REPORT ON

STATE COMPTROLLER - RETIREMENT DIVISION

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

FOR THE FISCAL YEAR ENDED JUNE 30, 1990

AUDITORS OF PUBLIC ACCOUNTS
STATE OF CONNECTICUT

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July 16, 1991

AUDITORS' REPORT

STATE COMPTROLLER - RETIREMENT DIVISION

CONNECTICUT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

FOR THE FISCAL YEAR ENDED JUNE 30, 1990

We have made an examination of the financial records of the Connecticut Municipal Employees' Retirement System, maintained by the Retirement Division of the State Comptroller's Office, for the fiscal year ended June 30, 1990. We have also included within the examination the records of the Policemen and Firemen Survivors' Benefit Fund, which is administered by the Retirement Division as an adjunct of the Municipal Employees' Retirement System.

This report thereon, consists of the Comments, Recommendations and Certification which follow, together with the Statements described below:

Special Revenue and Fiduciary Funds:

Statement 1 - Combined Balance Sheet

Schedule 1a - Investments Owned, Together with an Analysis of Investment Transactions

Schedule 1b - Resources to be Provided to Amortize the Unfunded Past Service Costs

Section 7-439b of the General Statutes provides for annual cost-of-living increases effective on July first of each year for each retired member or surviving annuitant of a retired member receiving regular benefit payments, beginning with the first July following the date the retired member reached or would have reached the age of 65. Within the limits of a minimum of three percent and a maximum of five percent, the increase is based on the determination of the annual yield of the assets of the fund. When valuing the assets, the actuary is to use an adjusted asset value, such that market values of the assets are adjusted to recognize a portion of realized and unrealized gains and losses each year until fully recognized. The amount of the increase is the excess of the annual yield over a six percent yield, within the limits of a minimum of three percent and a maximum of five percent. Whenever the annual yield is less than nine percent, the past service amortizations of the participating municipalities are adjusted at the next actuarial valuation, to fund the difference between the amount of increase supported by the annual yield and the three percent increase actually granted. The amortization period to fund the liability that results from the cost-of-living increase will be determined by the Retirement Commission, but may not exceed 30 years. Eligible recipients received a five percent cost-of-living adjustment on July 1, 1989.

Section 7-441 of the General Statutes, which prescribes the various contributions required of participating municipalities, provides that each municipality must pay to the Retirement Commission an annual proportionate share of the Fund's administrative costs, as determined by the Commission on the basis of the number of members employed by each municipality. During the fiscal year ended June 30, 1990, the participating municipalities were required to contribute $50 per member for such administrative expenses. These moneys are deposited to the Administration Fund which was established to account for all administrative contributions and expenditures.

During the audited period several public acts, amending the Municipal Employees' Retirement System, took effect. They include the following:

1. Public Act 89-46 - excluded from membership any police officers or firefighters who will attain the compulsory retirement after less than ten years in Fund B.

2. Public Act 89-162 - allowed police and firefighters to work after the age of sixty-five and all other employees to work after age seventy with annual approval of the legislative body of the employing municipality.

3. Public Act 90-232 - for the purposes of refunding contributions from withdrawing municipalities, this Act added interest to the exclusion from returned contributions of previously retired members.

4. Public Act 90-308 - provided any member of the municipal employees' retirement system elected to serve as an official of the state during the 1988 calendar year or thereafter may elect, during the time he so serves, but no longer than ten years, to continue membership in said fund.

Policemen and Firemen Survivors' Benefit Fund:

The Policemen and Firemen Survivors' Benefit Fund operates, generally, under the provisions of Sections 7-323a through 7-323i of the General Statutes. The primary objective of the Fund is to provide benefits for surviving dependents of deceased municipal policemen and firefighters. Any municipality may, by ordinance or collective bargaining agreement approved by its legislative body, participate in the plan. Employee contribution rates are fixed by statute at one percent of the employee's compensation. Municipal contributions, however, are made in amounts determined by the Retirement Commission to be necessary to maintain the Fund on a sound actuarial basis. In lieu of the payment of survivors' benefits from the Fund, the Commission may obtain insurance coverage which provides for such benefits, with the premiums for such coverage being paid from the contributions to the Fund.

Section 7-323c, subsection (d), of the General Statutes prescribes that the Retirement Division assess the municipalities participating in the Fund for their proportionate share of the costs of the administration of the Fund.

The State Retirement Commission increased the administrative fee to $20 per member for the 1989-1990 fiscal year. Revenues collected through this assessment have been deposited to the Administration Fund of the Municipal Employees' Retirement System as its employees have the responsibility of overseeing the operations of the Policemen and Firemen Survivors' Benefit Fund.

As of June 30, 1990, six municipalities, with 490 active employees, were participating in this plan. They were the towns of Derby, Manchester, Middlefield, Milford, New London, and Seymour. To provide the necessary benefits the Retirement Commission negotiated with a local insurance company for a group annuity contract to meet the plan requirements. During the course of each fiscal year, employee and town contributions, in a total amount equal to the premium on the insurance contract, are deposited monthly to the Survivors' Benefit Fund and forwarded to the insuring company by the Retirement Division in payment of the premium.

Scope of Audit:

This examination of the financial records of the Municipal Employees' Retirement System included a review of the general ledgers and cash ledgers maintained for the various funds and a review of the financial matters contained in the minutes of the meetings of the State Employees' Retirement Commission. In addition, our review of the Municipal Employees' Retirement System included tests of the computation of retirement salaries and a verification of employee and employer contributions received and/or refunded on a test check basis.

Concerning the Policemen and Firemen Survivors' Benefit Fund, we reviewed the actuarial valuation of the Fund prepared by the insuring company. It should be noted that, in addition to those previously mentioned, our review included such other procedures as we deemed necessary during the conduct of our audit.

Connecticut State Employees' Retirement Commission:

The Commission, established under Section 5-155a of the General Statutes, is responsible for the administration of the retirement programs mentioned in this report. In accordance with such Section 5-155a, the membership of this Commission is composed of 15 trustees, including six trustees representing State employees, six trustees representing State management, two trustees who are professional actuaries, and one neutral trustee who serves as chairman. In addition the State Comptroller, ex officio, serves as a nonvoting secretary. All trustees serve for three-year terms, except for the chairman who serves a two-year term. The Governor makes all appointments except for the employee trustees who are selected by employee bargaining agents. The chairman and the actuarial trustee appointments are based on nominations by the other trustees.

Members of the Commission serve without compensation, except that the chairman and two actuarial trustees are compensated at their normal per diem rates plus travel expenses. All other Commission members are entitled to reimbursement for necessary expenses incurred in the performance of their official duties. Members of the Retirement Commission as of June 30, 1990, were:

Peter R. Blum, Chairman
Claude Poulin, Actuarial Trustee
Thomas L. Wills, Actuarial Trustee
Edward M. Archibald, Management Trustee
Lawrence J. Cacciola, Management Trustee
Robert D. Coffey, Management Trustee
Leonard Barbieri, Management Trustee
A. Bates Lyons, Management Trustee
Linda Yelmini, Management Trustee
Charles W. Casella, Employee Trustee *
Steven Perruccio, Employee Trustee *
Dominic J. Badolato, Employee Trustee *
William Morico, Employee Trustee *
Edward Marth, Employee Trustee *
Leo Canty, Employee Trustee *

* State Employees' Bargaining Agent Coalition (SEBAC)

Don DeFronzo also served during the audited period.

Résumé of Operations:

Municipal Employees' Retirement Funds:

The financial position of the Funds, as of June 30, 1990, is shown on Statement 1 of this report. The cash balances at June 30, 1990, for Fund B was $2,210,219. Fund A and the Administration Fund showed a cash overdraft of $533 and $11,878, respectively, at June 30, 1990. The deposit balances, as shown on Statement 1 of this report, were reconciled to bank statements and such bank statements were confirmed by the depositories during our audit of the accounts of the State Treasurer.

A portion of the Municipal Employees' Retirement Funds is invested in the State of Connecticut Investment Funds administered by the State Treasurer. As shown on Statement 1, the total cost value of such investments was $401,637,375 at June 30, 1990. Market values of these investments totalled $479,943,800 as shown on Schedule 1a. A summary of investments owned at June 30, 1990, together with an analysis of transactions concerning, and investment income earned from, such investments for the fiscal year under review is presented on Schedule 1a. Such investment balances, transactions and income were verified as a part of our audit examination of the State Treasurer for the fiscal year ended June 30, 1990.

Investment income receivable of the Funds totalled $3,701,464 as of June 30, 1990. The amounts due from municipalities at June 30, 1990, for employee and municipal contributions on salaries paid on or before June 30, amounted to $4,486,731. The remainder of the receivables was contributions due for prior service and interest.

In accordance with the provision of Section 7-441 of the General Statutes, each participating municipality is liable for an amount determined by the Retirement Commission on sound actuarial principles to be necessary to amortize the unfunded past service costs attributable to employees of the municipality. The unfunded past service liability is that portion of the projected obligation to pay benefits to participating employees, or their survivors, based on their accrued service prior to a certain date which is not expected to be met from the assets accumulated as of that date. The obligation to pay benefits based on service accrued subsequent to that date is assumed to be covered by employee and municipal contributions on salaries made subsequent to that date.

The net total of the resources to be provided to amortize the unfunded past service costs of Fund B at June 30, 1990, was $53,181,507, as shown on Schedule 1b, an increase of $18,305,878 from the prior year. This increase resulted primarily by the acceptance into the Municipal Employees' Retirement System of the City of Hartford Education Department as of August 1, 1988, with initial payment as of July 1, 1989. This balance of $53,181,507 represents the net total of the outstanding annual amortization payments scheduled to be made to provide for the unfunded past service costs as of the July 1, 1987, actuarial valuation. For the most part, the payments are scheduled to be made in equal annual installments over a period of 25 years, if positive, or ten years, if negative (credit to be refunded) beginning July 1, 1988, and July 1, 1989, respectively. Sections 7-439b and 7-441 of the General Statutes allow for such payments to be scheduled and/or rescheduled over 20 to 30 years from the occurrence of certain events (e.g., benefit change, cost-of-living adjustment, etc.). Due to our revised balance sheet presentation in accordance with one of the authoritative sources for pension accounting (National Council on Governmental Accounting (NCGA) Statement 6), these past service amounts no longer appear on the balance sheet as resources as was the case in prior years.

A more recent actuarial valuation was performed as of July 1, 1990. It was determined during that valuation that the unfunded pension benefit obligation was $57,698,510 as of that date. This latter valuation was done for financial reporting purposes only, and was not used as a basis for adjusting scheduled municipal amortization payments.

Liabilities of the Funds totalled $290,954 at June 30, 1990, as shown on Statement 1. They included amounts due for actuarial and administrative expenses, and certain pension liabilities.

The principal sources of revenue for Fund A and Fund B were earnings on investments and municipal and employee contributions. The principal item of expense, retirement salaries paid to retired employees or their survivors, amounted to $17,398,697, an increase of $2,408,206 over retirement salaries paid during the preceding 1988-89 fiscal year. Of this amount $6,642 was paid from Fund A and $17,392,055 was paid from Fund B. This increase, for the most part, can be attributed to the five percent cost-of-living increase effective July 1, 1989, and to an increase in the number of retirees and survivors receiving benefits.

The primary source of revenue for the Administration Fund consisted of assessments of $522,520; $512,900 from participants in the Municipal Employees' Retirement System and $9,620 from participants in the Policemen and Firemen Survivors' Benefit Fund. The other sources of revenue were earnings on investments and penalty interest billed for the late payment of administrative assessments.

Administrative expenses during the period under review totalled $448,273, and were comprised of the following:

Personal services	$254,487
Fringe benefits	103,040
Contractual services	89,157
Commodities	1,589
Total	$448,273

Administrative expenses for the 1989-1990 fiscal year, as shown above, decreased by $18,281 from the previous fiscal year total of $466,554. This decrease is mainly attributable to a decrease in expenditures for contractual services.

Policemen and Firemen Survivors' Benefit Fund:

The Policemen and Firemen Survivors' Benefit Fund functions principally as a pass-through account for premiums received from participating municipalities which are, in turn, remitted to a local insurance company for survivor benefit coverage. Administrative assessments are collected from the participating municipalities and deposited to the Administration Fund of the Municipal Employees' Retirement System as was previously mentioned in this report. Contributions receivable, as shown on Statement 1, represented a payment due to the insuring company as of June 30, 1990, for which contributions had not yet been received by the fund from participating municipalities.

During the 1989-1990 fiscal year, cash receipts of the Fund totalled $495,192 as shown on Statement 3. Cash disbursements totalled $362,796, also shown on Statement 3. The total premium payment due to the insuring company for the year's coverage was $212,376, a decrease of $150,420 from the $362,796 for the 1988-1989 fiscal year. The premiums were based on actuarial valuations done as of the beginning of each fiscal year. The actuarial valuation done as of July 1, 1989, for July 1, 1989, through June 30, 1990, resulted in a municipal contribution rate of 1.36 percent of each municipality's active covered payroll as of July 1, 1989. As previously mentioned in this report, employee contribution rates are fixed by statute at one percent of the employee's compensation.

A significant feature of the group annuity insurance plan currently in force is the accumulation, in a separate reserve account, of assets which are to be used to offset future plan liabilities. Changes in the reserve come from additions for contributions and investment income and from deductions for annuity payments and contract service charges. The actuarial valuation performed as of July 1, 1990, estimated the reserve for future benefit payments to total $9,803,476 as of June 30, 1990.

Surety Bond Coverage:

Surety coverage was provided for employees of the Office of the Comptroller (except the Comptroller) for the period under examination by:

Company - Insurance Company of North America
Amount of Coverage - $2,500,000

Bond # - JO 0748626
Period - May 1, 1989, to May 1, 1990
Type of Bond - Commercial Crime Policy
Type of Coverage - Public Employees Dishonesty and Faithful Performance of Duty

Company - Insurance Company of North America
Amount of Coverage - $2,500,000

Bond # - JO 1804480
Period - May 1, 1990, to May 1, 1991
Type of Bond - Commercial Crime Policy
Type of Coverage - Public Employees Dishonesty and Faithful Performance of Duty

Surety coverage was provided for State Comptroller, J. Edward Caldwell, for the period under examination by:

Company - Insurance Company of America
Amount of Coverage - $25,000

Bond # - JO 0578630
Period - March 1, 1987, to March 1, 1991
Type of Bond - Public Employees Schedule
Type of Coverage - Faithful Performance of Duty

Condition of Records:

Our review of the financial records of the Municipal Employees' Retirement System, as kept by the Retirement Division of the Comptroller's Office, revealed certain areas where improvement is needed. Our comments in the following paragraphs address these matters.

Internal Controls:

In previous reports we have commented on weaknesses in the System's contribution accounting function. Problems in this area began when the bookkeeping machine used for posting the control and subsidiary records of the System which accounted for active employee contributions became totally inoperative early in the 1982-1983 fiscal year. After several months delay the Retirement Division acquired and put into service a replacement machine during May 1983. This replacement machine was not the same model as that used previously and its use required, essentially, the implementation of a new, though similar, contribution accounting system. Use of this machine was intended as a temporary measure until a new automated processing system could be developed and fully implemented.

Balances from the last date the original system had been balanced and reconciled, March 31, 1982, were entered into the replacement machine. In addition, transactions for the quarter ended June 30, 1982, were entered into the machine and the subsidiary and control records partially balanced and reconciled as of that date. At that point it was decided to direct all efforts towards full implementation of the automated contribution accounting system for retirement contributions.

The automated contribution accounting system became fully operational during the 1985-1986 fiscal year. As of June 30, 1990, the data entered into the system had been reconciled and balanced within the system itself, and was being rolled over into the individual data bases on a timely basis. Currently, procedures have been established to reconcile entries into the system to cash and contribution general ledger control accounts on a monthly basis. However, the cumulative transactions have not been reconciled to the cash and contribution general ledger control accounts. (See Recommendation 1.) As of June 30, 1990 the cumulative difference amounts to some $97,179 by which the database's cumulative totals exceed the accounting record's cumulative totals. It appears continued effort on the part of agency personnel to reconcile these amounts would not be cost-effective. Consideration should therefore be given to establishing the variance at the amount as of June 30, 1990, and reconciling the monthly activity using that fixed variance.

Our prior audit's review of payments to the firm providing actuarial services to the Municipal Employees' Retirement System for the fiscal year ended June 30, 1989, revealed instances where the billings contained charges that lacked sufficient detail (i.e., hourly rate, number of hours worked, and dates of such work) to determine adequately if the proper amount was being charged.

Retirement Division personnel informed us that efforts were undertaken to improve the billing detail for these services. Our current review indicates that the division has made significant effort to improve its review of this area and to require billings which contained adequate detail to determine properly the validity of all charges billed.

Reporting Function:

Since 1979 we have commented on the need for a comprehensive annual report on the financial and actuarial condition of the Municipal Employees' Retirement System (MERS). Currently four published reports contain information on the condition of the Municipal Employees' Retirement System. These include the Annual Report of the State Comptroller, the Annual Report of the State Treasurer, the Annual Report of the Retirement Commission to the Governor, and the State of Connecticut Annual Report prepared under generally accepted accounting principles (GAAP).

The Comptroller's report contains only a balance sheet and cash receipts and disbursements statement, both of which lack footnotes or other narrative which would disclose other pertinent financial, actuarial, or general descriptive information. The Treasurer's report contains a very sketchy retirement system investment report and cash statement. The Retirement Commission report is a brief statistical report of activities. All three of these reports are essentially uninformative and of little use to the legislative or executive branches of government as a basis for evaluating or making decisions regarding the condition, funding, or administration of the Retirement Fund. The value of these reports to system members, municipalities employee unions, taxpayers and other concerned groups is also extremely limited.

The Comptroller completed a gradual conversion to Statewide reporting in accordance with generally accepted accounting principles (GAAP), starting with the fiscal year ended June 30, 1988, with the issuance of the first "Comprehensive Annual Financial Report" (CAFR) for the State of Connecticut. This report is designed to report on all State funds, including those public employee retirement systems (PERS) administered by the Retirement Commission, in accordance with GAAP established by the Governmental Accounting Standards Board (GASB).

In its first official statement, dated July 1984, GASB recognized the following pronouncements as sources of acceptable accounting and reporting principles for public employee retirement systems:

1. National Council on Governmental Accounting - Statement 1 "Governmental Accounting and Financial Reporting Principles."

2. National Council on Governmental Accounting - Statement 6 "Pension Accounting and Financial Reporting: Public Employee Retirement Systems and State and Local Government Employees."

3. Financial Accounting Standards Board - Statement 35 "Accounting and Reporting by Defined Benefit Plans."

Pending issuance of a future GASB statement on the subject, the three pronouncements noted above are applicable to aspects of pension accounting and financial reporting other than disclosures in notes to financial statements and required statistical tables. Pension disclosures are covered by GASB Statement No. 5 which was issued during November 1986. This statement, which is effective for fiscal years ended June 30, 1988, and beyond, establishes minimum disclosure standards for all State and local government pension plans.

It should be noted, that the actuaries for the Municipal Employees' Retirement Fund prepare a report on an annual basis, providing the participating municipalities with disclosure information required by Statement 5 of the Governmental Accounting Standards Board, which is needed by the towns for their financial reporting purposes. This report could also be readily adapted for PERS reporting purposes by the Retirement Commission.

In addition to GASB Statement 5, it is planned that a separate statement on pension accounting and reporting will be issued to replace that portion of GASB Statement No. 1 which deals with public employee retirement systems. A time frame for this project, however, has not yet been established.

It also should be noted that the GAAP reporting and disclosure requirements for PERS reporting purposes are more stringent than those required for CAFR reporting purposes. So while the publication of a CAFR by the Comptroller results in improved reporting over State pension funds, the requirements of GAAP as they relate to PERS cannot be met by this report alone, nor does this report relieve the Retirement Commission of its own reporting responsibility. The Retirement Commission needs to establish a separate PERS reporting function for the Municipal Employees' Retirement Fund to accommodate the additional GAAP reporting requirements. (See Recommendation 2.)

<u>Policemen and Firemen Survivors' Benefit Fund</u>:

The group annuity contract in effect during the audited period, for the Policemen and Firemen Survivors' Benefit Fund, provides for the insuring company to submit, annually, an actuarial valuation of the contract plan. The tenth valuation under this contract was performed as of July 1, 1989, for use in the plan year July 1, 1989, through June 30, 1990.

In ___ past ___ St_t_ R_t___me_t C_mm__ion has been conc_r_d about the possibility of excessive reserve amounts being accumulated by the insuring company for the payment of future plan benefits. Although no such concern has been expressed by the Commission concerning the valuations performed by the insuring company since the implementation of this plan, consideration should be given to having an independent actuarial firm review the valuation methods and assumptions used by the insuring company, to ensure that they are not resulting in excessive reserve accumulations.

Payroll Function:

Retirement salaries are generated by a system known as the "pre-list" system. Under this system the check register for the prior month becomes the input document to generated the current month's checks. The prior month's pre-list reflects any changes to be made for the current month.

This system has been in place for a number of years and is, for all intents and purposes, obsolete. There are some inherent limitations to this system as compared to newer "on-line" payroll systems. For example, under the "pre-list" method, cost-of-living increases are given to all retirees on the payroll although not everyone qualifies. As a result the "non-qualifying" retirees pay must be manually adjusted back to the original amount. Since this is a manual process some errors get by, resulting in overpayments which must be recovered.

Also adjustments which affect only one month's check must be similarly removed the next month but occasionally are overlooked. "On-line" systems could be incorporated with built-in controls to prevent these types of errors. It should be noted that agency personnel are diligent in their efforts to prevent these errors but are working with a system which has major deficiencies.

Those examples cited above and the fact that the "pre-list" system has major shortcomings in the areas of support, documentation and flexibility strongly suggest the Retirement Division consider replacing this system with a more advanced one. As a result we are suggesting the Division formulate a plan to provide for the eventual replacement of the current payroll system.

Waiver of Payments:

Section 7-439h provides for the possibility of Retirement Commission waiver of overpayments in situations where the retiree or beneficiary could not reasonably have been expected to detect said overpayment.

This section also stipulates that regulations be established to carry out the provisions of the section. At the time of our fieldwork we were informed that no such regulations have been promulgated despite the fact that we are aware of at least one request of long standing for waiver under these provisions.

We therefore suggest the Retirement Division promulgate said regulations in an expedient fashion so that the Retirement Commission may act on existing requests for waiver and on all future requests.

