CONNETICUT COMMITTEE FOR EQUITY IN RETIREMENT

Update: November 1, 2010
Feel free to forward to ARP colleagues

The window of opportunity to transfer to SERS will end December 31, 2010.

1. Five Key Myths about ARP and SERS
2. For ARP Members without Social Security
3. Upcoming Information Forums on the Transfer Opportunity
4. Transfer Opportunity Resources

1. Five Key Myths about ARP and SERS

Myth 1: ARP pays better benefits than SERS.

Reality. This myth, encouraged by the financial services industry, was widely believed twenty years ago. It was based on modeling with built in overly optimistic assumptions about future stock market developments. But it is clear on the basis of thirty years actual experience—as opposed to predictions—that few if any ARP members have been able to accumulate enough to come close to matching SERS pensions. On average, ARP members have been able to obtain less than half of SERS benefits despite contributing over twice as much.

The following table shows the amount of ARP accumulations needed to purchase commercial annuities that match SERS pensions for different final salaries. Note that the costs for females are higher than males. Whereas males and females receive equal SERS pension benefits by law, the commercial annuity market charges women more than men because they live longer on average.

Table. ARP Accumulations Needed to Match SERS Pensions

<table>
<thead>
<tr>
<th>Final Salary</th>
<th>SERS Pension</th>
<th>Needed ARP accumulation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>male</td>
</tr>
<tr>
<td>$30,000</td>
<td>$ 9,975</td>
<td>$178,175</td>
</tr>
<tr>
<td>$40,000</td>
<td>$13,300</td>
<td>$237,500</td>
</tr>
<tr>
<td>$50,000</td>
<td>$16,625</td>
<td>$296,875</td>
</tr>
<tr>
<td>$60,000</td>
<td>$20,600</td>
<td>$374,786</td>
</tr>
<tr>
<td>Salary</td>
<td>ARP</td>
<td>SERS</td>
</tr>
<tr>
<td>---------</td>
<td>-------</td>
<td>--------</td>
</tr>
<tr>
<td>$70,000</td>
<td>$25,175</td>
<td>$449,554</td>
</tr>
<tr>
<td>$80,000</td>
<td>$29,750</td>
<td>$531,250</td>
</tr>
<tr>
<td>$90,000</td>
<td>$34,325</td>
<td>$612,946</td>
</tr>
<tr>
<td>$100,000</td>
<td>$38,900</td>
<td>$694,643</td>
</tr>
<tr>
<td>$125,000</td>
<td>$50,325</td>
<td>$898,661</td>
</tr>
<tr>
<td>$150,000</td>
<td>$61,775</td>
<td>$1,103,125</td>
</tr>
</tbody>
</table>

Assumptions: 25 years of state service; retirement in 2010; SERS pension for single life with cost of living adjustment; cost to purchase commercial single life annuity at age 65 with equivalent income and cost of living adjustment.

**Myth 2:** ARP members just have to wait for the stock market to recover. Then their benefits will be equal or superior to SERS benefits.

*Reality.* Even before the stock market crash of 2008, ARP benefits were dramatically lower than SERS benefits. Even if and when the stock market recovers, ARP members will have lost forever the period of time that their investment values were depressed.

**Myth 3:** If ARP members switch to SERS and then die, their families will be out of luck.

*Reality.* Accumulated benefit rights in SERS can be passed on to surviving spouses.

**Myth 4:** SERS is about to go bankrupt because of a huge unfunded liability.

*Reality.* Conservative think tanks such as the Cato Institute, the American Enterprise Institute, and the Heritage Foundation are encouraging the belief that public employee pension funds are fiscally unsustainable. They have an ideological opposition to defined benefit retirement systems such as SERS and Social Security. They have disseminated widely through newspapers and other media the findings of studies they sponsored that purport to show that state pension funds and Social Security are teetering on bankruptcy because of unfunded liabilities.

To understand how this is a manipulative disingenuous campaign, we have to look at what an unfunded liability is. Defined benefit plans such as SERS and Social Security have liabilities because their benefits are guaranteed. Defined contribution plans such as ARP do not have liabilities because they have no guaranteed benefits—not because they are fiscally more sound or prudent.

In the past no one worried about the liabilities of defined benefit systems because they operated on pay-as-you-go bases. As long as there were more contributions coming in from active employees than payments going out to retired ones, the systems were fiscally sound. In recent years, there has been concern that such systems have reserves in case contributions decrease. That is a real concern for the private sector where companies could go out of business and leave employees in the lurch.
A fully funded system thus is one that would have enough of a reserve that it could pay all of its guaranteed benefits to retired and active workers if all contributions ceased. That is a worthy long term goal, but it is not a necessity for day to day operations.

