



STATE OF CONNECTICUT

RETIREMENT SECURITY BOARD

CO-CHAIRS: STATE COMPTROLLER KEVIN LEMBO & STATE TREASURER DENISE NAPIER

Connecticut Retirement Security Board

Meeting Minutes

Wednesday, December 2, 2015

9:00 a.m.

55 Elm Street, Hartford, 7th Floor Treasurer's Conference Room

Members Present:

Hon. Denise Nappier, State Treasurer, Co-Chair
Deputy Comptroller Martha Carlson (on behalf of Comptroller Kevin Lembo)
Deputy Commissioner Dennis Murphy (on behalf of Sharon Palmer)
Thomas Barnes (via phone)
Michael Callahan (via phone)
Ken Floryan
George Kasper (via phone)
William Kosturko
Sal Luciano
Jamie Mills
James Russell (via phone)
John Sayour (via phone)

Members Absent:

Brendan Maher

Special Guests:

David Levine, Groom Law Group
Jose Singer-Freeman, Finn, Dixon & Herling
Anek Belbase, Center for Retirement Research at Boston College
Geoffrey Sanzenbacher, Center for Retirement Research at Boston College
Stacy Scapino, Mercer Consulting Group
Rich Nuzum, Mercer Consulting Group

Other Participants:

Genevieve N. Ballinger, Research Analyst, Office of the State Comptroller

**A. Call to Order**

Treasurer Nappier called the meeting to order at 9:03 a.m.

B. Adoption of Meeting Minutes

A motion was made by Ken Floryan to adopt the Meeting Minutes of November 4, 2015. Sal Luciano seconded the motion. The minutes were adopted unanimously at 9:04 a.m.

C. Legal Team Presentation

David Levine presented on the U.S. Department of Labor's (DOL) federal guidance for state-based initiatives and the implications of the interpretive bulletin, as well as annuity insurance options. In the interpretive bulletin that was released it elaborates on what type of state based initiatives would be covered by ERISA such as state run Mandatory Employer Participation (MEP) plans, state run master and prototype plans, and a state run marketplace of current market plans. The initiatives that would not be covered are state-based auto-IRA (Individual Retirement Account) programs. The Department of Labor has proposed twelve features that would design an auto-IRA program so that it would not trigger ERISA preemption. The state based plans will be established by the state under state law and as a result the state will be responsible for the security of the payroll deductions and savings. The state must also create a mechanism of enforcement. Another feature that will need to be decided upon will be who will be the responsible party, either the state or an agency, for the investment or the selection of investment options, notifying employees of their rights and the overall administration of the plan. The state or agency must be responsible since it cannot be the responsibility of the employer. An employer's responsibilities are limited to collecting and maintaining records of the employee contributions and providing information to and from the state. An employer cannot make employer contributions to the employee plan. Under these plans some features that may be included are auto-enrollment and escalation as long as they provide an opt-out option. Employees need to be aware that a portion of their pay will go into a savings vehicle. Adequate Notice must be provided about deductions and rights and withdrawals must be allowed consistent with IRA rules.

The guidance that DOL is providing seems to minimize the burdens on the employer and create greater transparency in the overall administration of the plans. Public comment on these twelve features can be made until January 19th. This preliminary guidance will be clarified when the proposed regulations are finalized by the end of next year. Michael Callahan inquired about enforcement and protecting employees' money. Mr. Levine shared that the DOL regulation did not provide much clarity on what specifically is required, but it does require enforcement and participant protections. Mr. Floryan inquired about geographical restrictions if an employee works in Connecticut but lives out of state and if they move back to that state. If they kept their account open would people be able to mail in their checks. There was a discussion about the administrative burden of processing smaller checks. There was also a discussion about auto-enrollment and if an employer would choose the state plan even if they were not mandated to under the statutory mandate (if they had fewer than 5 employees, for example). Mr. Floryan asked about the waiting period for when employees would be auto-enrolled after the start of



employment. The Board is planning to provide questions and comments to the DOL to provide clarity on these issues.

In regard to providing an annuity, Mr. Levine explained the difference between public pension annuities and private insurance annuities. He also described a middle ground option, which is creating a captive insurance company to insure the state program. Under a pension program the state is liable if the pension program runs out of money and by using private insurance they are subject to tighter restrictions. A captive insurance company exists solely to insure that one program and can sometimes partner with the private sector as well for reinsurance. A captive insurance company is designed to be economically feasible.

D. Boston College Center for Retirement Research Report

Genevieve gave an overview of the two drafted reports before the Board. One was written in the Board's voice from Mercer and the legal team, and the other one was from Boston College. The report written by Mercer and the legal team is in the Board's voice whereas the report written by Boston College is written in their voice giving their recommendations to the Board. Ms. Ballinger wanted the Board's thoughts if the Boston College report should be included in the report to the legislature, as well as the memos included within the Boston College report. There are some inconsistencies within the two reports. Mr. Floryan and Ms. Mills thought that both reports should be included in the report to the legislature and that the inconsistencies presented showed the range of assumptions. The biggest inconsistency was with the income replacement ratios that employees with certain income levels starting at different ages would obtain at retirement. This was one inconsistency that Boston College was going to check with Mercer about after the meeting. James Russell thought it would be better if historical data could be looked at to find out how much employees would have received in replacement income. Mercer agreed that they could look at the historical data and get back to the Board before the report is finalized.

E. Draft of January 1, 2016 for Retirement Research Report

There was a discussion about who would implement this plan. Deputy Commissioner Dennis Murphy stated that the Department of Labor was not able to do this work because they are paid by federal dollars. There was a concern about a quasi-public agency implementing the retirement plan. Treasurer Nappier pointed out that a quasi-public agency may not be the best choice because they are not insulated from the politics and they need to follow the regulations of the state. A quasi-public agency varies in the way it is run. Rich Nuzum from Mercer pointed out that the future implementation board could put the administration of the retirement plan out for bid and then have private companies or state agencies bid on it. There was also discussion about enforcement. Deputy Commissioner Murphy was concerned that enforcement matters were not in the report. The Board decided that in order to better examine these concerns they would put together a working group to edit the report. The working group will be open to any Board members who can attend. Many Board members expressed interest in participating, so if there is going to be a quorum, it will have to be a public meeting. The working group will meet and edit the report. The report will be sent to Mercer and the legal team for review. The full Board will



then have a public meeting via conference call to vote on approving the report to be submitted to the legislature.

F. Financial Report

Ms. Ballinger reported that the only change in the financial report was that the \$3,500 that Boston College had requested to perform for an additional test was not used.

G. Public Comment

There was no public comment.

H. New Business

Ms. Ballinger informed the Board that Jamie Kalamarides from Prudential and Joshua Gotbaum from Brookings offered to present to the Board on the DOL regulations and what they mean. The majority of the Board thought that it would be helpful to hear from them. Ms. Ballinger also asked if the Board would like to hear from the Department of Insurance about captive insurance. Mr. Floryan suggested that they provide the Board with a memo.

I. Adjournment

A motion was made by Mr. Luciano to adjourn. Deputy Commissioner Murphy seconded the motion. The meeting adjourned at 10:58 a.m.