Administration Fund:

Our review of the administrative expenses charged to the Administration Fund showed that while all direct costs and most indirect costs of operating the Municipal Employees' Retirement System were being appropriately charged to the Fund, there were some indirect costs not being fully considered for charge back to the Administration Fund. These costs generally involve payroll processing services provided by the Computer Services Division, as well as support services such as database maintenance and accounts receivable collection which are provided to the MERF unit on an "as needed" basis. While attaching a value to these services may in some instances be difficult, such a quantification would better enable the agency to make a decision as to whether these items should be included in the administrative cost pool of the System.

Participation in Fund A:

Section 7-427 of the Connecticut General Statutes provide that any municipality eligible to participate in the Municipal Employees Retirement System may choose to participate in either Fund A or Fund B. A review of the recent history of Fund A reveals that there have been no active participants in Fund A for many years. As a matter of practical consideration Fund A is defunct.

Accordingly, we are suggesting the Retirement Division consider seeking legislative revision to eliminate formally the municipal option to participate in Fund A. If such revision is made, the Retirement Division should consider merging the remaining assets of Fund A into Fund B, and close out the fund. These actions would eliminate the necessity of maintaining separate accounting and reporting systems and lead to better fund administration.

Recommendations

In our previous report, we presented two recommendations concerning the operations of the Municipal Employees' Retirement System. The following is a summary of these recommendations and the actions taken by the Retirement Division.

1. Reconciliation of contribution control and subsidiary records to cash control accounts - Although the data base subsidiary records are up-to-date, the cumulative life to date totals are still not balanced to cash and contribution general ledger control accounts. The recommendation is repeated.

2. Preparation and issuance of a comprehensive annual report - Presently the actuaries for the Municipal Employees' Retirement System prepare for the Retirement Commission on an annual basis, a report providing disclosure information required by Statement 5 of the Governmental Accounting Standards Board. However, no comprehensive annual report on the System is prepared. The recommendation is repeated.

Included in the "Condition of Records" section of this report were the following suggestions to the Retirement Division.

> Consideration should be given to having an independent actuarial firm review the valuation methods and assumptions of the insuring company for the Policemen and Firemen Survivors' Benefit Fund to ensure that excessive reserve accumulations are not being built up.
>
> Consideration should be given to preparing a plan to replace the present, (and obsolete), retirement payroll system. The present system has major shortcomings in the areas of design, flexibility, and support.
>
> The Retirement Division should consider seeking legislative approval to eliminate the municipal option of joining Fund A in order to allow the remaining assets of Fund A to be merged into Fund B.
>
> The Retirement Division should promulgate waiver regulations as required by Section 7-439h so that existing and future requests for waivers may be acted upon by the Retirement Commission.

The following recommendations include two that have been repeated from our prior report (Recommendations 1 and 2).

1. The cumulative municipal and employee contribution balances as reflected in the subsidiary records of the Municipal Employees' Retirement Fund should be reconciled to the general ledger cash and contributions control accounts.

> Although the posting of current contribution data to the automated contribution accounting system is so reconciled, the cumulative historical data has not been similarly balanced to cash and contribution general ledger control accounts.

2. The financial statements of the Municipal Employees' Retirement System should be prepared in accordance with reporting and disclosure standards authorized by the Governmental Accounting Standards Board and such information should be communicated to interested parties through the issuance of an annual report.

> While not legally required to follow specific reporting or disclosure standards, the Retirement Commission has an inherent responsibility to disclose adequately pertinent information regarding its administration of the Municipal Employees' Retirement System. At a minimum, the Retirement Commission should comply with the generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB) for all Public

Employee Retirement Systems (PERS). As part of this effort, a PERS reporting function completely separate from the Comptroller's Statewide GAAP reporting function should be established. Such a reporting function could be consolidated with a corresponding PERS reporting function for the State Employees' Retirement System.

Independent Auditors' Certification

Financial Statements:

We have audited the accompanying financial statements prepared from the records of the State Comptroller and the State Treasurer for the fiscal year ended June 30, 1990. These financial records are the responsibility of the State Comptroller's Retirement Division management. Our responsibility is to express an opinion on the financial statements prepared from such records based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards for financial and compliance audits. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note F to Statement 1 of this report, the accompanying financial statements are intended to present the financial position and the results of operations and cash transactions of the Special Revenue and Fiduciary fund types of only that portion of the funds of the State of Connecticut that is attributable to the transactions of the Municipal Employees' Retirement System.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Special Revenue and Fiduciary funds of the Municipal Employees' Retirement System as of June 30, 1990, and the results of operations and cash transactions of such funds for the year ended on that date, in conformity with generally accepted accounting principles.

Compliance with Laws and Regulations:

Compliance with laws, regulations, and contracts applicable to the Municipal Employees' Retirement System, is the responsibility of the management of the Retirement Division. As part of obtaining reasonable assurance about whether the financial statements referred to above are free of material misstatements, we performed tests of the Division's compliance with certain provision of the laws, regulations, and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the Retirement Division complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the agency had not complied, in all material respects, with those provisions. We did, however, note certain immaterial instances of noncompliance which we have disclosed in the "Condition of Records" section of this report.

Internal Control Structure:

In planning and performing our audit of the financial records of the Municipal Employees' Retirement System as referred to above, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements prepared therefrom and not to provide assurance on the internal control structure.

The management of the Retirement Division is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report we have classified the Municipal Employees' Retirement System's significant internal control policies and procedures in the categories of payroll, contribution accounting, cash receipts, billings and collections, and reporting systems. Our consideration of the internal control structure included all of the control categories listed above. The purpose of our consideration of the internal control structure was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements prepared thereunder.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In the area of contribution accounting a weakness exists in that cumulative transactions have not been reconciled to cash and contribution general ledger control accounts.

A material weakness is a reportable condition in which the design or operations of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the inability to reconcile cumulative transactions to cash and contribution general ledger control accounts, as noted in the "Condition of Records" and "Recommendations" sections of this report, to be a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported on in the "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. This restriction is not intended to limit distribution of this report, which is a public document.

Conclusion

In conclusion, we wish to express our appreciation for the assistance and courtesies extended to our representatives by the personnel of the Retirement Division, especially those employees of the Municipal Employees' Retirement Section, during the course of our examination.

Gary P. Kriscenski
For the Auditors of Public Accounts

Approved:

Henry J. Becker, Jr.

Leo V. Donohue

Auditors of Public Accounts

kjk/0019A

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
COMBINED BALANCE SHEET
AS OF JUNE 30, 1998

Statement 1
Sheet 1

	Special Revenue Fund	Fiduciary Funds		
		Pension Trust		Agency
	Retirement Administration (1123)	Municipal Retirement Fund A (7047)	Municipal Retirement Fund B (7048)	Policemen and Firemen Survivors' Benefit (7049)
Assets	$	$	$	$
Cash in custody of State Treasurer	(11,878)	(533)	2,210,219	132,396
Investments at cost (market value $479,943,800) per Schedule 1a	87,648	12,450	401,537,277	
Investment income receivable, per Schedule 1a	135	444	3,700,885	
Employee contributions receivable			1,186,301	
Municipal contributions receivable			3,300,430	79,980
Other receivables			226,204	
Total Assets	$ 75,905	$12,361	412,161,316	$212,376
Pension liabilities			240,758	
Net Assets Available for Benefits			$411,920,558	
Other Liabilities and Fund Equity				
Liabilities:				
Due to General Fund	5,408			
Accounts payable	44,788			212,376
Total Liabilities	50,196			212,376
Fund Equity:				
Actuarial present value of projected benefits payable to current retirants and beneficiaries and terminated vested employees not yet receiving benefits			174,131,145	
Actuarial present value of credited projected benefits for active employees:				
Member contributions			46,953,196	
Employer-financed portion			248,534,727	
Total actuarial present value of credited projected services			469,619,068	
Unfunded actuarial present value of credited projected benefits			(57,698,510)	
Unreserved Fund Balance	25,709	12,361		
Total Fund Equity	25,709	12,361	411,920,558	-
Total Liabilities and Fund Equity	$ 75,905	$12,361	$411,920,558	$212,376

Notes:

A. Plan Description

1. The Municipal Employees' Retirement Fund (MERF) is the administrator of a cost sharing multiple employer public employee retirement system (PERS) established by the State of Connecticut and administered by the State Retirement Commission to provide pension benefits for the employees of participating municipalities. MERF is considered to be a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund.

2. Any local government authority in the State of Connecticut, including towns, cities, boroughs, regional school districts, housing authorities, or other special districts, may elect to participate for one or more of its departments, including elective officers; only teachers who are covered under the Connecticut State Teachers' Retirement System are ineligible. As of July 1, 1989, there were 143 participating local government units (counting departments of municipalities which joined or report separately as separate units).

At July 1, 1989, the MERF membership consisted of:

	Retirees and Beneficiaries	Terminated Vested	Active - Vested	Active - Non-Vested
Police and Fire				
a. Without Social Security	132	0	169	131
b. With Social Security	56	1	119	125
General				
a. Without Social Security	1,464	2	1,063	1,870
b. With Social Security	905	2	1,396	2,820
Withdrawn Municipalities	17	0	N/A	N/A
Total Members	2,574	5	2,747	4,946

3. Plan provisions are set by statute of the State of Connecticut. MERF provides retirement benefits, as well as death and disability benefits. Annual cost of living increases between three percent and five percent are paid to disabled members and nondisabled retired members over age 65. All benefits vest after ten years of continuous service. Members who retire after age 55 with ten years of service or after 25 years of service, irrespective of age, are entitled to an annual retirement benefit, payable monthly for life, in an amount for each year of service equal to:

   - If not covered by Social Security: two percent of the average of earnings for the three highest paid years of service.

   - If covered by Social Security: one and one-sixth percent of the average of earnings not in excess of the taxable wage base for the ten highest paid years, plus two percent of the average of earnings for the three highest paid years of service which is in excess of the average of earnings not in excess of the taxable wage base for the ten highest paid years.

4. Covered employees are required by State statute to contribute two and one-fourth percent of earnings upon which Social Security tax is paid plus five percent of earnings on which no Social Security tax is paid. Each participating municipality is required to contribute the amounts necessary to finance the remaining costs of the plan.

5. The Policemen and Firemen Survivors' Benefit Fund, which is administered as an adjunct of the Municipal Employees' Retirement System, had six participating municipalities as of June 30, 1990, with 490 and 278 active and retired/annuitant members, respectively. In lieu of providing benefit payments from the Policemen and Firemen Survivors' Benefit Fund, the State Retirement Commission, in accordance with Section 7-323 of the General Statutes, negotiated with a local insurance company for a group annuity contract to provide the survivor benefit coverage. An actuarial valuation of the insurance company plan performed as of July 1, 1990, estimated the reserve for future benefit payments to total $9,803,476 as of June 30, 1990.

Notes: (continued)

B. Summary of Significant Accounting Policies and Plan Asset Matters

1. Basis of Accounting

MERF financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employees services are performed.

2. Method Used to Value Investments

Retirement trust funds can invest in the following investment pools maintained by the State of Connecticut.

Mutual Fixed Income Fund - Investments consist principally of bonds and notes.

Mutual Equity Fund - Investments consist principally of common stocks.

Mutual Mortgage Fund - Investments consist principally of residential real estate mortgages and loans.

Mutual Contract Fund - Investments consist principally of Insurance Company Guaranteed Investment Contracts.

Real Estate Fund - Investments consist principally of interest in commingled equity real estate funds.

Yankee Mac Fund - Investments consist principally of residential mortgage backed securities.

Commercial Mortgage Fund - Investments consist principally of interest in commercial mortgages.

Venture Capital Fund - Investments consist principally of interests in venture capital partnerships which have common stock interests in emerging businesses.

International Stock Fund - Investments consist principally of international equity securities.

Cash Reserve Fund

Investments in the pool funds are valued at cost (see Schedule 1a). Market values of the investment pools are determined by Master Custodian based on the performance of the underlying securities (see Schedule 1a). Investment income is recognized as earned. Gains and losses on sales and redemptions of investments are recognized on the transaction date. There are no investments in any organizations that represent five percent or more of net assets available for benefits.

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
COMBINED BALANCE SHEET
AS OF JUNE 30, 1990

Statement 1
Sheet 4

Notes: (continued)

C. Funding Status and Progress

1. The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the plan, discussed in Note D below.

2. The pension benefit obligation was determined as part of an actuarial valuation at July 1, 1990.

3. Significant actuarial assumptions used include:

   a. Rate of return on the investment of present and future assets of seven percent per year compounded annually.

   b. Projected salary increases of four and one-half percent per year compounded annually, attributable to inflation.

   c. Additional projected salary increases of one percent per year, attributable to seniority/merit.

   d. Post-retirement benefit increases of three percent per year compounded annually.

4. Pension Benefit Obligation, July 1, 1990:

	$
Retirees and Beneficiaries Currently Receiving Benefits and Terminated Vested Employees not yet Receiving Benefits	174,131,145
Current Employees:	
Accumulated Employee Contributions Including Allocated Investment Income	46,953,196
Employer-Financed Vested	206,524,730
Employer-Financed Non-Vested	42,009,997
Subtotal	295,487,923
Total Pension Benefit Obligation	469,619,068

5. Net Assets Available for Benefits at Cost (Market Value $479,943,800) — 411,920,558

6. Unfunded Pension Benefit Obligation — $ 57,698,510

7. There were no changes during this year of (a) actuarial assumptions or (b) benefit provisions. There was a change in actuarial assumption with regard to service connected disability benefits. The impact on the unfunded pension obligation is not considered to be significant.

Notes: (continued)

D. Contributions Required and Contributions Made

1. Each covered municipality is required by State statute to pay an actuarially determined percentage of covered payroll to provide for benefits based on current service. This percentage varies by police and fire versus general city employees, and, within those two groups, with versus without Social Security. The statute also requires each municipality to pay an annual amount for benefits based on service prior to the unit's date of participation. This amount is a level dollar amortization (including interest and principal) over varying time periodes depending on the unit's date of participation and other factors.

2. a. The contributions are actuarially determined using the projected unit credit cost method.

   b. The actuarial assumptions are the same as used to compute the pension benefit obligation discussed in Note C above.

   c. The contributions for 1989-1990 are based on the January 1, 1983, and July 1, 1987, actuarial valuations. Contributions totalling $25,799,650 ($19,237,856 employer and $6,561,794 employee) were made for the plan year ended June 30, 1990, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed as of January 1, 1983, and July 1, 1987. These contributions consisted of: (a) $25,841,313 normal cost and (b) $(41,663) amortization of the unfunded actuarial accrued liability. The employer and employee contributions represent nine and four-tenths percent and four and one-half percent of covered payroll as of July 1, 1988, respectively.

E. Ten Year Historical Trend Information

Ten year historical trend information designed to provide information about MERF's progress made in accumulating sufficient assets to pay benefits when due is presented in the supplement immediately following these notes to financial statements.

F. The accompanying financial statements are intended to present the financial position and the results of operations and cash transactions of the Special Revenue and Fiduciary fund types of only that portion of the funds of the State of Connecticut that is attributable to the transactions of the Municipal Employees' Retirement System.

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
COMBINED BALANCE SHEET
AS OF JUNE 30, 1990

Statement 1
Sheet 6

Required Supplementary Information****:

ANALYSIS OF FUNDING PROGRESS
(in Millions of Dollars)

Actuarial Valuation Year Ended	(1) Net Assets Available for Benefits *	(2) Pension Benefit Obligation	(3) Percent Funded (1)/(2)	(4) Unfunded Pension Benefit Obligation (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a percent of Covered Payroll (4)/(5)
July 1, 1982	159	178	89	19	81	23
July 1, 1987	279	346	81	67	144	47
July 1, 1988	348	388	90	40	160	25
July 1, 1989	378	438	86	60	185	32
July 1, 1990	412	470	88	58	186	31

Actuarial valuations were performed as of January 1, 1983, July 1, 1987, July 1, 1988, July 1, 1989 and July 1, 1990. The standardized measure of the pension obligation is not available for the intervening years.

*Asset values are reported at cost in the financial statements and thus, in accordance with GASB No. 5, are reported here at cost. Note that the July 1, 1990, market value of assets was $479,943,800. If this market value is used, the MERF system is 102 percent funded.

REVENUES BY SOURCE AND EXPENSES BY TYPE
(in Millions of Dollars)

Fiscal Year	Revenues by Source: Employee Contribution	Employer Contributions*	Investment Income	Realized Gains**	Other***	Total	Expenses by Type: Benefits	Refunds	Total
1980-1981	2.7	8.0	10.2	(.9)	0	20.0	5.5	.3	5.8
1981-1982	3.0	8.1	12.8	(.8)	0	23.1	6.1	.5	6.6
1982-1983	3.1	8.9	14.2	(1.7)	0.3	24.8	6.9	.4	7.3
1983-1984	3.8	10.1	15.7	.1	5.2	34.9	7.6	.5	8.1
1984-1985	3.9	10.0	17.6	.4	0	31.9	8.6	.5	9.1
1985-1986	4.5	11.5	18.0	2.0	0	36.0	9.5	.7	10.2
1986-1987	7.3	13.3	17.9	4.2	0	42.7	11.6	.7	12.3
1987-1988	6.1	16.7	21.7	38.9	0	83.4	13.0	.8	13.8
1988-1989	7.6	19.5	20.2	0	0	47.3	15.0	1.1	16.1
1989-1990	6.6	19.3	21.7	2.7	0	50.3	17.4	1.2	18.6

* Contributions were made in accordance with actuarially determined requirements.
** Prior to 1987-1988, realized gains (losses) were amortized over ten years. In 1987-1988, all previously unrecognized realized gains (losses) were recognized.
*** Transfers from Fund A.
**** The required supplementary information shown above was independently compiled by the actuarial firm of Gabriel, Roeder, Smith and Company.

STATE CONTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
INVESTMENTS OWNED, TOGETHER WITH
AN ANALYSIS OF INVESTMENT TRANSACTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	Cost Value June 30, 1989 (Per Previous Report)	Prior Period Adjustments	Cost of Investments Acquired	Cost of Investments Disposed of	Cost Value June 30, 1990 (Per Statement
Retirement Administration Fund (1123):	$	$	$	$	$
State of Connecticut:					
Short Term Investment Fund	25,000		616,744	554,096	87,648
Retirement Fund A (7047):					
State of Connecticut:					
Short Term Investment Fund	19,215			6,765	12,450
Retirement Fund B (7048):					
State of Connecticut					
Combined Investment Funds:					
Cash Reserve Fund	19,742,612		33,839,658	43,520,209	10,062,061
Mutual Fixed Income Fund	122,208,050		2,100,000	7,895,953	116,412,097
Mutual Equity Fund	138,567,207		1,200,000	5,538,706	134,228,501
Mutual Contract Fund	359,531				359,531
Yankee Mac Fund	2,467,470				2,467,470
Real Estate Fund	54,301,343	(894)	11,900,000	769,085	65,431,364
International Stock Fund	26,000,000		13,100,000		39,100,000
Commercial Mortgage Fund	6,262,000		2,000,000		8,262,000
Mutual Mortgage Fund	57,653				57,653
Venture Capital Fund	1,901,600		800,000		2,701,600
International Bond Fund			21,000,000		21,000,000
Connecticut Programs Fund			1,455,000		1,455,000
Totals	371,867,466	(894)	87,394,658	57,723,953	401,537,277
Grand Totals	$371,911,681	$ (894)	$88,011,402	$58,284,814	$401,637,375

Schedule 1a

l)	Investment Income for Fiscal Year	Investment Income Receivable June 30, 1990 (Per Statement 1)	Gains and Losses from Sales of Securities	Number of Units of Ownership June 30, 1990	Market Value June 30, 1990
	$	$	$		$
	20,012	135		87,640	87,640
	---------------	----------	------------		------------
	1,456	444		12,450	12,450
	---------------	----------	------------		------------
	1,342,139	56,727		10,062,061	10,062,061
	8,815,459	1,280,948	304,047	1,299,220	121,965,322
	4,957,579	889,758	2,261,295	804,810	109,962,026
	243,425	1,228,816		3,723	391,747
	415,272			16,551	2,125,402
	3,633,554	45,315	90,032	708,328	74,539,116
	603,399	95,660		322,418	47,410,701
	1,479,415	44,257		79,017	8,307,532
	30,409	485		500	44,190
	32,175			30,039	2,456,061
	585,320	58,919		206,053	21,311,462
	653			14,550	1,106,602
	---------------	----------	------------		------------
	22,138,879	3,700,885	2,655,374		479,843,702
	---------------	----------	------------		------------
	$ 22,160,347	$3,701,464	$ 2,655,374		$479,943,800
	===============	==========	============		============

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
RESOURCES TO BE PROVIDED TO AMORTIZE
THE UNFUNDED PAST SERVICE COSTS
AS OF JUNE 30, 1990

Municipality
Retirement Fund B:
Andover
Ansonia Housing Authority
Bozrah
Branford
Bridgeport
Bridgeport Housing Authority
Bristol Housing Authority
Canterbury
Clinton
Connecticut Housing Authority
Cromwell Police
Danbury Housing Authority
Derby
East Hartford Housing Authority
East Haven
Easton
East Shore Health Department
Ellington
Enfield Housing Authority
Greenwich Housing Authority
Griswold
Groton Housing Authority
Hartford
Hartford Housing Authority
Jewett City
Lebanon
Lower Naugatuck Valley Health District
Manchester
Manchester Housing Authority
Mansfield
Mattabassett District
Meriden Housing Authority
Middlefield
Middletown Housing Authority
Milford Housing Authority
Monroe
Montville
Naugatuck Housing Authority
New Britain
New Britain Housing Authority

Schedule 1b
Sheet 1

Outstanding Annual Payments Scheduled June 30, 1990
$
(21,736)
(8,976)
396,749
(18,296)
(15,297,776)
(184,680)
(32,696)
58,436
889,147
281,840
1,010,178
(48,264)
1,526,376
176,760
1,428,144
882,864
(7,632)
(3,480)
(16,720)
(36,632)
(34,136)
(896)
39,654,155
(602,920)
253,272
333,952
(33,504)
4,253,592
(9,456)
(117,744)
(226,144)
(34,784)
297,297
(66,592)
(48,328)
2,440,824
895,512
(33,584)
(3,064,696)
(134,400)

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
RESOURCES TO BE PROVIDED TO AMORTIZE
THE UNFUNDED PAST SERVICE COSTS
AS OF JUNE 30, 1990

Municipality
Retirement Fund B: (continued)
New Fairfield
New London Housing Authority
Norwalk Housing Authority
Norwalk 1st Taxing District
Norwalk 2nd Taxing District
Norwich City Housing Authority
Norwich Town Housing Authority
Plymouth
Portland Housing Authority
Putnam
Putnam Housing Authority
Quinnipiac Valley Health District
Redding
Regional School District #4
Rockville
Seymour
Seymour Housing Authority
Shelton
Shelton Housing Authority
Southeastern Connecticut Regional Planning
Southeastern Connecticut Water Authority
Southington
South Norwalk Electric Works
Stafford Springs
Stamford Housing Authority
Stonington
Stratford Housing Authority
Thompson
Torrington Housing Authority
Wallingford Housing Authority
Watertown Water
Watertown
West Hartford Housing Authority
West Haven Housing Authority
Weston
Westport/Weston Health District
Wethersfield Housing Authority
Willimantic Housing Authority
Winchester
Winchester Housing Authority

Schedule 1b
Sheet 2

Outstanding Annual Payments Scheduled June 30, 1989
$
704,511
(56,896)
(63,336)
(81,648)
(213,192)
46,464
48,120
1,147,008
(3,144)
729,168
(14,552)
(58,520)
683,480
625,396
(17,096)
96,216
408
2,187,528
(1,512)
(70,528)
(14,288)
349,424
(343,616)
58,032
(134,336)
1,506,336
167,592
51,576
(43,192)
10,992
(50,512)
(96,040)
3,192
(20,408)
4,612,357
(37,840)
8,880
98,904
1,400,075

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
RESOURCES TO BE PROVIDED TO AMORTIZE
THE UNFUNDED PAST SERVICE COSTS
AS OF JUNE 30, 1990

Schedule 1b
Sheet 3

Municipality	Outstanding Annual Payments Scheduled June 30, 1990
Retirement Fund B: (continued)	$
Windsor	2,872,104
Windsor Locks	1,086,752
Woodbridge	786,688
Woodstock	525,670
Obligations of Municipalities to Retirement Fund B as of June 30, 1990	$ 53,181,507

Notes:
1. The outstanding balance of $53,181,507 as of June 30, 1990, was calculated as follows:

	$
Balance, July 1, 1989, per prior report	34,875,629
Actuarial and other adjustments (net)	18,264,214
Payments applied	(2,996,587)
Credits refunded	3,038,251
Balance, June 30, 1990, per above	$ 53,181,507

2. The payments required to amortize the unfunded past service costs were calculated based on the actuarial assumptions adopted for the valuation of Retirement Fund B as of July 1, 1987. This valuation was performed using the projected unit credit actuarial cost method for allocation of projected benefits. The results of a July 1, 1987, actuarial valuation are reflected, for the most part, in the muncipalities' contributions at July 1, 1988. However, adjustments for certain muncipalities were not scheduled to go into effect until July 1, 1989. As of July 1, 1990, the unfunded pension benefit obligation was recalculated using updated financial information. As a result, the unfunded pension benefit obligation was determined to be $57,698,510 as of June 30, 1990. The above schedule of annual payments for the towns will not be adjusted to reflect the results of this latter valuation until July 1, 1991.

