



STATE OF CONNECTICUT

RETIREMENT SECURITY BOARD

CO-CHAIRS: STATE COMPTROLLER KEVIN LEMBO & STATE TREASURER DENISE L. NAPPIER

Connecticut Retirement Security Board
Meeting Minutes
Monday, January, 5, 2015
9:00 A.M.
Legislative Office Building Room 1C

Members Present:

Hon. Kevin Lembo, State Comptroller, Co-Chair
Hon. Denise Nappier, State Treasurer, Co-Chair
Michael Callahan
Ken Floryan
William Kosturko
Sal Luciano
Brendan Maher (via phone)
Jamie Mills
Sharon Palmer
James Russell

Members Absent:

Thomas Barnes
George Kasper
John Sayour

Other Participants:

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

The Meeting of the Retirement Security Board was called to order at 9:05 a.m.

A. Call to Order

Comptroller Lembo called the meeting to order.
Comptroller Lembo asked for the Board members to introduce themselves and identify their appointing authority.

**B. Adoption of Meeting Minutes**

A motion was made by Sal Luciano to adopt the Meeting Minutes of December 3, 2014. Jamie Mills seconded the motion and the minutes were unanimously adopted at 9:15 a.m.

C. Review of Recent Developments

Genevieve N. Ballinger briefed the Board on the passage in Illinois of a state law establishing a publicly-administered retirement savings program for certain private sector workers and a recently issued Department of Labor opinion on ERISA and myRA.

Illinois Senate Bill 2758 passed both houses on December 3, 2014 and was signed by Governor Quinn on January 5, 2015. The new law creates the Illinois Secure Choice Savings Program, which contains plan requirements similar to those present in the Connecticut statute. There are also significant differences such as the fact that the bill does not require a market feasibility study – the plan simply becomes effective in 2017 and employers with 25 or more employees that have not offered a retirement plan within the past two years are mandated to offer the plan to their employees, who may opt out of the plan. The plan's Board members would bear the fiduciary duty. An employer who fails to enroll an employee in the Program within the specified time frame would bear a penalty equal to \$250 for each employee for each calendar year.

The Federal myRA program is a retirement savings option recently established by the U.S. Department of Treasury. Prior to this plan being established, the Department of Treasury sought the Department of Labor's opinion on whether the myRA program would be subject to ERISA. DOL responded that it would not be subject to ERISA due to its voluntary nature and because it would not include automatic enrollment as an option. The DOL also took into consideration that the myRA accounts would only be invested in U.S. Treasury retirement savings bonds would therefore never lose value.

Board member Michael Callahan liked the idea of using a Roth IRA, which is what the Illinois plan and the myRA program offer. He suggested that a Roth account invested in CT bonds would offer another source of funding.

D. Plan Design

Per the last meeting discussion, Ms. Ballinger put together a "skeleton" of the plan design and phases of the market feasibility study. Comptroller Lembo asked the Board if these documents were headed in the right direction.

Mr. Callahan suggested that he would consider limiting the investments to state bonds similar to the myRA program. Roth has many benefits because lower income people pay a lower tax rate. He stated that the same amount saved under a Roth feature would provide more spendable retirement money. Funds withdrawn at retirement age are tax free. Roth withdrawals are not counted towards Social Security nor do they impact Medicare premiums.



The idea of utilizing bonds as an investment vehicle was something that some of the Board would like to consider. A concern was raised by Ken Floryan regarding the lower return that bonds yield. Individuals with higher income take advantage of bonds due to tax incentives. Those with lower income are not necessarily motivated by these tax advantages. He suggested that a target date fund, mirroring the Connecticut pension fund plans, would make more sense and produce a higher rate of return. The fund would gradually shift to safer investment vehicles as the person gets closer to retirement age.

Board member Jamie Mills expressed her belief that the investment strategy and the guaranteed rate of return are mutually exclusive. She also commented that the market feasibility study should be as expansive as possible. Ms. Mills directed a question to Treasurer Nappier regarding the simplicity of choice and investment to keep costs to a minimum.

Treasurer Nappier responded that she felt the question was premature since they do not know enough about the methods that they will be using. Scope, scale and demographics need to be identified first.

Mr. Callahan explained that annuity overrides can be added onto certain products. There could be a mutual fund offered with an annuity product sitting on top. He also explained Qualified Default Investment Alternatives. He inquired about the Illinois bill's sanctions if the employer withdraws the money from an employee's paycheck but does not submit it.

Ms. Mills suggested that we ask a legal consultant to find out what would and would not be permitted under ERISA. She also suggested that we ask whether we can prohibit early withdrawals. The Board agreed that a legal consultant should be asked prior to moving forward to get answers rather than speculating.

Ms. Ballinger pointed out that attorney Brian Graff had planned to make a legal presentation to the Board at its January meeting, but was not able to due to the change in the regularly scheduled meeting date. Mr. Graff suggested that Board members email him questions before he comes to the February meeting. The Board agreed to send Mr. Graff formalized questions.

Mr. Floryan brought up Massachusetts and its plan, which is covered by ERISA. He suggested that a conference call be set up with Massachusetts to see why the state decided to proceed with an ERISA covered plan.

Board member Brendan Maher stated that there are two ways a plan could possibly fall under ERISA: a plan that is preempted by ERISA or an ERISA covered plan. If a plan is preempted by ERISA, the plan cannot be enacted.

A discussion arose about whether the Board should include alternatives that are not outlined in the statute in developing its plan.

**E. RFP Scope**

Comptroller Lembo gave an update on academic institutions that were asked to consult on pieces of the market feasibility study. Yale University was not able to consult due to a lack of resources. Boston College and University of Connecticut wanted to wait until after the holidays to give a response. The Board suggested Quinnipiac University may be interested since they do a lot of polling.

F. Fundraising

Comptroller Lembo stated that the fundraising letter to foundations is complete and will be sent out. Treasurer Nappier is also working on a separate letter and that letter will be going out shortly.

G. New Business

To create consistency, Comptroller Lembo asked the Board of where it would prefer to hold meetings.

It was decided that the Board meetings would be moved to 55 Elm Street.

H. Public Comment

Arnie Magid, Oxford Financial Services, LLC, Suffield, CT

Mr. Magid stated that he is an independent financial advisor. He feels that the Board is charged with reinventing the wheel and that there is no shortage of options to retirement security in the current marketplace. He stated that not enough employer participation is a problem. He said that 401K programs are the most common, but small employers avoid them because they are complicated. The federal government established the SIMPLE IRA program to encourage retirement savings. Many employers that employ 100 people or less use the SIMPLE IRA program because it has lower limits. The SIMPLE IRA permits employer matching, there is a 3% mandatory employer investment, and the employee's contributions are immediately vested. The program is not a Roth IRA. His suggestion to the Board is to provide outreach education to employers around the state of the availability of the SIMPLE IRA instead of proceeding with a new state-operated system.

Mark Ferris, Madison Investment Center, Madison, CT

Mr. Ferris is a Certified Financial Planner who attended the CCSU public hearing held on November 19, 2014. He agreed with Mr. Magid's comments and believes that a SIMPLE IRA is what is needed to achieve retirement security. He suggested that the Board examine how CHET runs through the Office of the Treasurer and how the long term care program runs through the Office of Policy and Management.



I. Adjournment

The February meeting of the Board will be held at 55 Elm Street.

The meeting adjourned at 10:30 AM.