



STATE OF CONNECTICUT

# RETIREMENT SECURITY BOARD

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

Connecticut Retirement Security Board

Special Meeting Minutes

Tuesday, December 8, 2015

9:00 a.m.

55 Elm Street, Hartford, 7<sup>th</sup> Floor Treasurer's Conference Room

## Members Present:

Hon. Kevin Lembo, State Comptroller, Co-Chair  
Hon. Denise Nappier, State Treasurer, Co-Chair  
Commissioner Dennis Murphy (on behalf of Sharon Palmer)  
Michael Callahan (via phone)  
Ken Floryan  
Brendan Maher (via phone)  
Jamie Mills  
James Russell (via phone)  
John Sayour (via phone)

## Members Absent:

Thomas Barnes  
George Kasper  
William Kosturko  
Sal Luciano

## Other Participants:

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

## A. Call to Order

Comptroller Lembo called the meeting to order at 9:08 a.m.

## B. Review of Draft January 1 Report to Legislature

Comptroller Lembo asked the Board how they would like the editing process to proceed. He told the Board that there were 120 edits and that the edits were specifically attributed to the Board member that made the edits. Genevieve Ballinger said that there were some conflicting edits that the Board needs to go over.



Comments 1-8 in the Introduction section on page 4 were accepted. Comments 9-17 in the Executive Summary section on page 4 were accepted. Comments 18-23 under the subheading of “Program account structure, governance and enforcement” under the Executive Summary on page 4 were accepted. Comments 24-27 under the subheading of “Program account structure” were accepted.

On comment 28 under what the CRSB recommends for governance and enforcement on page 5, Jamie Mills asked a question that raised a discussion regarding the quasi- public entity. Finn Dixon & Herling provided the Board with a memo explaining possible structures for the implementing board, such as a state agency, trustee, quasi- public agency or a non-profit corporation. They recommend the use of a quasi-public agency. They arrived at this conclusion by considering eleven factors. These factors are the liability of the state; what governing provisions will apply; who budgets the revenues and expenses; are the expenses within the state spending cap; are its employee compensation arrangements subject to state scales; will the entity need to borrow funds; is the entity subject to sovereign immunity; are the funds its own or the state's; will it be perceived as being separate from the state; how transparent the entity would be; and finally what procurement provisions will apply. Finn Dixon & Herling believes that a quasi-public agency is the best option for the Board because it satisfies providing clear separation from the state for liability, placing the organization outside of the budgeting process and allowing it to set its own revenues and expenses, and placement outside the spending cap. The other factors such as governance, transparency and procurement are not specific to any one Board configuration. Deputy Commissioner Dennis Murphy and Jamie Mills both agreed that the state would not want to be liable and that the implementing board cannot be included within the spending cap. Ms. Mills did not agree with the quasi-public entity and wanted to be able to consider other options. Ken Floryan suggested that in the report the Board be vague in recommending what type of configuration the implementing Board would take, so that the Board could have further discussion on this subject at a later meeting. Comptroller Lembo suggested that the Board set aside the governance portion until the report in April. The Board decided that anywhere in the report that says quasi-public agency will be replaced with independent agency. On comment 33, Mr. Floryan suggested removing the word ‘typical’ and replacing it with best practices. Treasurer Nappier agreed. The Board accepted comments 28-39 with the changes listed above.

There was discussion regarding comments 40-49 under the “Program model” subheading on page 6. Michael Callahan wondered if what the Board is proposing in terms of portability is inconsistent with the mandatory annuitization, because of the likely higher annuity fees. Brendan Maher stated that it was not inconsistent because, based on people’s behavior, many employees that express the desire to take their money out of the program will not make the decision to do so. That is why it is better to have annuitization. There was a discussion about how the Board would set up an annuity. Mr. Floryan suggested that data would need to be collected from the annuitant but he does not think asking them questions about the plan would urge them to take out their money. Mr. Callahan was concerned that employees would be forced into a 50% annuity if they did not speak to their employer before the deadline. Mr. Floryan pointed out that it is based on regular Individual Retirement Account (IRA) distribution rates. The annuitant can declare their own retirement age up to that age of 70 ½. At any point the employee will be able to



transfer their money. Mr. Callahan asked if the Board is suggesting that the state plan age is 70 ½ and he is concerned that mandatory annuitization of 50% does not allow the Board to have flexibility. Ms. Ballinger asked if the Board was comfortable with keeping something vague in the report and having further discussion at a later meeting or allowing the implementation board to change it. The Board has not yet explored how an annuity would work. In future board meetings someone will be presenting on captive insurance. At this point, the Board is going to leave it as drafted but will add that the implementing Board will provide further information. On comment 45-46 John Sayour had a concern with removing the piece about education. He thinks that the employee and the employer should be educated about the plan. The Board decided to keep in the piece about education.