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

Statement 2

	Special Revenue Fund	Fiduciary Funds — Pension Trust	
	Retirement Administration (1123)	Municipal Retirement Fund A (7047)	Municipal Retirement Fund B (7048)
Revenues:	$	$	$
Investment income, per Schedule 1a	20,012	1,456	22,138,879
Net Gain, from Sales of Securities, per Schedule 1a			2,655,374
Assessments for administrative and actuarial expenses (net of refunds):			
Municipal Employees' Retirement Fund	512,900		
Policemen and Firemen Survivors' Benefit Fund	9,620		
Contributions from municipalities (net of refunds)			19,279,519
Amortization payments from municipalities (net of refunds)			(41,663)
Interest on prior service, military service, and late payments (net of refunds)			203,256
Interest earned on cash deposit			12,788
Member contributions (net of refunds)			6,561,794
Interest on Administrative Expense	306		
Total Revenues	542,838	1,456	50,809,947
Expenses:			
Retirement salaries, net of reimbursements		6,642	17,392,055
Administrative expenses (net of refunds)	448,273		
Actuarial expenses	77,405		
Interest expense			138,604
Other expenses			2,967
Total Expenses	525,678	6,642	17,533,626
Excess (Deficiency) of Revenues over Expenses	17,160	(5,186)	33,276,321
Other Operating Factors:			
Interfund transfers		(1,183)	1,183
Adjustment to reflect revised accounting presentation of unfunded pension obligation			(34,875,629)
Prior year adjustment			(894)
Net Changes Resulting from Operations of 1989-1990	17,160	(6,369)	(1,599,019)
Fund Equity, June 30, 1990, per prior report	8,549	18,730	413,519,577
Fund Equity, June 30, 1990, per Statement 1	$ 25,709	$12,361	$411,920,558

Note 1: See Note F, Statement 1.

STATE COMPTROLLER - RETIREMENT DIVISION
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SPECIAL REVENUE AND FIDUCIARY FUNDS
COMBINED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

Statement 3

	Special Revenue Fund	Fiduciary Funds		
		Pension Trust		Agency
	Retirement Administration (1123)	Municipal Retirement Fund A (7047)	Municipal Retirement Fund B (7048)	Policemen and Firemen Survivors' Benefit (7049)
Cash in custody of State Treasurer, June 30, 1989, per previous report	$ 53,012	$ (551)	$ 728,169	$
Receipts:				
Cost of investments disposed of, per Schedule 1a	554,096	6,765	57,723,953	
Investment income received	20,081	1,183	21,671,800	
Interest earned on cash deposit			(6,678)	
Assessment for administrative and actuarial services	522,520			
Contributions from employees			6,647,879	
Contributions from municipalities			18,874,764	
Amortization payments from municipalities			2,996,587	495,192
Interest on purchase of prior service and late payments	306		230,480	
Reimbursement of retirement salaries			11,885	
Transfer from other funds			1,288	
Prepaid Amortization			14,554	
Gain on sale of investments			2,655,375	
Total Receipts	1,097,003	7,948	110,821,887	495,192
Total	1,150,015	7,397	111,550,056	495,192
Disbursements:				
Cost of Investments Acquired, per Schedule 1a	616,744		87,394,658	
Payments for administrative expenses	481,767			
Payments for actuarial services	63,382			
Retirement salaries		6,642	17,403,940	
Transfer to other funds		1,288		
Employee contributions refunded			1,211,973	
Municipal contributions refunded			149,442	
Refund of interest payable on active members' contributions			138,604	
Refunds from equity			2,969	
Amortization payments refunded to municipalities			3,038,251	
Premiums paid to insurance company				362,796
Total Disbursements	1,161,893	7,930	109,339,837	362,796
Cash in Custody of State Treasurer, June 30, 1990, per Statement 1	$ (11,878)	$ (533)	$ 2,210,219	$ 132,396

Note 1: See Note F, Statement 1.

REPORT ON

STATE COMPTROLLER

STATE RETIREMENT FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1991

AUDITORS OF PUBLIC ACCOUNTS
STATE OF CONNECTICUT

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS
STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106

December 4, 1992

AUDITORS' REPORT

STATE COMPTROLLER

STATE RETIREMENT FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1991

We have made an examination of the financial records of the State Retirement Funds including the State Employees' Retirement Fund, the Alternate Retirement Program Fund, the State's Attorneys' Retirement Fund, the General Assembly Pension Fund, the Judges' and Compensation Commissioners' Retirement Fund, the Public Defenders' Retirement Fund, the Probate Judges' and Employees' Retirement Fund, the Municipal Employees' Retirement Fund and the Policemen and Firemen Survivors' Benefit Fund, maintained by the Retirement Division of the State Comptroller's Office for the fiscal year ended June 30, 1991. We have included in that examination the records pertaining to the State's appropriations for the Alternate Retirement System, the Judges' and Compensation Commissioners' Retirement Fund, the various miscellaneous statutory pensions and the State's share of retirement salaries and health insurance costs for retirees. This audit does not include the Teachers' Retirement Fund, as this fund is administered by a separate Teachers' Retirement Board.

This report on that examination consists of the Comments, Recommendations and Certification which follow, together with the Statements and Schedules described below:

State Retirement Funds:

Statement 1 - Combining Balance Sheet

Schedule 1a - Investments Owned, Together with an Analysis of Investment Transactions

Schedule 1b - Resources to be Provided to Amortize the Unfunded Past Service Costs of the Municipal Employees' Retirement Fund

Statement 2 - Combining Statement of Revenues, Expenses and Changes in Fund Equity

Statement 3 - Combining Statement of Changes in Assets and Liabilities

Statement 4 - Combining Statement of Cash Receipts and Disbursements

General and Special Transportation Funds:

Statement 5 - Receipts for State Retirement Programs

Statement 6 - Appropriations and Expenditures for State Retirement Programs

It should be noted that this audit consolidates our audits of the State Employees' Retirement System and the Municipal Employees' Retirement System, which audits in the past were reported on under separate cover.

Comments

Foreword:

State Employees' Retirement Fund:

Title 5, Chapter 66, of the General Statutes, defined as the "State Employees Retirement Act," provides for a retirement system for State employees to be administered by a board of trustees known as the Connecticut State Employees' Retirement Commission. Accounting records pertaining to the operations of the retirement system are maintained by the Retirement Division of the State Comptroller's Office. In addition, the State Treasurer serves as custodian and investment manager of the funds of the retirement system.

On June 30, 1982, the required legislative action was completed approving the "Pension Agreement," a collective bargaining agreement to be effective for the period July 1, 1982, through June 30, 1988, concerning changes to the retirement system for State employees. These changes, most of which took place on October 1, 1982, applied to those collective bargaining units party to the agreement or subsequently accepting it and to those employees excluded from collective bargaining to whom the provisions were extended by the Legislative Management Committee and the Commissioner of Administrative Services. Public Act 83-533, effective July 7, 1983, incorporated into the General Statutes the provisions of the "Pension Agreement," as amended by a "Supplemental Pension Agreement." This supplemental agreement, which took effect March 1, 1983, was designed to correct certain technical language deficiencies contained in the original agreement.

A second supplemental agreement was approved by the General Assembly May 15, 1985. This agreement incorporated various changes effected by collective bargaining agreements approved subsequent to the first supplemental agreement, and also addressed various issues which developed in the implementation of the original pension agreement. Public Act 85-510, effective June 27, 1985, codified the provisions of this supplemental agreement into the General Statutes.

Although the pension agreement only covered the period July 1, 1982, through June 30, 1988, the State continued to provide benefits based on the provisions of that agreement until the General Assembly's appropriation committee approved an arbitration award on October 12, 1989. This award was retroactively effective for the six year period beginning July 1, 1988. Most of the provisions of the original pension agreement were also contained in this arbitration award. Listed below is a summary of the major changes or additions of the arbitration award.

1. Spousal consent for retirement options - A married employee cannot elect a payment option which does not grant survivor benefits to the surviving spouse, without the consent of the spouse in writing.

2. Tier II Social Security integration - For any years in excess of 35 the formula used to determine benefits is changed to one and five-eighths percent of the final average earnings times the total number of years over 35. In addition, the Social Security breakpoint increases at a lower rate.

3. Tier II normal retirement age - Effective July 1, 1992, the Tier II normal retirement age becomes age 60 or older with 25 years of service or age 62 with 10 years of service.

4. Tier II early retirement reduction - Effective July 1, 1991, the benefit reduction decreases to one-quarter of one percent for each month benefits are paid prior to the normal retirement age and includes a three percent annual maximum.

5. Allow one-time spousal option change - Current beneficiaries were provided a one-time option change in order to have an option that would provide medical benefits for surviving spouses and/or dependents under 18.

6. Guarantee minimum disability coverage - Employees eligible for disability retirement are guaranteed a minimum pension (including Social Security and workers' compensation) of at least 60 percent of their salary.

7. Benefit accrual beyond age 70.

8. Full funding and funding change - The actuarial method used to determine the required yearly contribution amount was changed to the "projected unit credit" method and effective July 1, 1992, the period of time over which the unfunded liabilities are to be paid was lowered to 30 years.

9. Increase in hazardous duty employee contribution rates - Rates for both Tier I and Tier II members are increased and employees are eligible for hazardous duty retirement after 20 years of service.

10. State is to pay 100 percent of the cost of retirees' medical benefits.

The "Pension Agreement," as amended, provides for a noncontributory pension plan referred to as Tier II. This plan became effective October 1, 1982. New employees who are hired after July 1, 1984, are automatically covered under this plan.

The Tier I plan, also effective October 1, 1982, was based on the then existing retirement system provided for in Chapter 66 of the General Statutes. Under Tier I, however, certain provisions of Chapter 66 were modified by the pension agreement. Employees working in positions covered by the pension agreement, or who were exempt from the collective bargaining process, were automatically covered under Tier I if they were contributing to the State Employees' Retirement Fund as of October 1, 1982, or the effective date of the Tier II plan stated in the respective collective bargaining unit agreement, whichever was later.

Tier I is a contributory pension plan. As provided for in Section 5-158f of the General Statutes, there are two benefit plans within Tier I, referred to as Plan B and Plan C, to which eligible members could elect to belong. Plan B is integrated with Social Security and pays a lower benefit at age 65 or once Social Security disability benefits are received. Members of this plan are required by Section 5-161 of the General Statutes to contribute two percent of that portion of their salary on which Social Security taxes are withheld ($53,400 for 1991 and $51,300 for 1990) and five percent on that portion on which Social Security taxes are not withheld. Plan C benefits are in addition to those provided by Social Security. Because of this, members receive a greater retirement benefit, as this benefit is not subject to reduction for any Social Security benefits received. Accordingly, a higher contribution rate is required of Plan C members. This rate is equal to five percent of each member's salary. Transfers between plans is not allowed once members have made their initial selection.

Section 5-162 of the General Statutes provides for a normal retirement at age 55 with 25 years of service, or at age 60 with ten years of service, or at age 70 with five years of service, for members of both Plan B and Plan C. In accordance with Section 5-162, Plan C members receive a yearly retirement benefit equal to two percent of their final average earnings (three highest years) times years of credited service. Plan B retirement benefits are computed in the same manner up to age 65 or until Social Security disability benefits commence. Thereafter the benefit is computed, or recomputed if the member had previously been retired, at a rate equal to one percent of final average earnings up to $4,800 plus two percent of final average earnings in excess of $4,800, times years of credited service.

Under Section 5-163 of the General Statutes, Plan B and Plan C members are eligible to receive early retirement benefits at age 55 with ten years service. This benefit is calculated using the same formula as for the normal retirement benefit except that a lower benefit percentage factor is substituted to reduce actuarially the benefit to take into account the longer time period over which the benefit is expected to be paid.

The Tier II noncontributory plan provides a single level of benefits to all members. For members who retire on or before June 1, 1992, this plan provides for a normal retirement at age 65 with ten years service, or at age 70 with five years service. Effective July 1, 1992, the plan provides for a normal retirement at age 60 with twenty five years of service or at the age of 62 with ten years of service. The yearly retirement benefit is equal to one and one-third percent of the final average earnings (three highest years) plus one-half of one percent of the final average earnings in excess of the year's breakpoint ($18,100 in 1991 and $17,100 in 1990) times years of credited service to a maximum of 35 years and one and five-eighths percent of the final average earnings times the years of credited service over 35 years.

Employees in Tier II who retire July 1, 1991 through June 1, 1992 can take an early retirement at age 55 with ten years of service, but their benefit amount is permanently reduced by one-quarter of one percent for each month their retirement precedes age 65. Employees who take an early retirement on or after July 1, 1992, will have their basic normal benefit amount reduced by one-quarter of one percent for each month they retire prior to the age of 62.

As provided for in Section 5-173 of the General Statutes, State policemen and employees who work in positions designated as hazardous duty, who are members of Tier I, may receive normal retirement benefits with 20 years of service regardless of age. This yearly benefit is equal to 50 percent of the member's final average earnings (three highest years) plus two percent for each year in excess of 20. There is no early retirement benefit provided to hazardous duty employees, regardless of tier membership.

Under Tier II hazardous duty members are also eligible for retirement benefits after 20 years of service regardless of age. Such yearly benefit is equal to two percent of final average earnings (three highest years) times years of service. Hazardous duty members who belong to Tier II contribute at a rate of four percent of their total earnings to the plan. Hazardous duty members who belong to Tier I contribute at a rate of four percent of their total earnings on which Social Security taxes are withheld and five percent of their salary on which Social Security taxes are not withheld.

Survivor benefits for State policemen who are members of Tier I are provided for in Sections 5-146 through 5-150 of the General Statutes. Section 5-146, subsection (a), provides surviving spouses of deceased State policemen with a monthly allowance of $670 payable for life or until remarriage, with payments to commence upon the death of such State policeman. Provision is also made for a surviving spouse to receive an additional monthly benefit for any unmarried dependent children under the age of 18. Such payments range from $300 to $700 per month, depending on the number of children.

In addition to the retirement benefits provided for in Section 5-162 of the General Statutes, Section 5-163b provides a supplemental retirement benefit for any member meeting the eligibility requirements by July 1, 1989, and submitting a written application on or after June 1, 1989, but before October 1, 1989. This supplemental benefit is equal to two percent of such member's annual base rate of pay as of June 29, 1989, multiplied by the member's completed years of credited service, excluding accrued vacation time, not to exceed $21,600. This benefit is being paid over 36 equal monthly installments, commencing with the month in which the member's retirement becomes effective.

During December 1991, a collective bargaining agreement was reached between the State of Connecticut and the State Employees Bargaining Agent Coalition (SEBAC). This agreement, which was ratified by the General Assembly on February 26, 1992, included an early retirement incentive program which provides for three incentive years of credit for any SERS member who meets the eligibility requirements by March 1, 1992, and submits a written application on or after November 1, 1991, but before March 1, 1992. The three incentive years will first be applied to a member's age to bring his or her age to fifty-five and then to service credit time for any remaining incentive credit. For members who already have reached the age of fifty-five or who are hazardous duty members, the incentive years will be applied in total to service credit time. Instructional faculty members in the various higher educational agencies, the vocational technical school systems or other like educational settings, may have their effective dates of retirement deferred by the State to not later than July 1, 1992.

The State Employees' Retirement System provides for the retirement coverage of virtually all employees of the State of Connecticut, The American School for the Deaf, The Connecticut Institute for the Blind, and in certain cases, employees of the United States Property and Fiscal Office, operators of vending stands in public buildings, members of the General Assembly, and certain teachers employed at the E. O. Smith School. As of July 1, 1991, Public Act 91-10 of the June Special Session, no longer allowed new employees or reemployed employees of Newington Children's Hospital to be eligible for membership in the State Employees' Retirement System. Any Hospital employee as of June 30, 1991, would remain a member of the system until the Hospital established a qualified defined benefit pension plan, but no longer than a three month period ending September 30, 1991. However, Public Act 92-226 repealed Public Act 91-10 of the June Special Session and allows any employee of Newington Childrens' Hospital, The American School of the Deaf and The Connecticut Institute for the Blind, who was member of the State Employees' Retirement System as of December 31, 1992 to remain in the system. No persons employed or reemployed by these three institutions, on or after January 1, 1993, will be eligible to become members of the State Employees' Retirement Fund. Public Act 92-226 also extended the SEBAC early retirement incentive program, previously mentioned in this report, to employees of these three institutions who meet the eligibility requirements and are permanent full-time employees on April 1, 1992, and who will retire on July 1, 1992.

Those State employees not participants in the State Employees' Retirement System include judges, Compensation Commissioners, certain State's Attorneys and Public Defenders, teachers in the Teachers' Retirement System and higher education employees in the Alternate Retirement Program.

Employees in Tier II automatically become members of the system on the first day of employment. Employees in Tier I, as provided for in Section 5-160 of the General Statutes, automatically became members of the system on the first day of the pay period following permanent appointment if appointed to the classified service or on the first day of the pay period following six months if appointed to the unclassified service.

Under the provisions of Section 5-156a of the General Statutes, the State Employees' Retirement System is to be funded on an actuarial reserve basis. The funding plan actually began with the 1973-1974 fiscal year and is based on annual certifications from the Retirement Commission to the General Assembly of the amount necessary to accomplish this gradually over a period which could extend to the year 2027 as scheduled in the aforementioned Section 5-156a. The General Assembly appropriates annually the amounts necessary to meet this funding plan and such amounts are paid over to the Retirement Fund in equal monthly installments. These payments are not supposed to be reduced or diverted for any purpose until the unfunded liability has been amortized. However, two agreements reached with the State Employees' Bargaining Agent Coalition (SEBAC) and ratified by the General Assembly on February 26, 1992 and June 26, 1992, respectively, provide for reductions in the appropriations needed to meet the funding plan. As provided for in these agreements, the pension fund's liability for the early retirement programs of 1989 and 1992 shall be reamortized over a period of forty years commencing in the 1994-1995 fiscal year. The State's contribution for the past service liability for the 1991-1992 fiscal year is reduced by $215,000,000 and from July 1, 1992, forward, the remaining past service liability shall be amortized on the basis of a level dollars payment per year over forty years. Payments for the unfunded past service liability established for the next four years are as follows:

Fiscal Year	Amount $
1992-1993	92,700,000
1993-1994	121,300,000
1994-1995	130,500,000
1995-1996	138,400,000

Contributions for the normal cost of pensions will remain at full funding levels.

The Retirement Commission is required to prepare a valuation of the assets and liabilities of the system at least once every two years. The Commission is authorized to employ the services of actuaries to prepare such valuations and to determine the annual appropriation of State funds necessary to meet the funding plan outlined in Section 5-156a.

An actuarial valuation of the system was prepared as of June 30, 1991. As a result of that valuation an unfunded past service liability as of June 30, 1991, of $3,031,564,831 was recognized. This valuation was done in accordance with provisions contained in the arbitration award, which changed the actuarial cost method beginning with the June 30, 1989, valuation from the "entry age normal" method to the "projected unit credit" method.

The report on the actuarial valuation also disclosed the following membership data as of June 30, 1991:

Number of Active Members:	
Tier I:	
Hazardous Duty	2,503
Plan B	21,782
Plan C	2,153
Tier II:	
Hazardous Duty	4,007
Regular	24,601
Total Members Included in Valuation	55,046
Members with less than one year of service or incorrect birth/hire dates	188
Total Active Members	55,234
Number of Retired Members:	
Regular Service Retirements	18,687
Disability Retirements:	
Service Connected	615
Non-Service Connected	992
Hazardous Duty Retirements	1,143
Retirements - Beneficiaries of Deceased Retirees	2,342
Total Retired Members	23,779
Number of Terminated Members with Vested Rights	727

Alternate Retirement Program Fund:

Section 5-155a of the General Statutes empowers the Connecticut State Employees' Retirement Commission to authorize participation in an alternate retirement program for eligible unclassified employees of the constituent units of the State system of higher education. Such program may be underwritten by a licensed life insurance company.

The arbitration award provides that all employees who elect to become members of the Alternate Retirement Program after July 13, 1990, will also be covered by Social Security. Any employee who was a member before that date had the option of choosing whether or not they wanted to participate in Social Security. For those employees who chose to be covered by Social Security, their coverage began July 13, 1990.

