



STATE OF CONNECTICUT

RETIREMENT SECURITY BOARD

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

Connecticut Retirement Security Board

Meeting Minutes

Wednesday, September 2, 2015

9:00 A.M.

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

Members Present:

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

Members Absent:

Michael Callahan

Special Guests:

Anek Belbase, Center for Retirement Research at Boston College
Geoffrey Sanzenbacher, Center for Retirement Research at Boston College
Rashid Hassan, Mercer Consulting
Liana Magner, Mercer Consulting

Other Participants:

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



A. Call to Order

Comptroller Lembo called the meeting to order at 9:05 a.m.

B. Adoption of Meeting Minutes

A motion was made by George Kasper to adopt the Meeting Minutes of August 5, 2015. Ken Floryan seconded the motion. The minutes were adopted unanimously at 9:05 a.m.

C. Request for Proposals for Legal Services

Comptroller Lembo alerted the Board that there were eight firms that responded to the RFP for legal services. Ten boxes were received that need to be reviewed. He asked who from the Board would like to sit on the RFP Selection Committee. Jamie Mills, Brendan Maher, and Mr. Floryan volunteered. In addition, the Office of State Comptroller General Counsel, Natalie Braswell, will also be sitting on the Selection Committee.

D. Market Feasibility Study Update

Center for Retirement Research at Boston College (CRR)

Anek Belbase and Geoffrey Sanzenbacher from the Center for Retirement Research at Boston College (CRR) presented results to the Board from the Employee Enrollment Experiment they conducted. The main goal of the Employee Enrollment Experiment was to estimate the effect of program design on the opt-out rates. Currently, 2,757 participants have responded to the employee survey. CRR will keep conducting the experiment with the hopes of getting over 3,000 participants, ideally having 3,500 participants. The sample will then be adjusted for the demographics of Connecticut employees. The main result that was found was that uncovered workers in the experiment behaved like covered workers in the real world. The experiment found that approximately 20% of the participants opted out. Minorities, women and young workers opted out at lower rates than Caucasians, men, and older workers and opt-out rates did not differ between scenarios with 3% and 6% default contribution rates. The base case program design that CRR looked at was similar to a Roth IRA in that you can withdraw your contributions without penalty at any time; you pay taxes on your contributions up front. The employer would deduct 6% from your paycheck and deposit those funds into an account and the employee is able to opt-out at any time. The money will be invested in a fund that is age-appropriate and managed by a private company selected by the State. Opt-out rates did change when the base case program design was changed. The most significant change was when a guarantee of 1% was offered there was a 14 percent increase in the opt-out rate. CRR will continue to analyze opt-out rates and the interaction between demographics and benefit design. CRR will also provide their written report. There was some discussion amongst the Board regarding age and opt-out rates and how much the opt-out rates would skyrocket when a guaranteed rate of return was given.



Mercer Consulting

Rashid Hassan and Liana Magner from Mercer Consulting presented to the Board regarding guarantees and investment options. The legislative statute requires a guaranteed rate of return. The guaranteed rate of return needs to be insured by an outside insurance company and not by the State. Mercer has found that there are many negatives to offering a guaranteed rate of return such as costs, impact on retirement readiness and portability. The positives are that it meets the policy objectives and provides a benefit to the participant. By offering a guaranteed rate of return you are decreasing retirement readiness. Mr. Maher pointed out that offering a guaranteed rate of return of 1% of asset balances annually is expensive. There was a discussion about if a guaranteed rate of return should be offered. Although it is in the statute there was discussion regarding if it should be offered even though it is not the best plan design. Portability is also mandated by the statute and by offering a guaranteed rate of return the portability decreases. Treasurer Nappier pointed out that she has always been against offering a guaranteed rate of return; however she would like to see an option in the program that offers a guaranteed rate of return. In the State 457 plan there is the stable value fund and through TIAA-CREF for the college plans there is the principal plus interest option that both offer a guaranteed rate of return. Sal Luciano pointed out that for the options that offer a guaranteed rate of return it is shifting the extra costs to the participants in the plan that do not have the guaranteed rate of return. Ms. Magner pointed out that offering a stable value fund from a retirement readiness perspective is not getting people ready for retirement. Mr. Hassan interjected that a stable value fund restricts participants from removing their money from the plan. There was discussion about what the true charge of the Board is and it was concluded that it is to provide retirement security. With that in mind, the Board decided to give the legislature a report including what was written in the statute regarding the guaranteed rate of return but put a caveat on it and explain to them why a guarantee is not the best idea and will not provide retirement security. Mr. Maher brought up the idea of providing a Treasury bill option that would provide a guaranteed rate of return. Ms. Mills made a motion to report back to the legislature an analysis on an annually set guaranteed rate of return as requested but to recommend the plan not include a guarantee and decide at another time what the Board should do regarding investment options. The motion was seconded by Mr. Maher. Mercer will find an option that satisfies the statute. The motion passed unanimously at 10:44AM.

On the investment option side, Treasurer Nappier wanted to speak to TIAA-CREF and work with Mercer to find an optional guarantee that fits this plan. Ms. Mills requested a vote to ask if they could provide one investment option of a target date fund, rather than a menu of investment options. However, the Board would leave open the possibility of an optional add-on guarantee at a later time, after the Treasurer looks further into it. There was some discussion about whether the Board was ready to take a vote on one investment option rather than giving a participant in the State plan a menu of investment options to choose from. Mercer was asked to work with the Treasurer to look into the option of a principal plus guarantee which differed from the other guarantees that they were examining. A motion was made by Mr. Floryan and seconded by Mr. Luciano to have one investment option. The motion passed unanimously at 11:18 AM.



E. Financial Report

Comptroller Lembo shared with the Board that there was no new financial news to report. PEW offered to financially contribute, however there were too many conditions put on the contribution and they were not taking the contribution.

F. New Business

Comptroller Lembo asked the Board if they would be open to scheduling an additional informational meeting for additional speakers to present to the Board on various topics. Comptroller Lembo shared that he had met with Kathleen Kennedy Townsend about her work at Georgetown. It was suggested that the meeting could be held in the Legislative Office Building and be covered by the Connecticut Television Network (CTN).

G. Public Comment

There was no public comment.

H. Adjournment

A motion was made by Mr. Luciano to adjourn. Mr. Maher seconded the motion. The meeting adjourned at 11:20 AM.