FYE 2021. This decrease was largely driven by the challenging markets for FYE 2022.

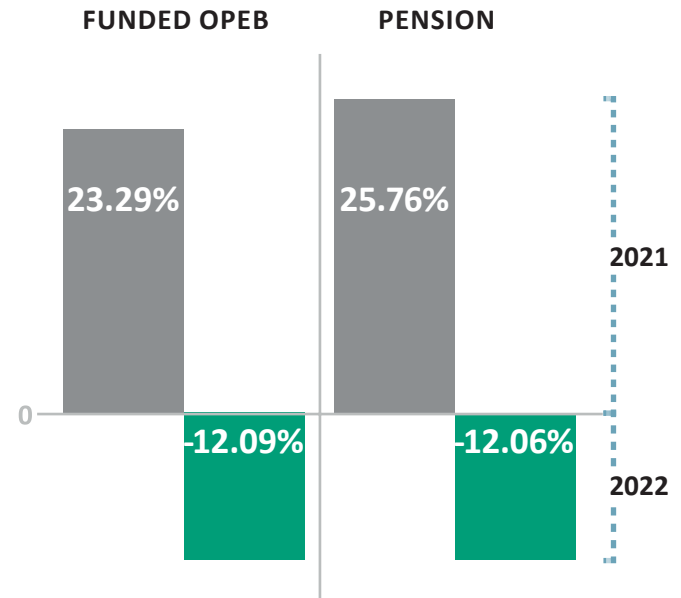
### INVESTMENT RETURN ASSUMPTION



As of FYE 2022, the median investment return assumption for funded OPEB plans is 6.25% versus 6.50% in our 2022 report. This assumption is 25 basis points lower than the median investment return assumption for pension plans (6.50%).

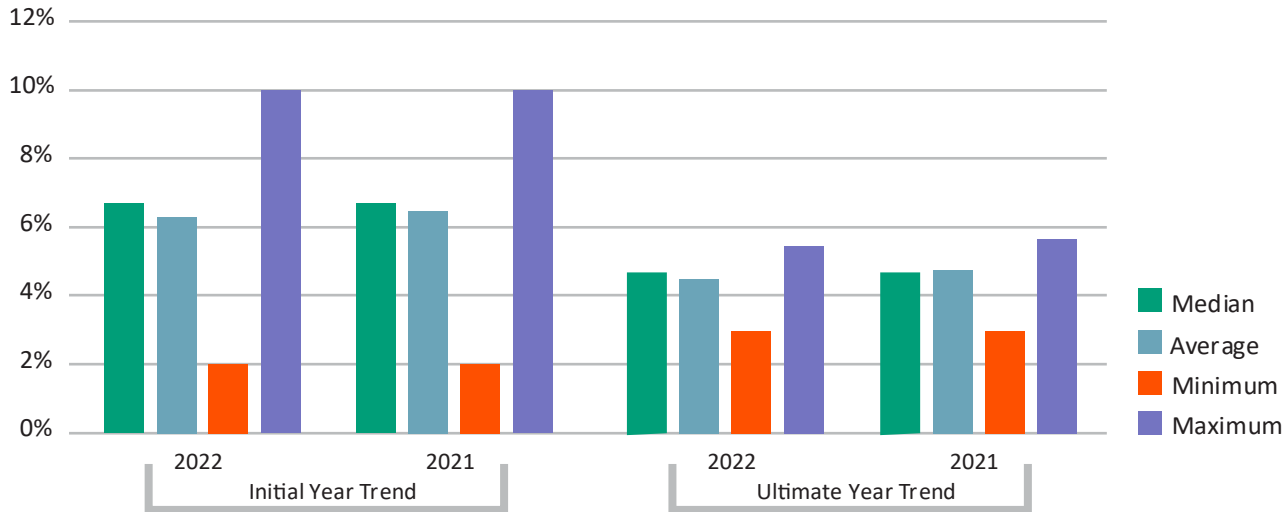
### MONEY-WEIGHTED RATE OF RETURN

Similar to pension plans, OPEB plans experienced challenging returns in FYE 2022.



The average money-weighted rate of return for FYE 2022 for funded OPEB plans is -12.09% (compared to 23.29% in the 2022 report). In 2022, the rate of return for OPEB plans was similar to pension plans (-12.06%) when using a money-weighted rate of return.

HEALTH CARE COST TREND ASSUMPTION



The average health care cost trend assumption is 6.20% (median of 6.50%) for the initial year and 4.38% (median 4.40%) for the ultimate year, with a median period of 11 years (average of 22 years) from the initial to the ultimate year.

There is a relatively large difference in the median and average number of years to the ultimate health care cost trend assumptions, due to a difference in the two most common approaches regarding this assumption. One approach generally assumes that the ultimate year is reached within 10 years or less, while the other approach (known as the “Getzen model”) assumes that there is a much more gradual and longer period (typically 50 years or more) needed to reach the ultimate rate.