On Comment 50, Ms. Mills suggested deleting the four bullet points referring to the plan features that the Board considered. There was some disagreement on that. Brendan Maher agreed with Ms. Mills that the bullets be removed to streamline the report and to only include information that further advanced the Board. Mr. Sayour thinks that it is important to include what the Board considered in the report. James Russell thinks that it should be removed because if it is left in, it runs the risk of reopening questions that the Board already settled. Ultimately, the Board decided that comment 50 was covered in the Executive Summary and that the section was redundant and should be removed.

For Comments 51-61, there was a discussion of whether the bullet that says “the program not offer an annually pre-determined rate of return...” should be kept. Ms. Mills thinks that it should not be included since it is saying what the Board is not recommending instead of what the Board is recommending. Mr. Maher and Mr. Floryan think that it should be included in the report since in the statute the legislature mandated a rate of return. Comptroller Lembo offered the suggestion that it be in a separate paragraph explaining why this shouldn’t be done. Other comments were raised about also including other features that were considered but decided against such as offering investment options however the Board decided not to include this under what the Board did not recommend since it was not in the statute. It was also suggested that bullet 57 be removed from the document because its removal would give the Board more time to decide if they wanted to offer annuities as well as provide the implementing Board more flexibility. There was also discussion on comment 58, Ms. Mills thought the comment should be included whereas Mr. Russell had concern that by keeping it in the 6% may block Social Security reform. Mr. Floryan disagreed with Mr. Russell and thought it should remain in since we never know what is going to happen with Social Security reform. It was decided that the bullet would stay in. These comments were accepted with the changes listed above.

Comments 62-64 were accepted. Ms. Ballinger explained that the ‘XXXXXX’ would be replaced with where the report will be available in the appendix.

Comments 65-68 under the subheading “Legal analysis” on page 9 were discussed in regards to IRAs and individual retirement annuities and whether they were mutually exclusive. Ms. Ballinger pointed out that the statute requires the plan be an IRA and to consider the possibility of having an annuity at retirement. It was decided that the Board would leave in IRA since an IRA does not preclude an annuity. The comments were accepted.



Comments 78-80 were accepted without discussion. Comments 81 and 82 on page 11 under the chart of comparing traditional and Roth IRA the Board decided to keep the word ‘withdrawals’ in and delete ‘contributions.’

For comments 83 and 84 under “Illustrating the income tax effects” on page 13, there was discussion by Ms. Mills about adding another column showing a comparison of tax savings over time. Mr. Floryan suggested that Mercer do the calculations. Mr. Callahan brought up that Roth IRAs cannot be rolled into the retirement plan. Ms. Mills pointed out that Roth IRAs can be rolled into other Roth IRAs but cannot be rolled into a Roth 401K. Mr. Floryan pointed out that depending on what type of plan, the taxes are either collected up front or in arrears, which would put an individual in a different tax bracket. He suggested that this may be best described in a paragraph rather than a column. Ms. Mills said that she understood this section was making the argument for the Traditional IRA, which is understandable since the Board is recommending a Traditional IRA be the default, but she believes that this should present a fair accounting of the benefits of both the Traditional IRA and the Roth IRA.

There was some discussion about comment 85 under “Access to accumulated savings” on page 14 and the word poverty. Ms. Ballinger pointed out that the CRSB statute focuses on being financially stable during retirement versus income during an individual’s working years. The Board decided to remove the entire sentence.

Ms. Mills questioned if the amount was correct in comment 86. Ms. Ballinger is going to ask Mercer to provide a citation for the amount.

For comments 87-88 under the subheading of “Governance design elements” on page 17, the Board wanted to make the word ‘Act’ consistent throughout the report.

For comments 89-91 under the subheading “CRSB conclusions and recommendations” on page 18, it was decided by the Board that anything relating to the quasi-public agency would be removed and replaced with an independent agency. Ms. Ballinger pointed out that the Board would be the entity and rather than overseeing the entity.

Comment 92 under the board composition on page 19 states that the Comptroller and the Treasurer would be on the implementing Board as ex officio members. Comptroller Lembo would be on the Board but as a voting member. The Comptroller expressed some hesitation with being on the implementing board and the Board agreed to table that until the discussion on the quasi-public agency. Deputy Commissioner Murphy suggested that there needs to be various governmental agencies involved in the implementing Board and suggested that the implementing Board composition be left up to the legislature to decide. The Board decided to keep the first sentence of each of the three paragraphs.