The one authorized plan in operation is based on the continuation of an agreement made initially between the Board of Higher Education and the Teachers' Insurance and Annuity Association - College Retirement Equities Fund. Under the terms of this agreement employee and State contributions are forwarded monthly to the insurer who issues annuity contracts to individual participants. Retirement benefits are based on contributions, length of participation, age, etc. Terminating employees may request repurchases of the contract (refund) or may choose to remain in the program with no further State contribution. The employer share of repurchased contracts is returned to the State by the insurer.

The retirement contribution rate for participants is five percent of salary while the State's share is determined from a schedule in Section 5-156 of the General Statutes. All participant and State contributions are held in a separate retirement fund in the custody of the State Treasurer and are forwarded to the insuring company upon certification from the State Comptroller. Effective July 1, 1985, and thereafter the State share is fixed at eight percent of salary.

It should be noted, that Public Act 91-10 of the June Special Session provided that expenditures from the Alternate Retirement Program Fund account, to be forwarded to the insuring company, may exceed the appropriation to such account if such deficiency is due to anticipated reimbursements to the account and if such reimbursements are anticipated to be made within six months of such expenditures. The transfers of the State share from the General Fund appropriation for that purpose must be made in the month following the employee contribution.

State's Attorneys' Retirement Fund:

Sections 51-49, 51-278, 51-287 and 51-288 of the General Statutes provide a separate retirement plan for State's Attorneys. Eligibility for membership in this plan is limited under Section 51-287 to "Each chief state's attorney, deputy chief state's attorney and state's attorney who elected under the provisions of section 51-278 to be included in the provisions of this section...." In accordance with an opinion of the Attorney General eligibility for participation in the retirement plan is limited to the Chief State's Attorney, his two deputies and to those who were State's Attorneys and participants in the plan on June 30, 1973, or who were incumbent State's Attorneys on July 1, 1978, and who were, on June 30, 1973, either assistant State's Attorneys, chief prosecuting attorneys or deputy chief prosecuting attorneys. All appointees to these offices who do not meet the eligibility requirements must be members of the State Employees' Retirement System.

Section 51-278 requires the State Comptroller to deduct five percent of the salaries of member State's Attorneys as contributions for retirement purposes. These contributions are deposited in a separate agency/trust fund in the custody of the State Treasurer. Contributions can be refunded if any such attorney leaves office before retirement.

The retirement salary for which a member State's Attorney is eligible is determined from his age at retirement, his years of service and the salary of the office which he held at the time of his retirement, as such salary may be changed from time to time. The retirement salary, however, cannot exceed two-thirds of the salary of the office. Since the retirement salary is based on six and two-thirds percent of salary for each year of service, the maximum retirement credit is accrued after ten years of service. In the event of disability, a member State's Attorney may be retired at the maximum retirement salary. In the event of death, the widow of a member State's Attorney is entitled to one-third of the salary of the office which he held at the time of retirement, as such salary may be changed from time to time.

Although the aforementioned sections of the General Statutes do not specifically outline the method of financing retirement salary payments to each retired State's Attorney, it has been determined administratively that such payments will be charged to the retired attorney's contributions, as well as to any investment income earned by the fund. When both of these funding sources are depleted, payments will then be charged to the General Fund appropriation for "Pensions and Retirements - Other Statutory."

General Assembly Pension Fund:

Sections 2-8b to 2-8p of the General Statutes had provided for a voluntary retirement plan for members of the General Assembly. Under Public Act 85-502, effective July 1, 1985, this pension system was abolished and all assets of the Fund were transferred to the State Employees' Retirement Fund, except for those actuarially determined reserves needed to fund those already retired from the General Assembly Pension System. Instead, as provided for in Section 2-8r, members of the General Assembly were to be covered under Tier II of the States Employees' Retirement System, unless by December 31, 1990, an election was made by the member to participate in the Tier I plan.

Judges' and Compensation Commissioners' Retirement Fund:

Sections 51-49 through 51-50b, inclusive, and Section 51-51 of the General Statutes provide a retirement system for judges and compensation commissioners. All moneys received in connection with the system are to be deposited to the Judges' and Compensation Commissioners' Retirement Fund. Funding for the system is to be provided by contributions from the General Fund and from payroll deductions from members' salary at a rate of five percent. The Commission is the administrator of the system while the State Treasurer serves as custodian and investment manager of the fund.

Participation in this system is automatic for all commissioners and judges, except that judges, with ten years of credited service in the State Employees' Retirement System at the time of their initial appointment, may elect to remain in that system, as provided for in Section 5-166a.

Prior to October 1, 1981, the retirement system for judges and compensation commissioners was an unfunded system, whereby retirement benefits were paid from legislative appropriations. Retirement salaries for judges were paid from a General Fund appropriation account within the Judicial Department, while commissioners and their surviving spouses, as well as the surviving spouses of the judges were paid from the Comptroller's General Fund appropriation for "Pensions and Retirements - Other Statutory." The retirement contributions of active members were also deposited to the General Fund.

Section 51-49d of the General Statutes provides that the Judges' Retirement System be funded on an actuarial reserve basis with actuarial surveys of the system performed every two years and with annual certifications to the General Assembly of funding requirements. The first year of the new funding plan was 1982-1983.

For the first six years the funding program consisted of varying percentages of the sum of the normal cost and the amount required for a 40-year amortization of the unfunded liability. These percentages started at 50 percent for the fiscal year beginning July 1, 1982, and increased ten percent each year until July 1, 1987, when the percentage became 100 percent. The funding program was changed with the passage of Public Act 91-10 of the June Special Session. This Act provides that the unfunded past service liability is to be funded as a level percentage of payroll. The State's contribution amount will be the sum of the normal cost and the amount required for a forty-year amortization of unfunded liabilities. The forty-year amortization will commence with the fiscal year beginning July 1, 1991.

The retirement salary for which a member is eligible is determined from his age at retirement, his years of service and the salary of office which he held at retirement, as such salary including longevity pay, may be changed from time to time or, if appointed after January 1, 1981, his final compensation. Members become eligible for the normal retirement benefit at age 65, or after 20 years of service. This benefit is equal to two-thirds of the salary of office, as such salary, including longevity pay, may be changed from time to time or, where applicable, to two-thirds of the member's final compensation.

A reduced retirement benefit is available to those members with ten years of service who do not meet the eligibility requirements for a normal retirement benefit. In the event of disability, members receive the normal retirement benefit. In the event of death, the surviving spouse is entitled to one-third of the salary of office held at the time of retirement, as such salary may be changed from time to time or, where applicable, one-third of the deceased spouse's final compensation.

Public Defenders' Retirement Fund:

Sections 51-49, 51-295 and 51-295a of the General Statutes provide a separate retirement program for each Public Defender incumbent on July 1, 1978, similar to the Program for State's Attorneys. In addition, effective July 1, 1986, the Chief Public Defender and his deputy could elect membership in this retirement program. A retirement fund was established to receive contributions from participants at the rate of five percent of salary, including transfers from the State Employees' Retirement Fund for transferred service credit. Retirement salary determination, eligibility, death benefits and funding arrangements are similar to those previously explained for the State's Attorneys' Retirement Fund.

Probate Judges' and Employees' Retirement Fund:

Sections 45a-34 through 45a-56 of the General Statutes provide for a retirement system for Probate Court judges and employees to be administered by the Commission. Section 45a-35 established a Probate Judges' and Employees' Retirement Fund to account for retirement contributions from members of the system as well as the amounts transferred from the Probate Court Administration Fund and to finance the benefits, allowances and other payments required under the system.

As provided in Section 45a-49 all contributions required under the system are to be transmitted by the Commission to the State Treasurer who shall be Custodian of the Retirement Fund with power to invest as much of the Fund as is not required for current disbursements. Sections 45a-44 and 45a-45 require members of the retirement system to make contributions equal to two and one-quarter percent of their earnings on which Social Security taxes are paid through the Commission and five percent of earnings in excess of that, while for those not under such Social Security coverage, retirement contributions are five percent of earnings.

Section 45a-82 of the General Statutes requires that on or before July first annually the Commission shall certify to the State Treasurer, on the basis of an actuarial determination, the amount to be transferred to the Retirement Fund to maintain the actuarial plan adopted by the Commission. Payments of these actuarially determined funding amounts are made from the Probate Court Administration Fund.

The retirement salary for which a member is eligible is determined from his Social Security coverage, if any, his retirement date, years of service, and average final compensation, in accordance with the provisions of the aforementioned sections of the General Statutes. No retirement salary, however, including Social Security benefits, can exceed 80 percent of the member's average final compensation for judges or 100 percent for employees, and no retirement salary can be less than $360 annually.

Municipal Employees' Retirement Funds:

The Connecticut Municipal Employees' Retirement System, which is administered by the State Employees' Retirement Commission, operates, generally, under the provisions of Sections 7-425 through 7-450a of the General Statutes.

The Municipal Employees' Retirement System is composed of a Retirement Fund and an Administration Fund. As provided in Section 7-426 the Retirement Fund is divided into two parts, namely, Fund A and Fund B. As of June 30, 1991, Fund A had no active employees enrolled and eight retired employees receiving benefits. These individuals were employees of municipalities that are no longer members of the Municipal Employees' Retirement System.

As of June 30, 1991, 98 municipalities and housing authorities with 7,405 enrolled active employees were participants in Fund B. As of that date, benefits were being paid from Fund B to 2,768 retired employees or to their survivors.

Any municipality may, by resolution passed by its legislative body and subject to referendum, participate in the System. Such resolution shall specify whether acceptance is as to participation in Fund A or Fund B. The effective date of participation shall be the first day of July at least 90 days subsequent to the receipt by the Retirement Commission of a certified copy of the resolution. Participation may also be effected through an agreement between a municipality and an employee bargaining organization. If so, Section 7-474, subsection (f), of the General Statutes, provides that the effective date of participation shall be the first day of the third month following the month in which a certified copy of the agreement is received by the Retirement Commission, or such later date as may be specified in the agreement. Under Section 7-427, eligible employees of housing authorities who were not already enrolled in Fund B were required to become members thereof on July 1, 1972, unless the board of commissioners of the authority voted against such participation.

Employee contribution rates for Fund B are set by Section 7-440 of the General Statutes. Each employee contributes to the Fund 2.25 percent of the portion of salary for which Social Security contributions are to be deducted and five percent of the portion for which such contributions are not to be deducted. Municipal contribution rates are set by the Retirement Commission based on actuarial surveys which, under the provisions of Section 7-443, are required at least every five years. The Retirement Commission at its July 20, 1989, meeting voted to have actuarial valuations performed annually. Although the Retirement Commission voted to have annual actuarial valuations, one was not done as of July 1, 1991. In efforts to stabilize the municipal contribution rates the Retirement Commission decided to continue the rates based on the July 1, 1990 actuarial valuation and to have the actuaries perform an experience study and funding review. This review, which is currently being done, will be used in determining the 1993-1994 fiscal year municipal contribution rates.

The actuarial valuation as of July 1, 1989, approved by the Retirement Commission at its March 15, 1990 meeting, revised the contribution rates effective July 1, 1990. Another actuarial valuation as of July 1, 1990 was performed and revised the contribution rates again, effective July 1,1991. The rates used for the period under review and the new rates effective July 1, 1991, are presented in the chart below:

	Effective Date July 1,	
	1990	1991
Policemen and fire fighters with Social Security	17.66%	16.44%
Others with Social Security	6.74%	7.15%
Policemen and fire fighters without Social Security	16.11%	14.46%
Others without Social Security	8.10%	7.32%

Section 7-439b of the General Statutes provides for annual cost-of-living increases effective on July first of each year for each retired member or surviving annuitant of a retired member receiving regular benefit payments, beginning with the first July following the date the retired member reached or would have reached the age of 65. Within the limits of a minimum of three percent and a maximum of five percent, the increase is based on the determination of the annual yield of the assets of the fund. When valuing the assets, the actuary is to use an adjusted asset value, such that market values of the assets are adjusted to recognize a portion of realized and unrealized gains and losses each year until fully recognized. The amount of the increase is the excess of the annual yield over a six percent yield, within the limits of a minimum of three percent and a maximum of five percent. Whenever the annual yield is less than nine percent, the past service amortizations of the participating municipalities are adjusted at the next actuarial valuation, to fund the difference between the amount of increase supported by the annual yield and the three percent increase actually granted. The amortization period to fund the liability that results from the cost-of-living increase will be determined by the Retirement Commission, but may not exceed 30 years. Eligible recipients received a five percent cost-of-living adjustment on July 1, 1990.

Section 7-441 of the General Statutes, which prescribes the various contributions required of participating municipalities, provides that each municipality must pay to the Retirement Commission an annual proportionate share of the Fund's administrative costs, as determined by the Commission on the basis of the number of members employed by each municipality. During the fiscal year ended June 30, 1991, the participating municipalities were required to contribute $75 per member for such administrative expenses. These moneys are deposited to the Administration Fund which was established to account for all administrative contributions and expenditures.

During the audited period several public acts, amending the Municipal Employees' Retirement System, took effect. They include the following:

1. Public Act 91-86 - a married employee cannot elect a payment option which does not grant survivor benefits to the surviving spouse without the consent of the spouse in writing.

2. Public Act 91-213 - extended the purchase period of military service for Fund B members from October 1, 1989 to January 1, 1992.

3. Public Act 91-241 - extended the purchase period for prior state service for Fund B members from January 1, 1987 to January 1, 1992, or within one year after the applicant becomes a member, whichever is later.

<u>Policemen and Firemen Survivors' Benefit Fund</u>:

The Policemen and Firemen Survivors' Benefit Fund operates, generally, under the provisions of Sections 7-323a through 7-323i of the General Statutes. The primary objective of the Fund is to provide benefits for surviving dependents of deceased municipal policemen and firefighters. Any municipality may, by ordinance or collective bargaining agreement approved by its legislative body, participate in the plan. Employee contribution rates are fixed by statute at one percent of the employee's compensation. Municipal contributions, however, are made in amounts determined by the Retirement Commission to be necessary to maintain the Fund on a sound actuarial basis. In lieu of the payment of survivors' benefits from the Fund, the Commission may obtain insurance coverage which provides for such benefits, with the premiums for such coverage being paid from the contributions to the Fund.

Section 7-323c, subsection (d), of the General Statutes prescribes that the Retirement Division assess the municipalities participating in the Fund for their proportionate share of the costs of the administration of the Fund. The State Retirement Commission increased the administrative fee to $30 per member for the 1990-1991 fiscal year. Revenues collected through this assessment have been deposited to the Administration Fund of the Municipal Employees' Retirement System as its employees have the responsibility of overseeing the operations of the Policemen and Firemen Survivors' Benefit Fund.

As of June 30, 1991, six municipalities, with 504 active employees, were participating in this plan. They were the towns of Derby, Manchester, Middlefield, Milford, New London, and Seymour. To provide the necessary benefits the Retirement Commission negotiated with a local insurance company for a group annuity contract to meet the plan requirements. During the course of each fiscal year, employee and town contributions, in a total amount equal to the premium on the insurance contract, are deposited monthly to the Survivors' Benefit Fund and forwarded to the insuring company by the Retirement Division in payment of the premium.

<u>Pensions and Retirements - Other Statutory</u>:

Sections 3-2a, 6-2b and 11-10a of the General Statutes and various special acts authorize pensions and retirements to former governors and their spouses, certain former county employees and law librarians, and various individuals. These pensions and retirements are paid from a special appropriation of the General Fund entitled "Pensions and Retirements - Other Statutory." In addition, this account is used to fund that portion of the retirement benefits paid to retired members of the State's Attorneys' and Public Defenders' Retirement Funds that is not funded by the Retirement Funds themselves.

Scope of Audit:

This examination of the financial records of the retirement funds included a review of the general ledgers and cash ledgers, a reconciliation of equity account totals and the control totals, a test of equity balances refunded, a review of financial matters in the minutes of the meetings of the Retirement Commission, an examination, on a test basis, of changes in retirement payrolls and the payroll preparation and processing procedures and a verification of selected payments for prior service credits. Internal controls in effect for the operations of the retirement funds were also reviewed as a part of this audit.

Connecticut State Employees' Retirement Commission:

The Commission, established under Section 5-155a of the General Statutes, is responsible for the administration of the retirement programs mentioned in this report. In accordance with such Section 5-155a, the membership of this Commission is composed of 15 trustees, including six trustees representing State employees, six trustees representing State management, two trustees who are professional actuaries, and one neutral trustee who serves as chairman. In addition the State Comptroller, ex officio, serves as nonvoting secretary. All trustees serve for three-year terms, except for the chairman who serves a two-year term. The Governor makes all appointments except for the employee trustees who are selected by employee bargaining agents. The chairman and the actuarial trustee appointments are based on nominations by the other trustees.

Members of the Commission serve without compensation, except that the chairman and two actuarial trustees are compensated at their normal per diem rates plus travel expenses. All other Commission members are entitled to reimbursement for necessary expenses incurred in the performance of their official duties. Members of the Retirement Commission as of June 30, 1991, were:

Peter R. Blum, Chairman
Claude Poulin, Actuarial Trustee
Thomas L. Wills, Actuarial Trustee
Edward M. Archibald, Management Trustee
Lawrence J. Cacciola, Management Trustee
Robert D. Coffey, Management Trustee
Leonard Barbieri, Management Trustee
A. Bates Lyons, Management Trustee
Linda Yelmini, Management Trustee
Charles W. Casella, Employee Trustee *
Steven Perruccio, Employee Trustee *
Dominic J. Badolato, Employee Trustee *
Merrilee Milstein, Employee Trustee *
Edward Marth, Employee Trustee *
Leo Canty, Employee Trustee *

* State Employees' Bargaining Agent Coalition (SEBAC)

William Morico also served during the audited period.

<u>Medical Examining Board for State Employee Disability Retirement</u>:

Under Section 5-169 of the General Statutes the Governor shall appoint a board of seven State employee physicians to determine entitlement to disability retirement for members of the State Employees' Retirement System. The members of the Board as of June 30, 1991, were:

Robert L. Chesanow, M.D., Chairman
Marietta Sonido, M.D., Secretary
William F. Lynch, M.D.
Robert Scarlata, M.D.
Eileen Storey, M.D.

Asha Qusba, M.D., also served during the audited period.

Résumé of Operations:

State Employees' Retirement Fund:

The financial position of the State Employees' Retirement Fund, as of June 30, 1991, is presented in Statement 1 of this report.

A portion of the State Employees' Retirement Fund is invested in Combined Investment Funds of the State of Connecticut in the custody of the State Treasurer. As shown in Statement 1, the total cost value of such investments at June 30, 1991, was $2,934,514,877. Market value of these investments, as determined by the State Treasurer, totalled $3,346,530,979 as shown in Schedule 1a.

A summary of investments owned at June 30, 1991, as well as the investment income, is presented in Schedule 1a of this report. An analysis of transactions within the investment account is also shown in Schedule 1a. Detailed listings of these investments and the income applicable were developed and verified as a part of our audit of the records of the State Treasurer.

Receivables and other amounts due to the Retirement Fund totalled $9,417,663 at June 30, 1991. These included investment income receivable, employee contributions and Federal contributions applicable to the 1990-1991 fiscal year but received subsequent to June 30, 1991.

The employer contributions are based on the actuarial needs of the retirement system as determined by the consulting actuary and certified by the Retirement Commission. The actuary's calculation, based on current service costs and a 40-year amortization of unfunded liability, was determined to be $398,016,908. Anticipated recoveries from Federal and restricted accounts and self-supporting funds in the amount of $55,000,000 reduced the employer's share to

$343,016,908. Through a memorandum of understanding between the State and the State Employees Bargaining Agent Coalition (SEBAC), a reduction of $128,200,000 was applied to this amount. This reduction was due to an increase in the interest rate assumption for the 1990-1991 fiscal year from 8.5 percent to 9.5 percent and a retroactive application of this assumption change to the 1989-1990 fiscal year. A further reduction of $6,000,000 was applied against the 1990-1991 contribution amount due to a twenty-seventh paycheck being included in 1988-1989 wage base used in the June 30, 1989 valuation, instead of the normal twenty-six. These reductions left the State's share at $208,816,908. The 1990-1991 budget act appropriated $192,216,908 from the General Fund and $16,600,000 from the Special Transportation Fund. The State's funding payments from the General and the Special Transportation Funds were transferred to the Retirement Fund, as shown in Statements 2 and 6 of this report.

In the "Foreword" of this report, we mentioned that an actuarial valuation of the Retirement Fund had been prepared as of June 30, 1991. As shown on Statement 1 of this report, the State Employees' Retirement Fund had an unfunded past service liability as of June 30, 1991, of $3,031,564,831.

Net retirement salaries paid during the fiscal year ended June 30, 1991, totalled $269,287,841. This represented an increase of $21,907,316 over the net amount of $247,380,525 expended during the 1989-1990 fiscal year. This increase resulted from the retirees added to the payrolls during the 1990-1991 fiscal year and the cost-of-living allowances granted on July 1, 1990, and January 1, 1991.

The retirement salaries paid included the original monthly retirement salary, the supplemental retirement benefit provided under Section 5-163b of the General Statutes and the various cost-of-living adjustments authorized by the General Assembly. The cost-of-living plan in effect for retirees not covered by a collective bargaining agreement is provided for in Sections 5-162b and 5-162d. Such retirees receive a three percent annual cost-of-living adjustment if they retired after July 1, 1980, and an annual cost-of-living adjustment of three to five percent if they retired on or before that date. In the latter instance the adjustment percentage is tied to changes in the National Consumer Price Index.

Cost-of-living adjustments for retirees covered by collective bargaining agreements are provided for in Section 5-162d as amended by any applicable collective bargaining agreement. During the 1990-1991 fiscal year such retirees received the same cost-of-living benefits as non-covered retirees, except that the maximum five percent annual adjustment was applicable only to those covered persons who retired prior to January 1, 1980. All others receive the standard three percent annual adjustment. To be eligible for the first adjustment a member must be retired at least nine full months. The first increase takes place on the January 1 or July 1 after the eligibility requirement has been met. Thereafter adjustments take place on the anniversary of the first increase.

In addition, Section 5-162h of the General Statutes provides for an annual cost-of-living adjustment of three to six percent for those covered retirees who are at least age 62 who were not covered by Social Security for at least one-half of their years of State service. This adjustment is also tied to changes in the National Consumer Price Index.

As shown in Statement 2, refunds of active members' contributions totalled $2,511,532. This represents a increase of $901,382 from the 1989-1990 total of $1,610,150.

Alternate Retirement Program Fund:

The financial position of the Alternate Retirement Program Fund is presented on Statement 1 of this report. The amount due from the General Fund represents the employer's share of contributions due on June 1991 salary payments.