The average initial year health care trend assumption is 6.20% (median 6.50%), down slightly from an average of 6.30% (median 6.50%) in the 2022 report.

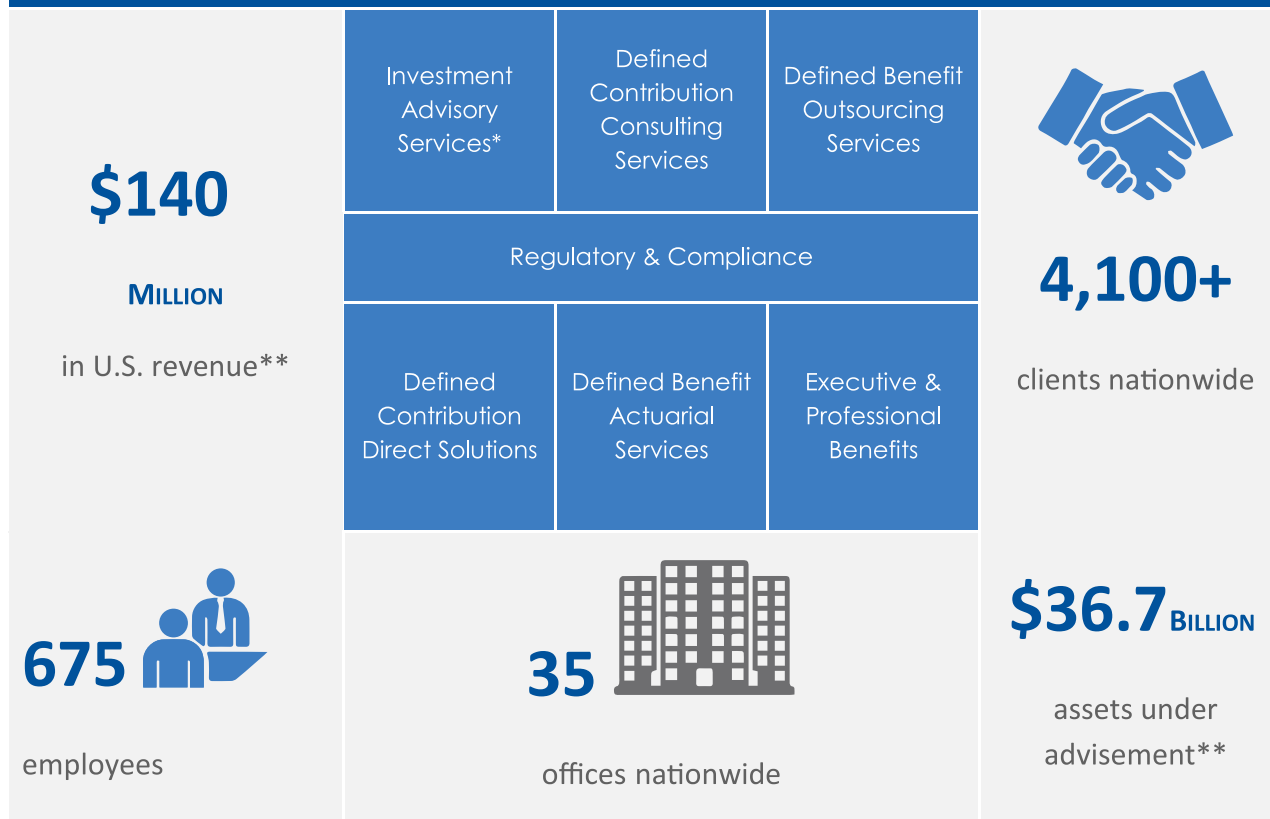
The average number of years to reach the ultimate trend assumption is unchanged at 22 with a median of 11 years compared to 10 years in the 2022 report.

	Initial Year Trend		Ultimate Year Trend		Years to Ultimate	
	2022	2021	2022	2021	2022	2021
<b>Median</b>	6.50%	6.50%	4.40%	4.40%	11	10
<b>Average</b>	6.20%	6.30%	4.38%	4.41%	22	22
<b>Minimum</b>	2.00%	2.00%	3.00%	3.00%	1	1
<b>Maximum</b>	10.00%	10.00%	5.50%	5.75%	77	78

## STRONGER TOGETHER

On May 1, 2023, USI Consulting Group (USICG) acquired Hooker & Holcombe (H&H). This new partnership will enable us to bring you and your participants enhanced service offerings and increased intellectual resources, delivered through your local actuarial service team.

### USI Consulting Group at a Glance



1 Investment Advice for institutional accounts provided by USI Advisors, Inc., an affiliate of USI Consulting Group.

2 As of June 20, 2023.

To learn more about our services, visit: [hhconsultants.com](https://hhconsultants.com) or [USICG.com](https://USICG.com)