Mr. Floryan added the “Formatted text” under “Participating Employees” on page 20 and 21. He added this text to explain how part time employees are auto-enrolled as well as if an employer with five or less employees would like to enroll in this program without being mandated. These additions also address if the business or non-profit has different locations outside of Connecticut. Ms. Ballinger referred to the CRSB statute telling the Board that the Connecticut locations of a



business would be mandated to offer the plan that has more than 5 employees. Firms with fewer than 5 employees may not be able to choose to offer the plan according to the recent proposed U.S. Department of Labor rulemaking. Employees will need to wait 120 days to enroll. Mr. Callahan suggested a one year waiting period as is required by ERISA. Mr. Maher pointed out that the one year waiting period is not required by ERISA, it is permitted by ERISA. He supports Mr. Floryan's insertion but thinks that the legal team should review that section. Ms. Ballinger will get a legal opinion and further explore these issues. There is still time since the full Board will need to vote on the final report before it goes to the Legislature.

Mr. Russell explained his rationale behind comment 94 under "CRSB conclusions and recommendations" on page 22, he would like to see the word inception deleted since it sounds like in the future, and the Board will have investment options. The Board accepted the deletion.

Comments 95-96 were accepted without discussion. Comments 97-98 were accepted, replacing the Investment Options section with a paragraph written by Mr. Floryan.

Comments 99-104 were contradictory. Mr. Floryan had wanted to delete the entire Investment Design section while Mr. Russell had specific additions and deletions. The Board agreed to delete the section.

Comments 105-110 recommend removing all of the tables with the income replacement ratios. Ms. Ballinger explained the memo that the Board received further detailing the different assumptions that Mercer and Boston College Center for Retirement Research (CRR) made for the replacement ratio analysis. CRR assumptions for the starting salary and salary growth rate are based on Census data. Mercer assumptions are based on median wage for participants at their respective age range. As a result, the use of median wage versus average wage combined with a wider age range leads Mercer to have a lower starting wage assumption. Mercer analyzed nine different cohorts and three different income levels whereas CRR averaged them. CRR analyzed historical data and the Social Security Administration's projected replacement rate for the middle earner at age 62. Mr. Russell thought that the replacement ratio assumptions were too high. He thought these tables promoted an illusion of security in retirement. In his view, at best the state plan would provide a modest replacement income. He did not think that these various tables needed to be in the report since they may be viewed as a promise. Mr. Floryan added that the Board should be cautious and not run the risk of letting people think that the replacement ratios were assured by looking at these charts. It is dependent on the age of the individual when they sign up for the plan. If a person is farther away from retirement when they sign up for the plan and they are 67 when they retire they will get an annuity from the plan. If they are closer to retirement when they sign up there is no guarantee. He thought that conveying these numbers as concrete would be a bad idea. He suggested putting the memo in the appendix of the report. Mr. Russell added that the assumption is that an individual will be enrolled in the program when they are farther away from retirement. He is concerned that people may see the numbers in the replacement ratio tables and opt-out of the plan. Mr. Maher countered that the tables conveyed the range of possibilities and that the Board was not promising anything by showing these replacement ratios. Mr. Floryan added that the replacement ratios for the different guarantee options considered are important because the legislature directed the Board to include a guarantee however; the Board does not think it will be giving a reasonable return on investment. The Board does not recommend any of the guarantees because they do not get people to



retirement security. Mr. Maher inserted that it was important to include the income replacement ratios to inform the legislature why the Board rejects a guarantee and why they feel that it would have a negative impact on the plan and retirement security. The Board decided to move the income replacement ratio tables to the Appendix so that it wasn't confusing to those who read the report, but that it was still available for those who were interested in how successful this program could be. Deputy Commissioner Murphy suggested the tables include a warning that none of these returns are guaranteed and that they are based on assumptions.

Comment 111 under "Annuitization and retirement income" on page 34 will be deleted. Ms. Mills suggested that this be in the April report. Comments 112 -115 were accepted without discussion.

For comments 116 and 117 under "Deduction protocols" on page 42, Mr. Floryan would like to delete the sentence regarding the maximum deferral amount being programmed into the employer's payroll system since the plan administrator can be charged with this. Ms. Ballinger is going to obtain a legal opinion on this.

Comptroller Lembo asked if there was a motion to accept the changes. Mr. Floryan made the motion and Deputy Commissioner seconded the motion. It was indicated that there was no longer a quorum. So a vote will be made by the full Board after the draft is edited.

### **C. Public Comment**

There was no public comment.

### **D. Adjournment**

A motion was made by Mr. Callahan to adjourn. Ms. Mills seconded the motion. The meeting adjourned at 11:08 a.m.