The cash in custody total shown on Statement 1 represents employee and employer contributions processed during June 1991, which were not forwarded to the insuring company until July and other contributions previously submitted which were not forwarded to the insuring company as of June 30, 1991. The total of employee and State share of contributions for June payrolls is shown as payable to the insuring company. Also included in the amount payable to the insuring company are deductions from prior years not correctly transferred from the State Employees' Retirement Fund to the Alternate Retirement Program. Further comments on the cash balance of the Alternate Retirement Program can be found in the "Condition of Records" section of this report.

During the 1990-1991 fiscal year, contributions from participant employees amounted to $8,270,928 after adjustment for items recorded in error between this program and the State Employees' Retirement Fund. The State's share from the General Fund totalled $13,232,983 at a rate of eight percent of salary payments to participants. A total of $21,503,616 was remitted to the insuring company. The balance of $2,192 remains in the fund pending correction of various coding errors.

The General Fund share of the aforementioned contributions was met from appropriations administered by the Comptroller for the purposes of the Alternate Retirement System. As shown in Statement 6 of this report net charges against the 1990-1991 appropriation for this purpose totalled $7,688,097. The State's share of the June 1991 contribution was charged as budgeted to the 1991-1992 General Fund appropriation while that for the previous June was charged to the 1990-1991 appropriation.

Recoveries of General Fund costs for terminated employees who repurchased their contracts from the insuring company totalled $546,253. These recoveries were credited to the General Fund as follows:

	$
Refunds of expenditures applied to expenditures	42,121
Refunds of prior year expenditures	504,132
Total	$546,253

State's Attorneys' Retirement Fund:

The financial position of the State's Attorneys' Retirement Fund as of June 30, 1991, is presented in Statement 1. Investments in the State of Connecticut Investment Funds totalled $268,679 at June 30, 1991, as detailed in Schedule 1a. These investment balances were verified as part of our audit of the State Treasurer.

Net retirement salaries paid during the 1990-1991 fiscal year were $599,515. Resources of the State's Attorneys' Retirement Fund financed $40,842 of such salaries and the balance of $558,673 was met from appropriations of the State General Fund.

General Assembly Pension Fund:

The financial position of the General Assembly Pension Fund as of June 30, 1991, is presented in Statement 1 of this report. The assets of the fund at that date consisted primarily investments in the custody of the State Treasurer. The cash and investment balances were verified as a part of our audit of the State Treasurer.

Pensions paid to retired members totalled $9,216 for the fiscal year ended June 30, 1991. As indicated in the "Foreword" section of this report, the assets of this Fund were transferred to the State Employees' Retirement Fund during the 1985-1986 fiscal year except for an actuarially determined reserve retained to meet retirement salaries of those already retired from the General Assembly Pension System.

Judges' and Compensation Commissioners' Retirement Fund:

The financial position of the Judges' and Compensation Commissioners' Retirement Fund as of June 30, 1991, is presented in Statement 1. Investments in the State of Connecticut Combined Investment Funds totalled $43,995,820 at June 30, 1991, as detailed in Schedule 1a. The cash and investment balances were verified as a part of our audit of the State Treasurer.

It should be noted that prior to October 1, 1981, retirement contributions of active judges and commissioner's were deposited to the General Fund. Information on hand in the Retirement Division shows that as of June 30, 1991, the amounts contributed by active judges and compensation commissioners to the General Fund totalled $503,824 and $35,537, respectively. These contribution balances represent contingent liabilities of the General Fund which will only become payable when an active member terminates or is otherwise removed from office prior to becoming eligible for retirement benefits.

Net retirement salaries paid to retired members or survivors totalled $6,335,206, as shown in Statement 2 of this report. Prior to October 1, 1981, as explained previously in this report, retirement salaries for judges and compensation commissioners were paid from appropriation accounts within the Judicial Department and State Comptroller's Office, respectively.

An actuarial valuation of this retirement system was made as of October 1, 1989. The unfunded past service liability recognized as a result of this valuation was $66,126,345. This liability is to be funded over a 40-year period commencing with the fiscal year beginning July 1, 1987, as provided for in Section 51-49d of the General Statutes. As shown in Statements 2 and 5 of this report, $11,412,608 was transferred from the General Fund to meet the funding obligation for 1990-1991.

<u>Public Defenders' Retirement Fund</u>:

The financial position of the Public Defenders' Retirement Fund as of June 30, 1991, is presented in Statement 1. Investments in the Treasurer's Short Term Investment Fund totalled $61,063 at June 30, 1991, as detailed in Schedule 1a. The investment balances were verified as part of our audit of the State Treasurer.

Retirement salaries paid to four retirees during the 1990-1991 fiscal year totalled $206,668. Payment of these salaries was financed in total by the General Fund appropriation for "Pensions and Retirements - Statutory."

<u>Probate Judges' and Employees' Retirement Fund</u>:

The financial position of the Probate Judges' and Employees' Retirement Fund as of June 30, 1991, is presented in Statement 1. A portion of the fund is invested in investment funds of the State of Connecticut in the custody of the State Treasurer. As shown in

Schedule 1a, the total cost value of such investments at June 30, 1991, was $26,799,003. Market value of these investments, as determined by the State Treasurer's Office, totalled $31,448,660.

At this point it should be noted that we have not included within the assets of the fund retirement contributions receivable at June 30, 1991. The probate courts' reporting procedures precluded the maintenance of the fund's financial records in such a manner as to provide this information.

Net retirement salaries paid to retired members or survivors totalled $921,277 for the fiscal year ended June 30, 1991, as shown in Statement 2 of this report. This represented an increase of $16,654 from the previous year. Amounts transferred from the Probate Court Administration Fund for reimbursements of administrative and actuarial services, totalled $14,280 for the fiscal year ended June 30, 1991.

An actuarial valuation made as of January 1, 1991 shows the System as fully funded. The fully funded position arose primarily because payments totalling $2,800,000 were made in addition to the recommended contributions during the three years between the January 1, 1986 and the January 1, 1989 valuations.

Municipal Employees' Retirement Funds:

The financial position of the Funds, as of June 30, 1991, is shown on Statement 1 of this report. The deposit balances, as shown on Statement 1 of this report, were reconciled to bank statements and such bank statements were confirmed by the depositories during our audit of the accounts of the State Treasurer.

A portion of the Municipal Employees' Retirement Funds is invested in the State of Connecticut Investment Funds administered by the State Treasurer. As shown on Statement 1, the total cost value of such investments was $437,233,704 at June 30, 1991. Market values of these investments totalled $505,553,716 as shown on Schedule 1a. A summary of investments owned at June 30, 1991, together with an analysis of transactions concerning, and investment income earned from, such investments for the fiscal year under review is presented on Schedule 1a. Such investment balances, transactions and income were verified as a part of our audit examination of the State Treasurer for the fiscal year ended June 30, 1991.

The amounts due from municipalities at June 30, 1990, for employee and municipal contributions on salaries paid on or before June 30, amounted to $3,143,280. The remainder of the receivables consisted primarily of contributions due for prior service and interest.

In accordance with the provision of Section 7-441 of the General Statutes, each participating municipality is liable for an amount determined by the Retirement Commission on sound actuarial principles to be necessary to amortize the unfunded past service costs attributable to employees of the municipality. The unfunded past service liability is that portion of the projected obligation to pay benefits to participating employees, or their survivors, based on their accrued service prior to a certain date which is not expected to be met from the assets accumulated as of that date. The obligation to pay benefits based on service accrued subsequent to that date is assumed to be covered by employee and municipal contributions on salaries made subsequent to that date.

The net total of the resources to be provided to amortize the unfunded past service costs of Fund B at June 30, 1991, was $95,915,701, as shown on Schedule 1b, an increase of $42,734,194 from the prior year. This increase resulted primarily from a methodology change made during the July 1, 1990, actuarial valuation which resulted in unfunded past service credits for certain municipalities being applied against current service costs rather than being included with past service costs. This resulting balance of $95,915,701 represents the total of the outstanding annual amortization payments scheduled to be made to provide for the unfunded past service costs as of the July 1, 1990 actuarial valuation. For the most part, the payments are scheduled to be made in equal annual installments over a period of 25 years, beginning July 1, 1989. Sections 7-439b and 7-441 of the General Statutes allow for such payments to be scheduled and/or rescheduled over 20 to 30 years from the occurrence of certain events (e.g., benefit change, cost-of-living adjustment, etc.). As a result of the actuarial valuation performed July 1, 1990, it was determined that the total unfunded pension benefit obligation (current and past service costs) was $57,698,510 as of that date. Because a valuation was not performed as of July 1, 1991, as previously explained, the unfunded pension benefit obligation using data from the July 1, 1990 valuation, was computed to be $28,229,732, as of June 30, 1991. The use of more current financial and actuarial data in this computation would probably result in a higher unfunded pension benefit obligation as of this date.

Liabilities of the Funds totalled $122,858 at June 30, 1991, as shown on Statement 1. They included amounts due for actuarial and administrative expenses, and certain pension liabilities.

The principal sources of revenue for Fund A and Fund B were earnings on investments and municipal and employee contributions. The principal item of expense, retirement salaries paid to retired employees or their survivors, amounted to $21,088,654, an increase of $3,689,957 over retirement salaries paid during the preceding 1989-1990 fiscal year. Of this amount $6,189 was paid from Fund A and $21,082,465 was paid from Fund B. This increase, for the most part, can be attributed to the five percent cost-of-living increase effective July 1, 1990, and to an increase in the number of retirees and survivors receiving benefits.

The primary source of revenue for the Administration Fund consisted of assessments of $733,980; $720,750 from participants in the Municipal Employees' Retirement System and $13,230 from participants in the Policemen and Firemen Survivors' Benefit Fund. The other sources of revenue were earnings on investments and penalty interest billed for the late payment of administrative assessments.

Administrative expenses during the period under review totalled $489,093, and were comprised of the following:

Personal services	$248,454
Fringe benefits	113,195
Contractual services	124,213
Commodities	1,845
Office equipment	1,386
Total	$489,093

Administrative expenses for the 1990-1991 fiscal year, as shown above, increased by $40,820 from the previous fiscal year total of $448,273. This increase is mainly attributable to an increase in expenditures for contractual services.

Policemen and Firemen Survivors' Benefit Fund:

The Policemen and Firemen Survivors' Benefit Fund functions principally as a pass-through account for premiums received from participating municipalities which are, in turn, remitted to a local insurance company for survivor benefit coverage. Administrative assessments are collected from the participating municipalities and deposited to the Administration Fund of the Municipal Employees' Retirement System as was previously mentioned in this report. Contributions receivable, as shown on Statement 1, represented a payment due to the insuring company as of June 30, 1991, for which contributions had not yet been received by the fund from participating municipalities.

During the 1990-1991 fiscal year, cash receipts of the Fund totalled $105,816 as shown on Statement 4. Cash disbursements totalled $212,376, also shown on Statement 4. The total premium payment due to the insuring company for the year's coverage was $227,649, an increase of $15,273 from the $212,376 for the 1989-1990 fiscal year. The premiums were based on actuarial valuations done as of the beginning of each fiscal year. The actuarial valuation done as of July 1, 1990, for July 1, 1990, through June 30, 1991, resulted in a municipal contribution rate of 1.30 percent of each municipality's active covered payroll as of July 1, 1990. As previously mentioned in this report, employee contribution rates are fixed by statute at one percent of the employee's compensation.

A significant feature of the group annuity insurance plan currently in force is the accumulation, in a separate reserve account, of assets which are to be used to offset future plan liabilities. Changes in the reserve come from additions for contributions and investment income and from deductions for annuity payments and contract service charges. The actuarial valuation performed as of July 1, 1991, estimated the reserve for future benefit payments to total $10,613,850 as of June 30, 1991.

General and Special Transportation Funds Appropriations:

Statement 6 of this report shows the General and Special Transportation Funds appropriations and expenditures for the pension and retirement programs of the State. Also included in Statement 6 are the appropriations and expenditures for the State's share of health insurance costs for retirees.

A summary of the net expenditures from these accounts for the 1990-1991 fiscal year follows:

	$
General Fund:	
Alternate Retirement System:	
State share of contributions (A)	7,688,097
State Employees' Retirement System:	
State share of retirement funding - all employees except Department of Transportation employees	192,216,908
Pensions and Retirements - Other Statutory:	
State share of costs:	
State's Attorneys' Retirement System	558,673
Public Defenders' Retirement System	206,668
Pension payments - miscellaneous (B)	159,751
Judges' and Compensation Commissioners' Retirement Fund:	
State share of retirement funding	11,412,608
Retired State Employees' Health Service Costs:	
State share of costs	57,889,622
Special Transportation Fund:	
State Employees' Retirement System:	
State share of retirement funding - Department of Transportation employees	16,600,000
Total Expenditures	$286,732,327

(A) Net of refunds of $1,124,597 and fringe benefit recoveries of $4,741,066.

(B) Includes payments to former governors or widows, county employees, law librarians, and individuals whose pensions are authorized by special act.

The arbitration award requires the State to pay for each retired employee receiving benefits from a State-sponsored retirement system except those retirees under the Municipal Employees' Retirement System, the Teachers' Retirement System, and the Probate Judges' and Employees' Retirement System, 100 percent of the health insurance premiums on health coverage provided for such retirees through the

Comptroller or in conjunction with Federal medical benefits provided under the Medicare Part B Program. Also, under Section 45a-56 of the General Statutes, the Probate Judges' and Employees' Retirement Fund is required to pay 50 percent of the retirees' health insurance costs for those retirees of the Probate Judges' and Employees' Retirement System. These costs totalled $67,206 for the 1990-1991 fiscal year, as shown in Statement 2.

During the 1990-1991 fiscal year appropriations and transfers of $58,200,000 were made to cover the State's share of health insurance costs for those eligible retirees mentioned previously. The total expended for this purpose, as shown in Statement 6 of this report, totalled $57,889,622. A summary follows:

	$
Blue Cross/Blue Shield and Major Medical	45,684,845
Health Maintenance Organizations	5,098,760
Medicare Part B	6,881,659
Blue Cross/Blue Shield and CIGNA Dental	224,358
Total	$57,889,622

The increase of $10,473,100 over last year's total of $47,416,522 was due mainly to an insurance rate increase and new retirees.

Surety Bonds:

Surety coverage was provided for employees of the Office of the Comptroller (except the Comptroller) for the period under examination by:

Company	- Insurance Company of North America
Amount of Coverage	- $2,500,000
Bond #	- JO 1804480
Period	- May 1, 1990 to May 1, 1991
Type of Bond	- Commercial Crime Policy
Type of Coverage	- Public Employee Dishonesty and Faithful Performance of Duty

Company	- Aetna Life and Casualty
Amount of Coverage	- $2,500,000, but limited to $1,000,000 for forgery or alteration of covered instruments
Bond #	- 007 F100695571 BCA
Period	- May 1, 1991 to May 1, 1992
Type of Bond	- Comprehensive Crime Policy
Type of Coverage	- Public Employee Dishonesty

Surety coverage was provided for the State Comptroller, J. Edward Caldwell and William E. Curry, Jr., respectively, for the period under examination by:

Company	- Insurance Company of North America
Amount of Coverage	- $25,000
Bond #	- JO 0578630
Period	- March 1, 1987 to March 1, 1991
Type of Bond	- Public Employees Schedule
Type of Coverage	- Faithful Performance of Duty

Company - Aetna Life and Casualty
Amount of Coverage - $25,000

Bond #	- 007 F10068693
Period	- March 1, 1991 to March 1, 1994
Type of Bond	- Public Employees Schedule
Type of Coverage	- Faithful Performance of Duty

Program Evaluation:

During January 1991, the Legislative Program Review and Investigations Committee (LPRIC), issued a report on its programmatic review of the State Comptroller's Retirement Division. The purpose of this study was to identify problem areas regarding the State Employees' Retirement System. The final report contained 15 recommendations consisting of: 1) four recommendations directed to the State Employees' Retirement Commission, 2) five recommendations directed to the Retirement Division, 3) three recommendations for statutory changes directed to the General Assembly and, 4) three recommendations directed to the Comptroller's Office in general.

Our program review consisted of a follow-up on the four recommendations directed to the State Employees' Retirement Commission and the five recommendations directed to the Retirement Division. The three recommendations for the statutory change were adopted by the General Assembly during the 1991 Session. The other three recommendations were followed-up on as part of our 1989-1990 State Comptroller's Departmental Audit.

The four recommendations directed to the State Employees' Retirement Commission were as follows:

1. The Retirement Commission shall ensure that it complies with the State Freedom of Information Act.

2. The Retirement Commission shall inform all members who come before it that Commission meetings are open, including deliberations on members' cases and that the member may attend if he or she so chooses.

3. An indexed compilation of decisions shall be kept by the Retirement Commission.

4. The Retirement Commission shall establish in regulation the common standards it uses to decide cases.

The Retirement Commission has indicated that it will continue to try to comply in good faith to the terms of the State's Freedom of Information Act. However, in regards to the LPRIC's recommendation that the Retirement Commission open its meetings to members during discussion of a member's pending case, the Retirement Commission disagrees. The Retirement Commission feels that according to the Connecticut Supreme Court decision in <u>Board of Education v. Freedom of Information Commission</u>, 217 Conn. 153 (1991), it has the right to enter executive session when discussing a member's pending case.

The other two recommendations directed towards the Retirement Commission have not been implemented as of this writing. An indexed compilation of decisions, that have been made by the Retirement Commission is not available at this time. Regulations for declaratory rulings were adopted in January 1992 and the remaining organization and procedural regulations should be prepared in final form during the latter part of 1992. For further comments on organizational and procedural regulations see the "Condition of Records" section of this report.

The five recommendations directed to the Retirement Division are as follows:

1. A periodic training schedule shall be set up for agency personnel whose duties involve retirement related matters.

2. A loose-leaf manual providing relevant retirement information and instructions shall be prepared by the Retirement Division for use by agencies.

3. The Retirement Division shall establish a detailed backlog reduction plan to clear up the backlog by January 1994. The office of the Comptroller shall ensure that all funds specifically earmarked to reduce the audit backlog be used for that purpose, and shall provide as many resources as possible to carry out the plan. The Division shall submit the plan to the legislative committee of cognizance by March 1, 1991.

4. Agencies should automatically send to the Retirement Division final information on recently retired employees as soon as information is available, on forms developed by the division, including notification regarding retroactive collective bargaining adjustments.

5. The Office of the Comptroller shall consider the retirement data base and the current retirement backlog a high priority, and ensure that all funds specifically earmarked for Retirement Division-related activities are used to further the division's efforts.

The backlog of unfinalized applications is of great concern to the Retirement Division. Due to the two early retirement incentive programs, the backlog of unfinalized applications, over the past few years, has grown substantially. After the July 1, 1992 early incentive retirements, the backlog is estimated to be appropriately 8,500 applications. As commented upon in our Comptroller's Departmental Audit for fiscal year ended June 30, 1990, the

Comptroller's Computer Services Division is in the process of developing a time and attendance system to capture service credit data. While the time and attendance system, when implemented will help to streamline procedures for finalizing retirement applications, it will not be of any help in reducing the present backlog in a timely manner. The Retirement Division wishes to do something in the short-term to reduce this backlog and so it has decided to concentrate its efforts on a plan to reduce the current backlog over the next two fiscal years, while the Computer Services Division concentrates its efforts on preparing the time and attendance system. Currently the Retirement Division is working to finalize and implement a reduction plan that would reduce the backlog over the next two fiscal years. Money has been appropriated in the 1992-1993 Comptroller's budget to be used in this effort. At the same time the Retirement Division will be requesting that agencies submit needed information on retirees in a more timely manner to help speed up the processing of these applications.

The Retirement Division is committed to the development of a loose-leaf manual to be used by agencies as a reference on retirement information and to the training of agency personnel in addressing retirement matters. The Retirement Division looks at these two project as connected in the sense that once the manual is completed it will be incorporated in the periodic training program to be set up for agency personnel. The Retirement Division has assigned a staff member the responsibility of developing this manual and an initial draft was generated. However, due to the 1991-1992 early retirement incentive program, the development of these projects has stopped to allow the staff member to devote her time to the administration of the incentive program. Plans remain to continue these projects in the future.

Given the additional administrative burden of the 1992 early retirement incentive program that was placed on the Retirement Division this past year, as well as, various other obstacles that have arisen from the State's budget difficulties, we have concluded, as a result of our review, that the Retirement Division is working satisfactorily toward implementing the various recommendations of the LPRIC in all areas except the adoption of regulations by the Retirement Commission. As commented upon in our prior reports, the Retirement Commission has been in the process of reviewing a draft of proposed regulations for the past few years, but as yet has not taken any action to adopt them. We have again included in this report our recommendation for the adoption of regulations by the Retirement Commission. (See Recommendation 3.)

<u>Condition of Records</u>:

During our review of the financial records of the State Retirement Funds, as kept by the Retirement Division of the Comptroller's Office, we found several areas warranting comment. These areas are described below.

<u>All Retirement Funds</u>:

<u>Reporting Function</u>:

Condition: Currently there are four published reports that contain information on the State Retirement Funds administered by the State Retirement Commission. None of these reports fully complies with generally accepted accounting principles (GAAP) with regard to Public Employee Retirement System (PERS) reporting and disclosure requirements.

Criteria: The financial statements of the State Retirement Funds should be prepared in accordance with generally accepted accounting principles that the Governmental Accounting Standards Board (GASB) has established for Public Employee Retirement Systems.

Effect: There is no comprehensive report for system members, employee unions, taxpayers, and the legislative or executive branches of government to use as a basis of evaluating or making decisions regarding the condition, funding, or administration of the various State Retirement Systems.

Cause: There is no legal requirement that the Retirement Commission issue an annual report in accordance with any specific reporting or disclosure standards.

Recommendation: Financial statements of the Public Employee Retirement Systems administered by the Retirement Commission should be prepared in accordance with reporting disclosure standards authorized by the Governmental Accounting Standards Board and such information should be communicated to interested parties through the issuance of an annual report. (See Recommendation 1.)

Procedures Manuals:

Condition: A few operational areas of the Retirement Division, such as retirement application auditing and retirement accounting function, do not have up-to-date completed written procedures.

Criteria: A sound system of internal control requires written procedures for all processing areas, as well as a means for updating such procedures as changes occur.

Effect: The lack of valid written procedures increases the potential for errors in processing.

Cause: Although many areas do have written procedures, the Retirement Division has not been able until recently to devote the resources necessary to produce written procedure manuals for all areas. It should be noted that the Retirement Division is currently working on the development of procedure manuals for the remaining processing areas.

Recommendation: The Retirement Division should continue its effort in documenting the operating procedures for those areas where such procedures are still lacking and update areas where changes have occurred.
(See Recommendation 2.)