Supposedly SERS is funded at 52 percent—it is usually put in the press as “at only 52 percent” as if that portended an imminent crisis, that it only would be able to pay half of its promised benefit amounts. But there is a glass half full way to look at it. SERS has enough of a reserve to cover just over half of its liabilities even if all payments into it were to stop. **But unless you believe that the State of Connecticut is about to go out of business, payments into SERS are not going to stop.** SERS in short has more than enough to meet its obligations to retirees despite the alarmist claims of the conservatives who what to push everyone into 401(k) type plans such as ARP.

Still another way to look at this is that it is said that in the history of the United States, no state pension fund has ever failed to meet its obligations to retirees.

The latest salvo in the anti-state worker campaign is the claim that SERS will run out of money by 2019. For the response of SEBAC, click [here](#).

See also, Q&A’s 11, 19, 20, and 39 in [vol. 2 of the SEBAC Q&A](#).

**Myth 5:** SERS costs the state much more than ARP. That is why SERS benefits are higher and unsustainable.

**Reality.** The normal operating costs of SERS are lower than those of ARP. The reason why ARP benefits are lower is because the financial services industry drains management fees, commissions, and profits from the accounts; and defined contribution plans such as ARP do not have the advantages of risk pooling that defined benefit plans such as SERS have. In general defined contribution plans require about twice as much contributions as defined benefit plans to deliver the same benefits.

See Q&A 11 in [vol. 2 of the SEBAC Q&A](#)

2. For ARP Members without Social Security

Over 800 ARP members who were first employed before 1990 do not have Social Security coverage.

A Social Security subcommittee of CCER is working on two issues: (a) We are seeking and will soon share information by email on the impact of ARP and the SERS transfer on future Social Security benefits. (b) We are exploring remedies for those discouraged by misinformation from opting in to Social Security.

To subscribe to the CCER Social Security distribution list: send an e-mail to Siporinr@mail.ccsu.edu

3. Upcoming Information Forums on the Transfer Opportunity

CCER recommends that ARP members at campuses or workplaces where there are not information sessions to attend one of the below ones even if they are not members of the sponsoring unions.
November 3, 12:00-2:00, ECSU, Goddard 100 (SUOAF-AAUP with Dan Livingston).

November 3, 4:00-7:00, SCSU (SUOAF-AAUP with Dan Livingston).

From Jean M. Morningstar, President of the University Health Professionals at the University of Connecticut Health Center: UHP is awaiting the final information from the Comptroller’s Office regarding the ARP. We will be setting up a series of informational meetings for UHP members for early November. We will keep everyone advised as to the dates, times and places of these meetings.

To watch a recording of the UConn forum, click here.

To listen to a recording of the CCSU forum, click here.

4. Resources for the Transfer Opportunity

SEBAC attorney and chief negotiator Dan Livingston has prepared 2 comprehensive values of questions and answers on the transfer opportunity. Anyone with questions should read through them.

Q&A, Vol. 1

Q&A, Vol. 2

Those considering transferring should familiarize themselves with the details of Tier II (employed before July 1, 1997) and Tier IIA (employed on or after July 1, 1997).

There is a very useful online SERS benefit calculator. It allows calculations that include surviving spouses.

The SEBAC higher education unions also have transfer opportunity resources on their websites.

SUOAF-AFSCME (State University Organization of Administrative Faculty, CSU, American Federation of State, County and Municipal Employees)

UCPEA-AFT (University of Connecticut Professional Employees Association-American Federation of Teachers)

Council 4-AFSCME (American Federation of State, County and Municipal Employees)

CSU-AAUP (CSU American Association of University Professors)

UHP-AFT (University Health Professionals-American Federation of Teachers, John Dempsey Hospital)

The 4C’s-SEIU (Congress of Connecticut Community Colleges-Service Employees International Union)

UCconn AAUP (University of Connecticut American Association of University Professors)

The Connecticut Committee for Equity in Retirement, which initiated and promoted the campaign to win this key reform, has accumulated a large amount of background materials about ARP and SERS on our website.
The Connecticut Committee for Equity in Retirement advocates a reform that would allow members of the Alternate Retirement Program to change to the State Employees Retirement System. ARP members contribute over twice as much as those in SERS yet will receive less than half the benefits. Website (or Google: Connecticut ARP Crisis)

To subscribe to this distribution list or to unsubscribe: send an e-mail to RussellJ@easternct.edu

To subscribe to the CCER Social Security distribution list (of interest primarily to ARP members who began before 1990 and do not have Social Security coverage): send an e-mail to Siporinr@mail.ccsu.edu