State Employees' Retirement Fund:

Inactive Accounts:

Condition: No systematic procedure is in place to ensure that statutory requirements are met, as they relate to the retirement contributions of non-vested inactive members.

Criteria: Section 5-166 of the General Statutes provides that non-vested members, who have been inactive for five years, are presumed to have elected to receive a refund of their retirement contributions.

Effect: Monies belonging to non-vested terminated employees could eventually escheat to the State Employees' Retirement Fund without the member's knowledge.

Cause: Due to limited resources in the Retirement Division, the processing of inactive accounts is a low priority and generally is only done if time permits.

Suggestion: Implement a systematic follow-up procedure fully utilizing the automated capabilities of the data base.

Retirement Payrolls:

Condition: Retirement allowances, cost-of-living adjustments, survivor benefit and equity refunds are properly computed; however, the backlog of applications needing finalization continues to grow.

Criteria: The process of finalizing retirement applications should be done in a timely manner. Public Act 91-328, effective June 25, 1991 requires the Retirement Division to pay five percent interest per year on any lump sum amount owed the retiree at the time of finalization.

Effect: The backlog of retirement applications continues to grow. Retirees are not receiving their finalized benefit in a timely manner. The retirement fund will now be paying interest on the difference between estimated benefit amounts and the actual amount owed at the time of finalization.

Cause: Many of the causes for the backlog and amount of time needed to finalize applications are beyond the control of the Retirement Division. Among the causes are the various complexities arising from the pension agreement and other collective bargaining agreements, particularly the retroactive provisions of such agreements, the two early retirement incentive programs and compliance with the "130 percent cap" provision contained in Section 5-162 of the General Statutes. Service credit information is not easily obtainable because there are no accurate individual time and attendance records on the data base.

Recommendation: No recommendation is made at this time. As noted in the "Program Evaluation" section of this report the Retirement Division is in the process of developing a backlog reduction plan.

<u>Retirement Regulations</u>:

Condition: The Retirement Commission has not yet submitted for regulation adoption the policies and legal interpretations which have been approved by the Commission.

Criteria: Section 5-155a, subsection (e), of the General Statutes authorizes the Commission to adopt regulations to facilitate the administration of the Retirement System. Public Act 91-328, effective June 5, 1991, takes this one step further and actually requires the Commission to adopt regulations.

Effect: Without the adoption of regulations the Commission cannot be assured that policies and legal interpretations promulgated by the Commission are applied on a consistent basis.

Cause: Although the Retirement Division did adopt regulations for declaratory rulings in January 1992, only a draft of proposed organizational and procedural regulations has been prepared. The Retirement Commission has yet to reach a consensus on the final version of these regulations.

Recommendation: The Retirement Commission should adopt regulations in accordance with the provisions of Section 5-155a of the General Statutes. (See Recommendation 3.)

<u>State Employee Data Base (SEDB)</u>:

Condition: The data base does not contain complete and accurate employment records, both in terms of historical and current service credit information, for members of the retirement system.

Criteria: The implementation of a retirement data base to maintain master retirement records available in computer applicable form, is critical to timely processing of retirement applications. The three main types of information to be included are demographic, financial and service credit information.

Effect: Without accurate service credit data on the retirement data base the processing of retirement applications will continue to be a time consuming process.

Cause: In the past attempts had been made to collect both historical and current data needed to determine service credit. Historical information up to 1984 has been entered into the data base; however, due to the heavy reliance on manual collection procedures, this information has been determined to be inaccurate and incomplete. The recording of current service credit information is done by entering information sent in by agencies to the Retirement Division. This information is not validated or otherwise confirmed for accuracy when submitted. It should also be noted that not all agencies comply with the requirement to submit this information.

Recommendation: No recommendation is made at this time, as this problem area was addressed in detail by the Legislative Program Review and Investigations Committee (LPRIC) in its report on the operations of the Retirement Division which was issued in January 1991. For the retirement data base to be truly beneficial, both the development and the implementation of a time and attendance system along with the clean up and capture of historical data needs to be accomplished. Public Act 91-328, which was passed to implement certain of the LPRIC report recommendations requires the Comptroller to develop and implement an automated time and attendance system by July 1, 1994, and it also requires the Comptroller to be responsible specifically for the development and implementation of the retirement data base. The implementation of an automated time and attendance system should go a long way towards overcoming data integrity problems in the retirement data base.

<u>Alternate Retirement Program Fund</u>:

<u>Accounting Control</u>:

Condition: There continues to be a variance between the contribution control total and the subsidiary records for ARP contributions. No procedure has been established to reconcile the contribution control totals with the cash account of the fund. Also, as noted in our prior reports, the accounting for ARP contributions is fragmented, with those received before May 15, 1981, on cards, and those after that date on the automated contribution accounting file. Because of this, even when the latter file is balanced to control accounts, the total ARP file will not be balanced until the manually recorded card file is put on the automated file.

Criteria: Good internal controls call for reconciliation of control totals to subsidiary records.

Effect: Without reconciling the already existing variance or without instituting procedures to identify which participant member contributions remaining in the cash account at month's end belong there, the Retirement Division cannot ensure that contributions are being correctly recorded to individual members contribution accounts.

Cause: Since May 1981, when ARP contributions were placed on the automated contribution accounting system, the Retirement Division has been unable to balance the control totals for ARP contributions with listings of individual members and their contributions periodically drawn off the file. Also there is no procedure in place to identify the contributions remaining in the cash account at month's end.

Recommendation: The Retirement Division should continue its effort to reconcile the contribution control total and the subsidiary records and begin reconciling the control total with the cash account. A detailed subsidiary system needs to be developed by the Retirement Division for contributions remaining in the cash account at month's end. (See Recommendation 4.)

Receipts Processing:

Condition: During our review we found that refund checks issued to the State from the insuring company, for State contributions of individuals leaving the program, were not being deposited in a timely manner.

Criteria: Section 4-32 of the General Statutes requires agencies to make deposits within 24 hours of receipt. Accordingly, this violation was reported to the Governor in a letter dated February 26, 1992.

Effect: Not depositing checks in a timely manner results in unsafe handling of State money and a weakness in internal controls.

Cause: When refund checks of State contributions were received from TIAA/CREF, the insuring company for the Alternate Retirement Program, the amounts refunded would not always agree with the amount of State contributions recorded on the State's records. These checks were not to be deposited until the differences could be resolved. Our review showed that differences are not always resolved in a timely manner, resulting in the refund checks being held for several weeks before being deposited.

Suggestion: The Retirement Division is now in the process of entering an agreement with TIAA/CREF, the insuring company to issue credits to premiums amounts due, instead of issuing refund checks. Currently refund checks are still issued to the State; however, the insuring company seems to be resolving the variances in a more timely manner. If occasions due arise before an agreement with TIAA/CREF is reached, that variances cannot be resolved in a timely manner, we suggest that the Retirement Division use the Pending Receipts Fund while resolving the variances.

Municipal Employees' Retirement System:

Internal Controls:

Condition: Currently procedures have been established to reconcile entries into the system to cash and contributions ledger control accounts on a monthly basis. Data base and general ledger control cumulative totals, as of June 30, 1991, have been reconciled establishing a variance of $99,094 in employee contributions. All but approximately $2,700 of this variance is believed to be an equity transfer not properly recorded. Data base and general ledger cumulative totals for municipal contributions have also been reconciled as of June 30, 1991, with a remaining variance of $130.

Criteria: Good internal controls call for the reconciliation of control totals on the data base to the accounting record's cumulative totals.

Effect: When cumulative totals on the contribution data base cannot be reconciled to accounting records, the Retirement Division cannot ensure contributions that were recorded to individual members' accounts are for the proper amounts.

Cause: Problems began in the contribution accounting function during the 1982-1983 fiscal year, when the bookkeeping machine used for posting the control and subsidiary records became totally inoperative. Balances from the last date the original system had been balanced and reconciled, March 31, 1982 and transactions for the quarter ended June 30, 1982, were entered into the replacement machine. At this point it was decided to direct all efforts towards full implementation of an automated contribution system.

This system became fully operational during the 1985-1986 fiscal year. As of June 30, 1991 the data entered into the system had been reconciled and balanced within the system itself, and was being rolled over into the individual data bases on a timely basis. Currently, procedures have been established to reconcile entries into the system to cash and contribution general ledger control accounts on a monthly basis, but no procedures have been developed to reconcile cumulative totals on a regular basis.

Recommendation: Once the proper adjustments have been made to correct the equity transfer any remaining variance should be established as fixed and procedures should be developed to reconcile cumulative totals for both employee and municipal contributions on a regular basis. (See Recommendation 5.)

Payroll Function:

Condition: Retirement payroll checks are generated by a system known as the "pre-list" system. Under this system the check register for the prior month becomes the input document to generate the current month's checks. This system has been in place for a number of years and is, for all intents and purposes, obsolete.

Criteria: A more advanced on-line system would strengthen internal controls over the processing of retirement payrolls by being incorporated with built-in controls to prevent errors that may occur when processing the payroll manually.

Effect: The existing system does not provide built in controls to detect errors which can occasionally be overlooked, resulting in incorrect payments to retirees.

Cause: There are some inherent limitations to this system as compared to a newer on-line payroll system. For example, under the "pre-list" system, cost-of-living increases are given to all retirees although not everyone qualifies. As a result the "non-qualifying" retirees pay must be manually adjusted back to their original amount. Since this is a manual system process there is the possibility of errors getting by which result in overpayments that must be recovered. During our review there came to our attention another example of this out-of-date system, resulting in retirement payroll checks being sent to the wrong addresses. This matter was reported to the Governor in a letter dated June 4, 1992. The address labeling system used with this "pre-list" system matches changes to an individual's records by a random sort number assigned during that run, not to the individual's name or employee number. This random sort number changes when individuals are added or deleted from the system. During our review, address changes were made to retiree's records by matching the random sort number assigned to that retiree in a early run. Then in a later run, after additions and deletions to the system were made, the address changes were run again. Because the random sort numbers were different during the later run, the address changes were made to the wrong accounts, resulting in checks being sent to the wrong addresses. With a more advanced system these types of errors are unlikely to occur.

Suggestion: In our prior report we suggested that the Retirement Division consider replacing this system with a more advanced one. This suggestion is not repeated herein, as the Retirement Division is in the process of converting the "pre-list" system to the MSA payroll system used by the State. Complete conversion should take place in the latter part of 1992. The MSA payroll system has many built-in controls that will prevent the above mentioned types of errors. We encourage the Retirement Division to continue work on the conversion to the MSA payroll system.

Participation in Fund A:

Condition: Although municipalities still have the option of joining either Fund A or Fund B, a review of Fund A reveals that there has been no active participants in Fund A for many years.

Criteria: Administrative overhead should not be incurred for programs that are essentially obsolete. Formally eliminating the option of joining Fund A would allow the Retirement Division to combine accounting and reporting systems of Fund A and Fund B and in turn lead to more efficient fund administration.

Effect: As long as municipalities continue to have the option of membership in either Fund A or Fund B the Retirement Division will have to continue accounting and reporting for each system separately.

Cause: Section 7-427 of the Connecticut General Statutes provides that any municipality eligible to participate in the Municipal Employees' Retirement System may choose to participate in either Fund A or Fund B.

Suggestion: The Retirement Division should consider seeking legislative revision to eliminate formally the option to participate in Fund A.

Waiver of Repayments:

Condition: No regulations have been established to carry out the provisions of Section 7-439h of the General Statutes.

Criteria: Section 7-439h of the General Statutes provides for the possibility of Retirement Commission waivers of repayment of overpayments and also stipulates that regulations be established to carry out these provisions.

Effect: The Retirement Commission is unable to act upon waiver requests.

Cause: Although Public Act 88-144 created the provisions for waiver requests of repayments, no regulations establishing criteria for these waivers were ever promulgated.

Suggestion: The Retirement Division should promulgate waiver regulations so that the Retirement Commission may act on existing and future waiver requests.

Recommendations

As a result of our previous audit examinations, six recommendations were presented as part of the two audits that were consolidated in this report. Two of the six recommendations pertain to the issuance of an annual report and are shown combined in number one below. The following is a summary of those recommendations and the actions taken thereon.

1. Preparation and issuance of an annual report - Presently the only report issued by either the Retirement Division or the Retirement Commission is a very brief and essentially uninformative report that is prepared as a report to the Governor. Beginning with the fiscal year ended June 30, 1988, the actuaries are preparing annual reports for the Retirement Commission providing disclosure information per GASB Statement No. 5 for certain of the Retirement Funds. However, no comprehensive report on the various retirement funds is prepared. The recommendation is repeated.

2. Written procedures for all operational phases of the various retirement systems - State Employee Data Base user procedures have been documented for the contribution accounting, refund, suspense, equity, and service credit purchases processing. Fully completed procedure manuals are not yet available for all areas. This recommendation is repeated because it has only been partially implemented.

3. Retirement Commission regulations - Regulations in accordance with Section 5-155a of the General Statutes have not been adopted. We do note that a draft of organizational regulations has been submitted to the Retirement Commission for review. The recommendation is repeated.

4. Reconciliation of subsidiary and control records of the Alternate Retirement Program - There continues to be a variance between the participants' contribution records and the control totals. In addition we noted during the current audit that the control totals could not be reconciled to the cash account. Also noted was that no subsidiary ledger exists for contributions paid into the fund but not yet remitted to the insuring company. The recommendation is repeated.

5. Reconciliation of contribution control and subsidiary records of the Municipal Employees' Retirement System to cash control accounts - Life-to-date cumulative totals have been reconciled as July 1, 1991, with the variance believed to be identified. This recommendation has been restated to reflect the information obtained through the reconciliation.

In the "Condition of Records" section of this report we made four suggestions dealing with refunds of contributions of nonvested inactive members, the elimination of Municipal Employees' Retirement

Fund A, regulations regarding repayment waivers and use of Pending Receipts Fund for prompt depositing purposes.

Included in our previous audit report was a suggestion concerning the Policemen and Firemen Survivors' Benefit Fund. This suggestion and action taken is presented below:

> Consideration should be given to having an independent actuarial firm review the valuation methods and assumptions used by the insuring company - An actuarial valuation was completed by an independent actuarial firm, prepared as of June 30, 1991.

The following five recommendations have been repeated from our prior reports.

1. The financial statements of the State Retirement Funds should be prepared in accordance with reporting and disclosure standards authorized by the Governmental Accounting Standards Board and such information should be communicated to interested parties through the issuance of an annual report.

> While not legally required to follow specific reporting or disclosure standards, the Retirement Commission has an inherent responsibility to disclose adequately pertinent information regarding its administration of the State Retirement Funds. At a minimum, the Retirement Commission should comply with the generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB) for all Public Employee Retirement Systems (PERS). As part of this effort, a PERS reporting function completely separate from the Comptroller's Statewide GAAP reporting function should be established.

2. Written procedures should be prepared or updated for all operational phases of the administration of the State Employees' Retirement System and the miscellaneous retirement funds.

> Due to the many changes to the Retirement System which have occurred as a result of collective bargaining, many existing procedures were found to be outdated and in need of review. While the Retirement Division has already committed resources to this problem area, the manuals for

all areas are not fully completed. Such areas include retirement application auditing and the retirement accounting function.

3. The Connecticut State Employees' Retirement Commission should adopt regulations in accordance with the provisions of Section 5-155a of the General Statutes in order to facilitate the proper administration of the Retirement System and to help ensure that policies adopted by the Commission are applied on a consistent basis.

In our reviews of records of the Connecticut State Employees' Retirement Commission, we have noted that numerous policies have been adopted by this Commission at its monthly meetings. Although authorized by law to adopt regulations, final action in this regard has yet to be completed. In adopting regulations the Retirement Commission should be guided by the requirements of the Uniform Administrative Procedures Act set forth in Chapter 54 of Title 4 of the General Statutes.

4. Subsidiary and cash records of the Alternate Retirement Program contributions should be reconciled to the control balances for the program.

Control figures for contributions to the Alternate Retirement Program do not agree with either the listing of participant contributions or the cash account. Currently there is no subsidiary ledger for contributions which have been paid to the fund and not yet forwarded to the insuring company.

5. Adjustments should be made for the misapplied equity transfer and procedures should be developed for reconciling on a regular basis, cumulative totals on the data base with those of the control accounts.

Reconciling cumulative totals of the data base and the accounting records on a regular basis will ensure that contributions recorded to the individual members' accounts are for the proper amounts.

Independent Auditors' Certification

Financial Statements:

We have audited the accompanying financial statements prepared from the records of the State Comptroller and the State Treasurer for the fiscal year ended June 30, 1991, as listed in the beginning of this report. These financial records are the responsibility of the State Comptroller's Retirement Division management. Our responsibility is to express an opinion on the financial statements prepared from such records based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards for financial and compliance audits. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 5 to Statement 1 of this report, the accompanying financial statements are intended to present the financial transactions of the General and Special Transportation Funds and the financial position and the results of operations and cash transactions of the Pension Trust and Agency fund types of only that portion of the funds of the State of Connecticut that is attributable to the transactions of the State Retirement Programs administered by the State Comptroller's Office.

As discussed in Note 2 to Statement 5 of this report, the accompanying financial statements relating to the operations of the General and Special Transportation Funds were prepared on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Connecticut which is a comprehensive basis of accounting other than generally accepted accounting principles.

The financial statements prepared by the Retirement Division did not comply with disclosure requirements set forth in Statement 5 of the Governmental Accounting Standards Board entitled "Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers." By reference to other reports prepared for the Retirement Division of the State Comptroller, disclosure requirements of Statement 5 were met for the financial statements of this report as they relate to the State Employees', Municipal Employees' and Judges' and Compensation Commissioner's Retirement Funds. In our opinion disclosure of this information for the remaining retirement funds is required by generally accepted accounting principles.

In our opinion, except for the lack of disclosure of required pension information as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, (1) the General and Special Transportation Funds receipts, appropriations and expenditures, of the State's Retirement Programs for the fiscal year ended June 30, 1991, on the basis of accounting described in Note 2 to Statement 5 of this report; and

(2) the financial position of the State Retirement Funds as of June 30, 1991, and the results of operations and cash transactions of such funds for the years ended on those dates, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the State Retirement Funds. The accompanying schedules listed in the beginning of this report are presented for purposes of additional analysis and are not a required part of the financial statements. The information in these schedules has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Compliance with Laws and Regulations:

Compliance with laws, regulations, and contracts applicable to the State Retirement Funds, is the responsibility of the management of the Comptroller's Retirement Division. As part of obtaining reasonable assurance about whether the financial statements referred to above are free of material misstatements, we performed tests of the Division's compliance with certain provision of the laws, regulations or contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Retirement Division complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the agency had not complied, in all material respects, with those provisions. We did, however, note certain immaterial instances of noncompliance which we have disclosed in the "Condition of Records" section of this report.

Internal Control Structure:

In planning and performing our audit of the financial records of the State Retirement Funds as referred to above, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the Comptroller's Retirement Division is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report we have classified the Retirement Division's significant internal control policies and procedures in the categories of retirement payroll, contribution accounting, cash receipts, billings and collections, and reporting systems.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our comments on this specific condition of internal control, notably the need for the reconciliation of contribution subsidiary and control accounts as well as the reconciliation of such accounts to the cash control of the Alternate Retirement Program Fund and the Municipal Employees' Retirement Program Fund are found in the "Condition of Records" and "Recommendations" sections of this report.

A material weakness is a reportable condition in which the design or operations of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the aforementioned reportable condition relating to the reconciliations of contribution and cash accounts within the Alternate Retirement Program Fund and the Municipal Employees' Retirement Fund, to be a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported on in the "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However this report is a matter of public record and its distribution is not limited.

Conclusion

In conclusion, we wish to express our appreciation for the assistance and courtesies extended to our representatives by the personnel of the State Comptroller's Retirement Division during the course of this examination.

Patricia Wilson
Principal Auditor

Approved:

Dominick G. Arienzale

Robert J. Hilliard
Deputy State Auditors

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STATE COMPTROLLER
STATE RETIREMENT FUNDS
COMBINING BALANCE SHEET
AS OF JUNE 30, 1991

Statement 1
Sheet 1

	Agency		Pension Trust						
	Alternate Retirement Program	Policemen and Firemen Survivors' Benefit	Probate Judges' and Employees'	State Employees'	State's Attorneys'	General Assembly	Judges' and Compensation Commissioners'	Public Defenders'	Municipal Employees'
Assets:	$	$	$	$	$	$	$	$	$
Cash in custody of State Treasurer	679,835	25,836	(78,428)	7,943,156	2,206	(768)	(286,441)	296	(275,456)
Investments, at cost (see Schedule 1a for Market Values)	-	-	26,799,003	2,934,514,877	268,679	81,152	43,995,820	61,063	437,233,704
Receivables:									
Accounts receivable			3,531	737,792					94,400
Interest receivable			1,273						
Members' contributions receivable		201,813		12,196					580,780
Municipal contributions receivable									2,462,500
Federal contributions receivable				135					
Investment income receivable			82,775	8,667,540	1,298	396	136,654	297	1,316,306
Total Receivables	-	201,813	87,579	9,417,663	1,298	396	136,654	297	4,553,986
Due from Other Funds:									
General Fund	1,084,267						2,940		
Probate Court Administration Fund			5,182						
Total Due from Other Funds	1,084,267	-	5,182	-	-	-	2,940	-	-
Total Assets	1,764,102	227,649	26,813,336	2,951,875,696	272,183	80,780	43,848,973	61,656	441,512,194
Liabilities:									
Accounts payable and accrued expenses	(1,764,102)	(227,649)	(9,986)	(753,332)					(122,858)
Net Assets Available for Benefits	$ -0-	$ -0-	$ 26,803,350	$ 2,951,122,364	$ 272,183	$ 80,780	$ 43,848,973	$ 61,656	$ 441,389,336
Fund Balance:									
Actuarial present value of projected benefits payable to current retirants and beneficiaries			7,324,092	2,780,344,628			66,613,313		174,049,420
Actuarial present value of projected benefits payable to terminated vested participants			362,101	15,545,866			379,866		81,725
Actuarial value of credited projected benefits for active employees			6,863,020	3,186,796,701			42,982,139		295,487,923
Total Actuarial Present Value of Credited Projected Benefits	-	-	14,545,213	5,982,687,195	-	-	109,975,318	-	469,619,068
Unfunded actuarial present value of credited projected benefits			12,254,137	(3,031,564,831)			(66,126,345)		(28,229,732)
Unreserved balances-available for future retirement salaries					272,183	80,780		61,656	
Total Fund Balance	$ -0-	$ -0-	$ 26,803,350	$ 2,951,122,364	$ 272,183	$ 80,780	$ 43,848,973	$ 61,656	$ 441,389,336

Notes:

1. Plan Description:

The State Employees' Retirement System (SERS) is the administrator of a single-employer defined benefit Public Employee Retirement System (PERS) established in 1939 and governed by Sections 5-152 to 5-192x of the General Statutes. *SERS provides coverage to substantially all full-time employees who are not eligible for another State sponsored plan. Employees are covered under one of two tiers. Tier I is a contributory* plan and Tier II is a noncontributory plan. Members who joined the retirement system prior to July 1, 1984, are enrolled in Tier I. Tier I employees who retire at or after age 65 with ten years of credited service or at or after age 55 with 25 years of credited service or at age 55 with ten years of credited service with reduced benefits are entitled to an annual retirement benefit, payable monthly for life in an amount equal to two percent of the average annual earnings (which are based on the three highest-paid years of service) over $4,800 plus one percent of $4,800 for each year of credited service. Tier II employees who retire at or after age 65 with 10 years of service, or at age 70 with five years of service are entitled to one and one-third percent of the average annual earnings plus one and five-sixth percent of the average annual earnings in excess of the salary breakpoint in the year of retirement, for each year of credited service. All Tier I and II members are vested after ten years of service and both plans provide for death and disability benefits. The payroll for employees covered by the SERS for the year ended June 30, 1991, was $1,956.6 million while the State's total payroll was $2,063.8 million.

The Judges and Compensation Commissioners' Retirement System (JCCRS) is a single-employer defined benefit Public Employee Retirement System (PERS) established in 1982 and governed by Sections 51-49a to 51-50b and 51-51 of the General Statutes. JCCRS covers any appointed judge or compensation commissioner in Connecticut with members contributing five percent of their annual compensation. Members are entitled to benefits at age 65 with ten years of service credit or before age 65 with 20 years of service credit. Retirement is mandatory at age 70. Monthly pension benefits equal 66-2/3 percent of final compensation reduced for less than tens of years of service by a ratio of service to actual retirement divided by service to age of 70, or 10 years, whichever is less. All members are vested after ten years of service. The payroll for employees covered by JCCRS for the year ended June 30, 1991, was $14.4 million while the State's total payroll was $2,063.8 million.

The Municipal Employees' Retirement System (MERS) is the administrator of a cost sharing multiple employer public employee retirement system (PERS) governed by Section 7-425 to 7-451 of the General Statutes. Any local government authorit[illegible] the Sta[illegible] of Connecticut, including towns, cities, boroughs, regional school districts, housing authorities, or other special districts, may elect to participate for one or more of it's departments, including elective officers; only teachers who are covered under the Connecticut States Teachers' Retirement System are ineligible. Covered employees are required to contribute two and one-fourth percent of earnings on which Social Security tax is paid plus five percent on earnings on which no Social Security tax is paid. Participating municipalities are required to contribute the amount necessary to finance the r[illegible]ining cost of the plan. The plan provides pension and death and disability benefits. Members are entitled to benefits at the age of 55 with 10 years of continuous service, 15 years of active aggregate service or 25 years of aggregate service. Monthly pension benefits equal one and one sixth of the average compensation not in excess of the Social Security taxable wage base for the ten highest paid years of serv[illegible] plus two percent of that portion of average final compensation in excess of that used previously, times years of service. MERS is considered to be a part of the State of *Connecticuts' financial reporting entity and is included in the State's financial reports as a pension trust fund.*

At June 30, 1991, membership consisted of:

	SERS June 30, 1991	JCCRS June 30, 1991	MERS June 30, 1991
Current Employees:			
Vested:			
Hazardous Duty	1,885		
Plan B	10,140		
Plan C	1,864		
Tier II	615		
Judges and Compensation Commissioners		63	
Municipal employees:			
With Social Security			1,830
Without Social Security			1,113
Not yet Vested:			
Hazardous Duty	4,627		
Plan B	3,642		
Plan C	289		
Tier II	23,986	127	
Judges and Compensation Commissioners			
Municipal employees:			
With Social Security			2,985
Without Social Security			1,677
Total Current Employees	55,045	176	7,4[illegible]
Retirees and beneficiaries currently receiving benefits	23,779	144	[illegible]
Terminated employees entitled to benefits but not yet receiving them	727	1	5
Total Members	$ 79,552	$ 321	$ [illegible]

STATE COMPTROLLER
STATE RETIREMENT FUNDS
COMBINING BALANCE SHEET
AS OF JUNE 30, 1991

Statement 1
Sheet 3

Notes: (continued)

2. Summary of Significant Accounting Policies and Plan Asset Matters:

A. *Basis of Accounting:*

The financial statements of this report are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employees services are performed.

B. Method Used to Value Investments:

Retirement trust funds can invest in the following investment pools maintained by the State of Connecticut.

Mutual Fixed Income Fund	- Investments consist principally of bonds and notes.
Mutual Equity Fund	- Investments consist principally of common stocks
Mutual Contract Fund	- Investments consist principally of Insurance Company Guaranteed Investment Contracts.
Real Estate Fund	- Investments consist principally of interest in commingled equity real estate funds.
Yankee Mac Fund	- Investments consist principally of residential mortgage backed securities.
Commercial Mortgage Fund	- Investments consist principally of interest in commercial mortgages
Mutual Venture Capital Fund	- Investments consist principally of interests in venture capital partnerships which have common stock interests in emerging businesses.
International Stock Fund	- Investments consist principally of international equity securities
International Stock Fund	- Investments consist principally of international bonds.
Connecticut Programs Fund	- Investments consist principally of Connecticut projects
Cash Reserve Fund	
Short Term Investment Fund	

Investments in the pool funds are valued at cost. Market values of the investment pools are determined by Master Custodian based on the performance of the underlying securities. Investment income is recognized as earned. Gains and losses on sales and redemptions of investments are recognized on the transaction date.

3. *Funding Status and Progress:*

The amount shown below as "pension benefit obligation" is a standardized measurement that, with some exceptions, must be used by a PERS. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases and any step-rate benefits. The measure is independent of the actuarial funding method used to determine contributions to the system.

The pension benefit obligation was computed as part of the actuarial valuation performed as of June 30, 1991, for SERS, October 1, 1990, for JCCRS and June 30, 1990, for MERS. Significant actuarial assumptions used in the valuation for SERS include (a) rate of return on investment of present and future assets of eight and one-half percent per year, (b) projected salary increases of six percent to ten two-tenths percent per year, depending upon age, (c) cost of living increases of three percent per year to four and one-half percent per year. The significant actuarial assumptions used in the valuation for JCCRS include (a) rate of return on investment of present and future assets of eight and one-half percent per year, (b) projected salary increases of five and one-half percent per year, (c) cost of living increases of three percent per year to five and one-half percent per year. The significant actuarial assumptions used in the valuation for MERS include (a) rate of return on the investment of present and future assets of seven percent per year compounded annually, (b) projected salary increases of four and one-half percent per year compunded annually, attributable to inflation, (c) additional projected projected salary increases of one percent per year, attributable to seniority/merit, (d) cost of living increases of three percent per year.

Notes: (continued)

At July 1, 1991, the unfunded pension benefit obligation was $3,040,232,371 for SERS and $66,262,999 for JCCRS and $29,544,651 for MERS as follows:

	SERS	JCCRS	MERS
Pension Benefit Obligation:	$	$	$
Active Members:			
Accumulated employee contributions	285,117,598		
Employer-financed vested	2,409,260,456		
Employer-financed non-vested	492,418,647		
Total Active	3,186,796,701	42,982,139	295,487,923
Retired Members	2,780,344,628	66,613,313	174,049,420
Terminated Vested Members	15,545,866	379,866	81,725
Total Pension Benefit Obligations	$ 5,982,687,195	$109,975,318	$ 469,619,068
Net Assets Available for Benefits at Cost (Market Value $3,278,083,219 for SERS,$47,506,146 for JCCRS and $508,395,855 for MERS)	$ 2,951,122,364	$ 43,848,973	$ 441,389,336
Unfunded Pension Benefit Obligation	$ 3,031,564,831	$ 66,126,345	$ 28,229,732

4. Contributions Required and Contributions Made:

The system's funding policies have been established by statute. Employee contributions for SERS are based on fixed percentages ranging from two percent to five percent applied to an employee's annual compensation. Employee contributions for JCCRS are five percent of an employee's annual compensation. Both systems are supplemented by contributions provided by the State. Normal cost is funded on a current basis. The same actuarial assumptions were used to compute both the pension contribution requirements and the pension benefit obligation. The unfunded actuarial accrued liability is being amortized over 40 years. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the projected unit credit cost method. Covered employees of MERS are required to contribute two and one-fourth percent of earnings upon which Social Security tax is paid plus five percent of earnings on which no Social Security tax is paid. Each covered municipality is required to pay an actuarially determined percentage of covered payroll to provide for benefits based on current service. This percentage varies by police and fire versus general city employees, and within those two groups, versus without Social Security. Each municipality is also required to pay an annual amount for benefits based on service prior to the unit's date of participation. This amount is a level dollar amortization (including interest and principal) over varying time periods depending on the unit's date of participation and other factors. The contributions for MERS are actuarially determined using the projected unit credit cost method modified to reflect unamortized net actuarial gains and losses over 10 future years as adjustment in current service rates. The actuarial assumptions are the same used to compute the pension benefit obligations.

	SERS	JCCRS	MERS
	Fiscal Year 1990-1991	Fiscal Year 1990-1991	Fiscal Year 1990-1991
Contributions Made:	$	$	$
By Employees	33,772,959	737,702	5,422,947
Percentage of Covered Payroll	1.7%	5.1%	
By State or Municipalities	$232,816,908	$ 11,412,638	21,173,393
Percentage of Curent Year Covered Payroll	10.7%	79.1%	
Federal and Other Reimbursements	$ 55,200,000		
State Contributions Required:			
Normal Cost	$173,549,626	$ 4,316,336	
Amortization of unfunded Liability	$218,467,222	$ 6,495,572	

Notes: (continued)

5. The statements in this report are intended to present the financial transactions and/or financial position of only that portion of the funds of the State of Connecticut that are attributable to the State Retirement Programs administered by the State Comptroller's Retirement Division.

6. Actuarial Cost Methods and Unfunded Actuarial Liabilities - Other than State Employees', Judges' and Compensation Commissioners' and Municipal Employees' Retirement Funds:

Alternate Retirement Plan:
This plan is underwritten by an insurance company and requires only normal cost contributions forwarded monthly. During 1990-1991 the rate was 13 percent of salaries with the employees' share fixed at five percent and the State's share at eight percent.

State's Attorney's Retirement Fund and Public Defenders' Retirement Fund:
The actuarial requirements of these funds have never been determined. Retirement salaries are met on a pay-as-you-go basis from the funds and the General Fund.

General Assembly Pension Fund:
Public Act 85-502 effective July 1, 1985, abolished the General Assembly Pension System and transferred all assets of the Pension Fund to the State Employees' Retirement Fund except for actuarially determined reserves needed to fund those retired from the pension system. All other participants in the system may elect to participate in the State Employees' Retirement System.

Probate Judges' and Employees' Retirement Fund:
This retirement system was examined actuarially as of January 1, 1990, and, using the "frozen initial liability modification" of the "entry age" actuarial, cost and the January 1, 1989 valuations, when the Probate Court Administration Fund made payments totalling $2,800,000 in addition to the recommended contributions for each of those years.

Policemen and Firemen Survivors' Benefit Fund:
This fund is administered as an adjunct to the Municipal Employees' Retirement and had six participating municipalities as of June 30, 1991, with 504 and 287 active and retired/annuitant members, respectively. In lieu of providing benefit payments from the Policemen and Firemen Survivors' Benefit Fund, the State Retirement Commission, in accordance with Sections 7-323a to 7-323i of the General Statutes, negotiated negotiated with a local insurance company for a group annuity contract to provide the survivor benefit coverage. An actuarial valuation of the insurance company performed as of July 1, 1991, estimated the reserve for future benefit payments to total $10,613,850 as of June 30, 1991.

7. In addition to the retirement programs already noted in this report the Office of the Comptroller, through a third party administrator, offers to State of Connecticut employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. This plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until retirement, termination of employment, disability, unforeseeable emergency or death. Companies participating in this program and the market values of these accounts at June 30, 1991, are listed below.

Market Values at June 30, 1991:

	$
Aetna	137,880,551
Hartford	41,306,350
Phoenix Mutual	388,836
Travelers	15,018,370
Total	$194,594,107

Connecticut Mutual also participates in the State's deferred compensation plan; however, market values at June 30, 1991, were unavailable for this account.

8. The Teachers' Retirement Fund, which is administrated by a separate Teachers' Retirement Board is not included in this audit report, but has been covered as part of a separate audit of that Board.

Notes: (continued)

9. Subsequent Events:

During the 1991-1992 fiscal year two agreements were reached with the State Employees' Bargaining Agent Coalition (SEBAC). These agreements which were ratified by the General Assembly on February 26, 1992 and June 26, 1992, respectively, amended certain provisions of the State Employees' Retirement System as follows:

Reamortization - The accrued past service liability for pensions are to be reamortized, consistent with the following principles.

a. The pension fund's liability for the early retirement program of 1989 shall be reamortized over a period of 40 years with payment to commence in the 1994-1995 fiscal year.

b. The pension fund's liability of the early retirement program of 1992 shall amortized over a period of 40 years with payment to commence in the 1994-1995 fiscal year.

c. The State's contribution for the past service liability shall be reduced by $215,000,000 for the 1991-1992 fiscal year.

d. From July 1, 1992 forward, the remaining past service liability shall be amortized on the basis of a level dollars payment per year for a period of 40 years. The 1992-1993 payments to the pension fund shall be based on this reamortization and not the valuation received in November 1991.

e. Contributions for unfunded past service liability were established for four years as follows:

Fiscal Year	Amount
	$
1992-1993	92,700,000
1993-1994	121,300,000
1994-1995	13,050,000
1995-1996	138,400,000

f. Contributions for the normal cost of pensions will remain at full funding levels.

Early Retirement Incentive Program - This program provides for three incentive years of credit for any SEPS member who meets the eligibility requirements by March 1, 1992, and submits a written application on or after November 1, 1991, but before March 1, 1992. The three incentive years will first be applied to a member's age to bring his or her age to fifty-five and then to service credit time for any remaining incentive credit. For members who already have reached the age of fifty-five or who are hazardous duty members, the incentive years will be allied in total to service credit time. Instructional faculty members in the various higher educational agencies, the vocational technical school systems or other like educational settings, may have their effective dates of retirement deferred by the State to not later then July 1, 1992.

10. Ten Year Historical Fund Information:

Ten year historical trend information designed to provide information about SERF's, JCCRF's and MERF's progress made in accumulating sufficient assets to pay benefits when due is presented in the supplement immediately following these notes to financial statements. The information for SERF and JCCRF, for years prior to the 1988-1989 fiscal year, was taken from the State of Connecticut's Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 1990. The 1988-1989, 1989-1990 and 1990-1991 fiscal years information, however, was taken from statements of this report and the prior audit reports. The required supplementary information for MERF for years prior to the 1989-1990 fiscal year was independently compiled by the actuarial firm of Gabriel, Roeder, Smith and Company. This information has been rounded to the nearest one hundred thousands of dollars. The MERF 1989-1990 and 1990-1991 fiscal years information was taken from this report and the prior audit report.

STATE COMPTROLLER
STATE RETIREMENT FUNDS
COMBINING BALANCE SHEET
AS OF JUNE 30, 1991

Statement 1
Sheet 7

Required Supplementary Information:

ANALYSIS OF FUND PROGRESS (SERS)
(in Millions)

Fiscal Year Ended	(1) Net Assets Available for Benefits *	(2) Pension Benefit Obligation	(3) Percent Funded (1)/(2)	(4) Unfunded Pension Benefit Obligation (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a percentage of Covered Payroll (4)/(5)
June 30, 1987 **	$1,844.6	$4,089.3	45.1%	$2,244.7	$1,429.1	157.1%
June 30, 1988	2,166.5	4,550.7	47.6	2,384.2	1,523.0	156.6
June 30, 1989	2,474.5	5,071.5	48.8	2,596.0	1,759.5	147.5
June 30, 1990	2,746.4	5,624.7	47.6	2,878.3	1,802.8	163.4
June 30, 1991	2,942.5	5,982.7	49.2	3,040.2	1,956.6	155.4

ANALYSIS OF FUND PROGRESS (JCCRS)
(in Millions)

Fiscal Year Ended	(1) Net Assets Available for Benefits *	(2) Pension Benefit Obligation	(3) Percent Funded (1)/(2)	(4) Unfunded Pension Benefit Obligation (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a percentage of Covered Payroll (4)/(5)
June 30, 1988**	$15.3	$ 95.4	16.0%	$ 80.1	$ 9.7	825.8%
June 30, 1989	28.5	108.4	26.3	79.9	10.5	762.0
June 30, 1990	35.7	120.8	29.5	85.1	12.8	662.6
June 30, 1991	43.7	110.0	39.7	66.3	14.4	460.4

ANALYSIS OF FUNDING PROGRESS (NERS)
(in Millions of Dollars)

Fiscal Year Ended	(1) Net Assets Available for Benefits *	(2) Pension Benefit Obligation	(3) Percent Funded (1)/(2)	(4) Unfunded Pension Benefit Obligation (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a percent of Covered Payroll (4)/(5)
June 30, 1982***	$ 159	$ 178	89%	$ 19	$ 81	23%
June 30, 1987	279	346	81	67	144	47
June 30, 1988	348	388	90	40	160	25
June 30, 1989	378	438	86	60	185	32
June 30, 1990	412	470	88	58	186	31

* Net assets are presented at cost.
** First period for which pension benefit obligations have been calculated in accordance with GASB Statement No. 5.
*** Actuarial valuations were performed as of [illegible]

Required Supplementary Information:

REVENUES BY SOURCE AND EXPENSES BY TYPE (SERS)
(in Thousands)

	Revenues by Source (SERS)						Expenses by Type (SERS)				
		State Contributions									
Fiscal Year	Employee Contribution	Dollar Amount	Percentage of Annual Covered Payroll	Investment Income	Other	Total	Benefits	Administrative Expenses	Refunds	Other	Total
	$	$		$	$	$	$	$	$	$	$
1981 - 1982	25,699	123,867	15.9%	45,665	33,445	228,676	99,362	25	4,349	20	103,756
1982 - 1983	27,111	136,759	15.7	55,237	40,178	259,285	107,190	19	16,217		123,426
1983 - 1984	28,957	158,751	16.2	66,925	37,146	291,779	114,841	215	11,435		126,491
1984 - 1985	30,100	196,202	18.7	76,455	38,586	341,343	126,749	117	13,617		140,483
1985 - 1986	30,493	234,192	19.7	99,773	39,496	393,954	140,168	111	5,799	74	146,152
1986 - 1987	27,783	275,816	21.2	102,819	42,954	449,372	154,360	120	2,803		157,783
1987 - 1988	28,025	272,298	19.1	144,635	50,593	495,551	171,568	165	2,680	589	175,102
1988 - 1989	28,714	324,315	20.5	126,591	50,247	529,867	192,552	134	2,267	357	195,310
1989 - 1990	29,193	288,368	16.4	150,928	53,211	521,700	248,418	146	1,913	333	250,810
1990 - 1991	33,773	208,817	10.7	180,033	55,205	477,828	270,898	168	3,613		274,679

REVENUES BY SOURCE AND EXPENSES BY TYPE (JCCRS)
(in Thousands)

	Revenues by Source (JCCRS)						Expenses by Type (JCCRS)				
		State Contributions									
Fiscal Year	Employee Contribution	Dollar Amount	Percentage of Annual Covered Payroll	Investment Income	Other	Total	Benefits	Administrative Expenses	Refunds	Other	Total
	$	$		$	$	$	$	$	$	$	$
1981 - 1982	200	1,859	46.4%	21		2,080	2,301				2,301
1982 - 1983	301	3,234	53.8	23		3,558	3,064	17			3,081
1983 - 1984	370	4,220	60.1	41		4,631	3,478	12	13		3,503
1984 - 1985	388	5,966	76.0	222		6,576	3,761	12	(13)		3,760
1985 - 1986	451	7,317	88.7	415		8,183	4,188	9			4,197
1986 - 1987	490	8,605	97.8	599		9,694	4,550	2	9		4,561
1987 - 1988	561	9,919	102.1	1,058		11,538	4,931	10			4,941
1988 - 1989	607	10,430	99.0	1,173		12,210	5,387	5	13		5,405
1989 - 1990	654	10,833	91.5	1,610		13,097	5,843	3	22		5,868
1990 - 1991	738	11,413	79.3	2,374		14,525	6,335	4			6,339

STATE COMPTROLLER
STATE RETIREMENT FUNDS
COMBINING BALANCE SHEET
AS OF JUNE 30, 1991

Statement 1
Sheet 9

Required Supplementary Information:

REVENUES BY SOURCE AND EXPENSES BY TYPE (MERS)
(in Thousands)

	Revenues by Source (MERS)						Expenses by Type (MERS)				
	State Contributions										
Fiscal Year	Employee Contribution	Dollar Amount	Percentage of Annual Covered Payroll	Investment Income	Other	Total	Benefits	Administrative Expenses	Refunds	Other	Total
	$	$		$	$	$	$	$	$	$	$
1981 - 1982	3,000	8,100		12.000		23,100	6,100		500		6.500
1982 - 1983	3,100	8,900		12,500	300	24,800	6,900		400		7,300
1983 - 1984	3,800	10,100		15,800	5,200	34,900	7,600		500		8,100
1984 - 1985	3,900	10,000		18,000		31,900	8,600		500		9,100
1985 - 1986	4,500	11,500		20.000		36,000	9,500		700		10,200
1986 - 1987	7,300	13,300		22,100		42,700	11,600		700		12,300
1987 - 1988	6,100	16,700		60,600		83,400	13,000		800		13,800
1988 - 1989	7,600	19,500		20,200		47,300	15,000		1,100		16,100
1989 - 1990	6,561	19,387		24.320		50,268	17,392		1,211		18,603
1990 - 1991	8,423	21,172	11.8%	27,907	776	58,278	21,093	520	2,391	349	24,353

STATE COMPTROLLER
STATE RETIREMENT FUNDS
INVESTMENTS OWNED, TOGETHER WITH AN ANALYSIS
OF INVESTMENT TRANSACTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

Schedule 1a
Sheet 1

	Cost Value June 30, 1990 per Previous Report	Cost of Investments: Acquired	Cost of Investments: Disposed of	Adjustments	Cost Value June 30, 1991 (per Statement 1)	Investment Income For Fiscal Year	Gains or (Losses) from Sales of Securities	Investment Income Receivable June 30, 1991	Number of Units at June 30, 1991	Market Value June 30, 1991 (per Statement 1)
Probate Judges' and Employees' Retirement Fund:	$	$	$	$	$	$	$	$		$
Holdings In:										
Mutual Fixed Income Fund	7,871,527		372,091	1	7,499,437	819,815	27,909	46,522	86,950	8,294,539
Mutual Equity Fund	8,957,563		665,679		8,291,884	428,831	234,321	32,669	45,182	11,933,961
Mutual Contract Fund	20,159		21,000	841		3,649				
Yankee Mac Fund	125,870				125,870	19,575			1,156	146,303
Real Estate Fund	4,194,440	200,000			4,394,440	100,158			47,217	4,518,880
Commercial Mortgage Fund	115,000	100,000			215,000	14,050			2,081	221,764
International Stock Fund	2,500,000	1,100,000			3,600,000	56,861			29,069	3,636,536
Mutual Venture Capital Fund	132,800	200,000		(1,531)	331,269	20			3,833	313,916
Cash Reserve Fund	473,363	2,146,990	1,877,333	1	743,021	53,088		3,584	743,021	743,021
International Bond Fund	1,300,000	200,000			1,500,000	80,073			14,611	1,577,185
Connecticut Programs Fund	100,000			(1,918)	98,082	237			1,000	62,584
Total	$ 25,791,322	$ 3,346,990	$ 2,936,703	$ (2,606)	$ 26,799,003	$ 1,586,367	$ 262,230	$ 82,775		$ 31,448,660
State Employees' Retirement Fund (7801):										
Holdings In:										
Mutual Fixed Income Fund	729,891,705	25,400,000	23,528,788		731,762,917	76,618,014	1,271,212	4,544,361	9,300,462	791,819,465
Mutual Equity Fund	944,207,846		45,109,083		899,098,763	44,285,781	14,839,241	3,462,184	5,117,987	1,241,864,643
Mutual Contract Fund	1,160,165		1,208,500	48,335		209,997			12,016	
Yankee Mac Fund	12,154,235			2,179,337	14,333,572	1,654,554			97,737	12,366,110
Real Estate Fund	444,399,396	19,800,000			464,199,396	10,413,405			4,927,104	471,546,526
Commercial Mortgage Fund	96,754,000	5,700,000			102,454,000	7,725,432			960,881	102,365,694
International Stock Fund	262,900,000	118,000,000			380,900,000	5,967,936			3,048,955	381,423,276
Mutual Venture Capital Fund	23,562,400	10,600,000		(286,986)	33,875,414	1,885			398,834	32,239,254
Cash Reserve Fund	30,194,402	201,103,362	141,797,503	(1)	139,500,260	9,401,263		650,995	139,500,260	139,500,260
International Bond Fund	141,300,000	17,400,000			158,700,000	8,604,435			1,549,128	167,222,355
Connecticut Programs Fund	9,820,000			(129,445)	9,690,555	23,369			98,800	6,183,286
Total	$ 2,746,404,149	$ 398,003,362	$ 211,643,874	$ 1,751,240	$ 2,334,514,877	$ 163,906,071	$ 16,110,453	$ 8,657,540		$ 3,346,530,979
State's Attorneys' Retirement Fund:										
Holdings In:										
Mutual Fixed Income Fund	97,363				97,362	10,722		623	1,165	111,135
Mutual Equity Fund	109,141				109,141	5,450		450	643	156,022
Mutual Contract Fund	492		500	8		87				
Yankee Mac Fund	1,335			841	2,146	243			14	1,814
Real Estate Fund	13,402				13,402	412			192	18,359
Cash Reserve Fund	38,833	33,159	25,365	1	46,[illegible]	4,36[illegible]		225	45,528	46,528
Total	$ 260,5[illegible]	$ 33,159	$ 25,865	$ 850	$ 263,679	$ 21,27[illegible]	$ -0-	$ 1,298		$ 353,983

STATE COMPTROLLER
STATE RETIREMENT FUNDS
INVESTMENTS OWNED, TOGETHER WITH AN ANALYSIS
OF INVESTMENT TRANSACTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

Schedule Ia
Sheet 2

	Cost Value June 30, 1990 per Previous Report	Cost of Investments Acquired	Cost of Investments Disposed of	Adjustments	Cost Value June 30, 1991 (per Statement 1)	Investment Income For Fiscal Year	Gains or (Losses) from Sales of Securities	Investment Income Receivable June 30, 1991	Number of Units at June 30, 1991	Market Value June 30, 1991 (per Statement 1)
General Assembly Pension Fund:										
Holdings In:										
Short Term Investment Fund	$ 85,409	$ 6,717	$ 10,974	$ -	$ 81,152	$ 6,544	$ -	$ 39[illegible]	81,152	$ 81,152
Judges' and Compensation Commissioners' Retirement Fund:										
Holdings In:										
Mutual Fixed Income Fund	8,594,499	1,200,000		1	9,794,500	977,088			107,934	10,296,299
Mutual Equity Fund	12,156,686	1,400,000	735,810		12,760,876	572,626	188,229		67,674	16,420,816
Real Estate Fund	5,657,462	900,000			6,557,462	131,795			65,496	6,268,308
Yankee Mac Fund	128,684			(62,445)	66,239	8,000			472	59,788
Commercial Mortgage Fund	1,679,000				1,679,000	129,937			15,805	1,683,786
International Stock Fund	3,100,000	2,000,000			5,100,000	76,887			39,858	4,986,227
Mutual Venture Capital Fund	222,400	300,000		(2,714)	519,686	25			6,240	504,428
Cash Reserve Fund	2,686,051	8,065,910	5,431,986		5,319,975	185,662			5,319,975	5,319,975
International Bond Fund	1,600,000	500,000			2,100,000	103,717			20,264	2,187,406
Connecticut Programs Fund	100,000			(1,918)	98,082	237			1,000	62,584
Total	$ 35,924,782	$ 14,365,910	$ 6,227,796	$ (67,076)	$ 43,995,820	$ 2,185,974	$ 188,229	$ -0-		$ 47,789,617
Public Defenders' Retirement Fund:										
Holdings In:										
Short Term Investment Fund	$ 53,891	$ 7,678	$ 506	$ -0-	$ 61,063	$ 4,453	$ -0-	$ 297	61,063	$ 61,063
Municipal Employees' Retirement Fund:										
Holdings In:										
Mutual Fixed Income Fund	116,412,097	4,800,000	3,964,523		117,247,574	12,030,614	135,477	659,087	1,306,523	124,641,016
Mutual Equity Fund	134,228,501	2,000,000	6,633,508		129,594,993	6,877,873	2,706,925	533,043	775,458	188,162,522
Mutual Contract Fund	359,531		374,500	14,969		55,075				
Yankee Mac Fund	2,467,470				2,467,470	280,262			16,550	2,094,671
Real Estate Fund	65,431,364	4,000,000			69,431,364	1,572,133			747,187	71,509,338
Commercial Mortgage Fund	8,262,000	2,200,000			10,462,000	750,924			99,513	10,631,471
International Stock Fund	39,100,000	18,600,000			57,700,000	904,340			461,605	57,746,644
Mutual Venture Capital Fund	2,701,600	2,500,000		(32,155)	5,169,445	283			60,769	4,912,151
Cash Reserve Fund	10,062,061	44,115,082	34,813,565		19,363,578	1,443,785			19,363,578	19,363,578
International Bond Fund	21,000,000	3,100,000			24,100,000	1,288,313		92,792	234,834	25,343,481
Connecticut Programs Fund	1,455,300			(27,299)	1,427,101	3,441			14,550	910,595
Mutual Mortgage Fund	57,653			(20,818)	36,835	4,296			500	29,035
Short Term Investment Fund	100,098	1,267,176	1,133,930		233,344	32,042		1,387	233,344	233,344
Total	$ 401,637,375	$ 82,582,258	$ 46,920,026	$ (65,303)	$ 437,233,704	$ 25,048,051	$ 2,842,402	$ 1,316,305		$ 505,553,716

STATE COMPTROLLER
STATE RETIREMENT FUNDS
RESOURCES TO BE PROVIDED TO AMORTIZE
THE UNFUNDED PAST SERVICE COSTS OF THE
MUNICIPAL EMPLOYEES' RETIREMENT FUND
AS OF JUNE 30, 1991

Schedule 1b
Sheet 1

Municipality	Outstanding Annual Payments Scheduled June 30, 1991
Municipal Employees' Retirement Fund:	$
Ansonia	2,090,059
Bozrah	369,824
Branford	730,050
Canterbury	56,345
Clinton	916,701
Connecticut Housing Authority	273,250
Cromwell Police	1,032,250
Derby	1,395,158
East Haddam	322,480
East Hartford Housing Authority	492,545
East Haven	4,977,614
Easton	512,801
Hartford	40,231,480
Jewett City	334,742
Lebanon	354,671
Manchester	7,144,306
Middlefield	311,870
Monroe	2,863,270
Montville	1,536,375
New Britain	74,198
New Britain Housing Authority	2,135
New Fairfield	740,766
Norwich City Housing Authority	53,917
Norwich Town Housing Authority	120,405
Plymouth	1,302,582
Preston	417,281
Putnam	950,567
Redding	851,322
Regional School District #4	637,731
Seymour	1,053,860
Seymour Housing Authority	25,392
Shelton	3,057,480
Southington	1,213,757
Stafford Springs	81,558
Stonington	2,453,249
Stratford Housing Authority	233,285
Thompson	237,912
Wallingford Housing Authority	50,048
West Hartford Housing Authority	30,751
Weston	4,544,852
Wethersfield Housing Authority	25,392
Willimantic Housing Authority	223,951
Winchester	1,755,751

STATE COMPTROLLER
STATE RETIREMENT FUNDS
RESOURCES TO BE PROVIDED TO AMORTIZE
THE UNFUNDED PAST SERVICE COSTS OF THE
MUNICIPAL EMPLOYEES' RETIREMENT FUND
AS OF JUNE 30, 1991

Schedule 1b
Sheet 2

Municipality	Outstanding Annual Payments Scheduled June 30, 1991
Municipal Employees' Retirement Fund: (continued)	$
Winchester Housing Authority	28,934
Windsor	4,295,802
Windsor Locks	1,742,411
Woodbridge	1,557,284
Woodstock	526,725
Obligations of Municipalities to Retirement Fund MERF B as of June 30, 1991	$ 95,915,701

Notes:

1. The outstanding balance of $95,915,701 as of June 30, 1991, was calculated as follows:

Balance, July 1, 1990, per prior report	53,181,507
Actuarial and other adjustments (net)	46,668,433
Payments applied	(3,934,239)
Balance, June 30, 1991, per above	$ 95,915,701

2. The payments required to amortize the unfunded past service costs were calculated based on the actuarial assumptions adopted for the valuation of Retirement Fund B as of July 1, 1990. This valuation was performed using the projected unit credit actuarial cost method as modified to reflect unamortized net actuarial gains and losses over 10 future years as an adjustment in current service rates. As a result of a methodology change, unfunded past service credits for certain municipalities are now being applied against current service costs rather than being included with past service costs. This change is reflected in the actuarial adjustment shown in Note 1 above. As a result of the actuarial valuation performed as of July 1, 1990, it was determined that the total unfunded pension benefit obligation (current and past service costs) was $57,698,510 as of that date. Because a valuation was not performed as of July 1, 1991, the unfunded pension benefit obligation as of June 30, 1991, was computed using data from the July 1, 1990 valuation. As a result the unfunded pension benefit obligation was computed to be $29,544,651, as of that date.

STATE COMPTROLLER
STATE RETIREMENT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

Revenues:
  Investment income, per Schedule 1a
  Gain on sale of securities, per Schedule 1a
  Interest on certificate of deposit
  Members contributions
  Interest on purchase of prior service credits
    and late payments
  Federal contributions (U.S.P. and F.O.)
  Allocation of recoveries of fringe benefits
    from Federal and other funds
  Union leave employee cost
  Municipal contributions
  Assessments for administrative and actuarial expenses
  Amortization payments from municipalities (net of refunds)
  Interest on administrative expense

Total Revenues

Expenses:
  Retirement salaries, net of reimbursements (see Note 1)
  Survivor benefits paid
  Death benefits
  Refunds of contributions
  Refunds of interest credited to members' accounts
  Retirement Commission services
  Professional services
  Administrative expenses
  Actuarial expenses
  Medical health insurance premiums

Total Expenses

Excess (Deficiency) of Revenues over Expenses
Other Operating Factors:
  Prior period adjustments - Investments
  Transfer from Other Funds:
    General Fund - actuarial funding
    Special Transportation Fund - actuarial funding
    Probate Court Administration Fund

Net Changes Resulting from Operations 1989-1990
  Fund Balance, June 30, 1990

Fund Balance, June 30, 1991, per Statement 1

Statement 2
Sheet 1

Pension Trust						
Probate Judges' and Employees'	State Employees'	State's Attorneys'	General Assembly	Judges' and Compensation Commissioners'	Public Defenders'	Municipal Employees'
$	$	$	$	$	$	$
1,586,367	163,906,071	21,276	6,544	2,185,974	4,453	25,048,051
262,230	16,110,453			188,229		2,842,402
	16,766					16,766
259,585	33,772,959	28,246		737,702	3,974	6,422,947
5,697	192,124					41,220
	1,720					
	55,000,000					
	11,259					
						17,144,064
						733,980
						4,028,329
						46
2,113,879	269,011,352	49,522	6,544	3,111,905	8,427	56,277,805
847,487	269,287,841	40,842	9,216	6,335,206		21,088,654
73,790	1,048,522					
	561,614					4,052
52,831	2,511,532			6		2,391,226
7,731	1,101,360					348,607
	8[illegible],928					
	78,171					
12,534						489,033
1,747				4,265		31,238
67,206						
1,063,326	274,678,658	40,842	9,216	6,3[illegible],477	-	24,352,870
1,050,553	(5,667,316)	8,680	(2,672)	(3,227,572)	8,427	31,924,935
(3,583)	1,579,820	537		(71,7[illegible]8)		(2,494,227)
	192,216,708			11,412,608		
	16,600,000					
14,280						
1,06[illegible],250	204,729,412	9,21[illegible]	(2,[illegible]72)	8,113,258	8,427	29,430,709
25,742,100	2,746,392,952	262,96[illegible]	8[illegible],452	35,735,715	53,229	411,958,628
$ 26,803,350	$ 2,951,122,364	$ 272,183	$ 80,720	$ 43,848,973	$ 6[illegible],656	$ 441,389,336

Notes:

1. Retirement salary payments for the State's Attorneys' and Public Defenders' Retirement Funds are made on a "pay-as-you-go" basis, with such payments being charged to each retired member's contributions as well as to any investment income earned by the fund. When these two sources of funding are depleted, payment for retirement salaries are charged to the General Fund appropriation for "Pensions and Retirements - Other Statutory." Such General Fund payments for the 1989-1990 fiscal year totalled $558,673 for the State's Attorneys' Retirement Fund and $208,668 for the Public Defenders' Retirement Fund.

2. See Note 5, Statement 1.

STATE COMPTROLLER
STATE RETIREMENT FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

Alternate Retirement Program:

Assets

Cash in custody of State Treasurer
Due from other funds

Total Assets

Liabilities

Accounts payable

Policemen and Firemen Survivors' Benefit Fund:

Assets

Cash in custody of State Treasurer
Contribution receivables

Total Assets

Liabilities

Accounts payable

Note:
1. See Note 5, Statement 1.

Statement 3

Balance July 1, 1990	Additions	Deductions	Balance June 30, 1991
$	$	$	$
880,030	21,827,272	22,027,467	679,835
1,405,044	13,553,760	13,874,537	1,084,267
$ 2,285,074	$ 35,381,032	$ 35,902,004	$ 1,764,102
$ 2,285,074	$ 35,381,032	$ 35,902,004	$ 1,764,102
132,396	105,816	212,376	25,836
79,980	121,833		201,813
$ 212,376	$ 227,649	$ 212,376	$ 227,649
$ 212,376	$ 227,649	$ 212,376	$ 227,649

STATE COMPTROLLER
STATE RETIREMENT FUNDS
COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

Statement 4
Sheet 1

	Agency		Pension Trust						
	Alternate Retirement Program	Policemen and Firemen Survivors' Benefit	Probate Judges' and Employees'	State Employees'	State's Attorneys'	General Assembly	Judges' and Compensation Commissioners'	Public Defenders'	Municipal Employees'
Cash in Custody of State Treasurer (Overdraft), June 30, 1990, per previous report	$ 880,030	$ 132,396	$ (123,605)	$ (4,427,447)	$ 463	$ (2,525)	$ (194,072)	$ (1,008)	$ 2,197,808
Receipts:									
Proceeds from sale of investments, per Schedule 1a			2,936,703	211,643,874	25,865	10,974	6,227,796	506	46,920.026
Investment income			1,573,466	158,972,630	21,642	6,715	2,049,319	4,503	24,978,413
Gain from sale of securities, per Schedule 1a			262,230	16,110,453			188,229		2,842,402
Interest earned on certificate of deposit				16,766					16,757
Return of capital on investments			1,917	476,431			1,917		27,899
Members' contributions	8,275,605		259,585	33,774,834	28,246		737,703	3,973	6,928,468
Union leave costs									
Interest on prior service and late payments			5,698	22,920					
Reimbursement of retirement salaries (see Note 1)			3,413	192,124					41,265
Reimbursement of active employees interest refunds				185,605					19,175
Federal contribution (U.S.P. and F.O.)				11,367					
Municipal contributions				1,699					17,985,331
Allocations of recoveries of fringe benefits from Federal and other funds				55,000,000					
Transfers from Other Funds:									
General Fund - actuarial funding (State share)				192,216,908			11,412,608		
- alternate retirement program (State share)	13,553,760								
Special Revenue Fund				10,106					
Special Transportation Fund - actuarial funding (State share)				16,600,000					
Alternate Retirement Fund	(2,093)			2,093					
Judges' and Compensation Commissioners' Retirement Fund			1,614				(1,614)		
Probate Court Administrative Fund			37,952						
Assessment for administrative and actuarial services									741,872
Amortization payments from municipalities		105,816							4,013,775
Total Cash Receipts	21,827,272	105,816	5,082,578	685,237,810	75,753	17,689	20,615,958	8,982	104,515,393
Total	22,707,302	238,212	4,958,973	680,810,363	76,216	15,164	20,421,886	7,974	106,713,201

STATE COMPTROLLER
STATE RETIREMENT FUNDS
COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

Statement 4
Sheet 2

	Agency		Pension Trust						
	Alternate Retirement Program	Policemen and Firemen Survivors' Benefit	Probate Judges' and Employees'	State Employees'	State's Attorneys'	General Assembly	Judges' and Compensation Commissioners'	Public Defenders'	Municipal Employees'
Disbursements:	$	$	$	$	$	$	$	$	$
Investments purchased, per Schedule 1a			3,946,990	398,003,362	33,169	6,717	14,365,910	7,678	82,582,258
Retirement salaries paid			850,900	269,473,446	40,841	9,215	6,335,206		21,107,830
Survivor benefits paid				1,048,522					
Death benefits paid			73,790	561,614					4,052
Retirement Commission services				89,500					
Administrative and actuarial expenses			37,952	78,171			7,205		551,398
Payments to insuring companies	22,024,883	212,376							
Refunds of active members' contributions	2,584		52,831	2,511,532			6		2,391,225
Refunds of municipal contributions									3,337
Refunds of interest payable on active members' contributions			7,732	644,835					348,607
Refunds of interest paid in by active members				456,225					
Medical Health Insurance premiums			67,206						
Total Cash Disbursements	22,027,467	212,376	5,037,401	672,867,207	74,010	15,932	20,708,327	7,678	106,988,697
Cash in Custody of State Treasurer (Overdraft), June 30, 1991, per Statement 1	$ 679,835	$ 25,836	$ (78,428)	$ 7,943,156	$ 2,206	$ (768)	$ (286,441)	$ 296	$ (275,496)

Notes:

1. In addition to the amounts shown above there was $29,705 in overpayments recovered by reducing retirement salaries paid to those who had been overpaid in some prior periods.

2. See Note 5, Statement 1.

STATE COMPTROLLER
GENERAL AND SPECIAL TRANSPORTATION FUNDS
RECEIPTS
FOR STATE RETIREMENT PROGRAMS
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

Statement 5

	General Fund			Special Transportation Fund
	Alternate Retirement Program	Pensions Other Statutory	Retired State Employees' Health Service Costs	State Employees' Retirement Contributions
Revenues:	$	$	$	$
Refunds of expenditures - prior years	504,132		13,520	
Refunds of current year expenditures	1,124,597	50	5,664	
Total Receipts, per Agency	1,628,729	50	19,184	-
Reconciliation with Records of State Treasurer:				
Cash in custody of agency, June 30, 1991	(7,735)			
Service transfers not reported by Treasurer			(5,348)	
Total Cash Receipts, per Records of State Treasurer	$ 1,620,994	$ 50	$ 13,836	$ -0-

Notes:
1. See Note 5, Statement 1.

2. This Statement reflects the State's modified cash basis of accounting. The modified cash basis of accounting, as used by the State Comptroller with the authorization of the State's fiscal statutes, recognizes revenues when received, except for the accrual at June 30, of collections in July of certain taxes levied, and records expenditures when paid. In the maintenance of accounting records and preparation of financial statements the State Comptroller's Office was guided by the requirements and authorizations of State fiscal statutes with regard to the method of accounting for appropriated funds.

3. In addition to the above receipts, $4,741,066 representing fringe benefit recoveries were credited to the Alternate Retirement Program appropriation account as expenditure transfers/credits. Total fringe benefit recoveries, totalled $5,823,542 which included $1,082,476 of fringe benefit recoveries included in the refunds of current year expenditures as shown above.

Statement

STATE COMPTROLLER
GENERAL AND SPECIAL TRANSPORTATION FUNDS
APPROPRIATIONS AND EXPENDITURES
FOR STATE RETIREMENT PROGRAMS
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

	Total Appropriations Available	Net Expenditures	Balances Lapsed	Balances Continued Ensuing Ye
General Fund:	$	$	$	$
State employees' retirement contributions	192,216,908	192,216,908		
Alternate Retirement System	7,824,000	7,688,097	135,903	
Pensions and retirements - other statutory	933,000	925,092	7,908	
Judges' and Compensation Commissioners' retirement contributions	11,412,608	11,412,608		
Retired State employees' health service costs	58,200,000	57,889,622	310,378	
Special Transportation Fund:				
State employees' retirement contribution	16,600,000	16,600,000		
Totals	$ 287,186,516	$ 286,732,327	$ 454,189	$ -0-

Notes:

1. See Note 5, Statement 1.
2. See Note 2, Statement 5.
3. The above expenditures were net of refunds of expenditures - current year, as shown in Statement 5, as well as expenditure transfers/credits as shown in Note 3 to Statement 5.