Connecticut Retirement Security Board
Special Meeting Minutes
Wednesday, December 22, 2015
9:00 a.m.
55 Elm Street, Hartford, 7th Floor Treasurer's Conference Room

**Members Present:**

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

**Members Absent:**
Thomas Barnes
George Kasper
Sal Luciano
Brendan Maher

**Other Participants:**

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

**A. Call to Order**

Comptroller Lembo called the meeting to order at 9:03 a.m.

**B. Review of the Third Draft of the January 1 Report**

Comptroller Lembo explained to the Board that the edits in this third draft are based on the decisions made during the December 8th meeting.

Comments 1 and 2 under the Governance and enforcement subheading on page 5 were accepted.

Comment 3 under the Program model heading on page 6 was accepted.

There was some discussion on comment 4 under the Market survey and research subheading on page 12. Boston College suggested removing the entire section. Ken Floryan had a concern with removing this section. He understands the point that Boston College is making, although he thinks the section should remain but that it not be worded so strongly. His main concern with a Roth IRA is that some individuals may be enrolled that are not eligible. Traditional IRAs do not have the same eligibility requirements that Roth IRAs have. Roth's also have immediate tax deductibility. Michael Callahan supports his position. John Sayour added that a Roth IRA puts individuals in jeopardy by making their money too portable. Jamie Mills thinks that this section should be removed. She thinks that both Mercer and Boston College's research is too different to compare. Ms. Ballinger suggested that the Board delete the section under Market survey and Research, except for the first two sentences, and replace it with:

"The Board recommends a Traditional IRA as a default over a Roth IRA, because the Roth IRA adds administrative complexity. With a Roth IRA, the program would need to determine which participants were eligible for a Roth on a tax basis, and those employees that are auto-enrolled may be penalized if they were ineligible for a Roth." The Board accepted comment 4 with this change.

Comments 5-8 on pages 13-15 starting under the subheading of Illustrating the income tax effects was requested by Ms. Mills to clarify the Board expectations of what the income return will be under this plan. Ms. Mills was satisfied with the additions by Mercer**.**

There was some discussion on comment 9, which starts on page 15 and ends on page 16 under the chart, that suggests removing the section. The section provides detail on studies showing the differences between Roth and Traditional IRA models. However, these studies provide information only for people 60 and older. Comptroller Lembo thought that this section could be confusing and it should be removed because it did not fit in with the overall report. Mr. Callahan agreed that it should be removed. Ms. Mills and William Kosturko agreed that it should be removed. The comments were accepted with this change.

Comment 10 under the Compliance and operational issues subheading on page 16 added a footnote in response to Ms. Mills's suggestion to clarify where the $116,000 amount came from. Ms. Mills was satisfied with the addition by Mercer.

Comment 11 under the CRSB conclusions and recommendations subheading on page 18 was accepted.

Comment 12 under the Status and Oversight heading on page 19 was accepted.

There was a question on comment 13 on page 22 under Participating Employees whether to add a sentence. Mr. Floryan did not want to add the sentence whereas Mr. Callahan did want to add the sentence. Ms. Ballinger suggested a sentence that would satisfy both of them. The sentence that was added is the following:

"Extending coverage to part-time or other employees working for an employer that provides a retirement savings plan but who are ineligible for said savings plan was not covered in the market analysis."

Mr. Floryan thought that Ms. Ballinger's sentence clarified extending coverage to part time employees to firms that otherwise offered a plan and that were not part of our study. Comment 13 was accepted with this change.

Mr. Callahan had a concern with comments 14 and 15 on page 22 where it mandates who would be auto-enrolled in the plan. He said that some market plans have a three year waiting period and he is concerned that this plan would automatically enroll the people that would be eligible for their employer's plan after the waiting period. Mr. Floryan suggested that the wording could be changed and that employees could be deemed eligible to participate in the employer plan notwithstanding any delay in eligibility requirements. It was suggested that the sentence limiting it to a one year waiting period be removed and replace it with any delay in employer plan eligibility requirements.

The Board is removing the "notwithstanding a delay in eligibility of up to one year" language, and replacing it with:

"notwithstanding a delay in eligibility consistent with a plan's eligibility requirements."

This was accepted with this change.

Ms. Mills raised a concern with respect to comment 16 on page 22 with the reference to the U.S. Department of Labor since they are not the final word and other forms of federal law can affect the program. Department of Labor will be removed and federal law will be inserted.

The income replacement ratios analysis that comments 17 and 18 under Investment Options on page 24 are referring to was moved to the appendix. There was some discussion brought up by James Russell if this should be included in the final report. Mr. Floryan responded that both the Mercer and Boston College analyses should be included to show the comparison of the different assumptions. Boston College is illustrating growth of income beyond inflation. Mercer is illustrating that an individual will not have much income growth beyond inflation based on historical wage stagnation. Mr. Russell responded that Mercer did their income replacement analysis based on an individual's initial salary. He thinks that Mercer's analysis is misleading because the Board is referring to final salary not initial salary. Ms. Ballinger explained the assumptions that are explained in the appendixes. She explained that Mercer is not using the individual's initial salary, but that Mercer's assumption is that wages will not grow beyond inflation, specifically for the lower income quartile that this program will serve. Their assumptions are based on consensus data. Boston College disagrees. Boston College is also using lower interest rates for annuities as they currently stand whereas Mercer is assuming rates will increase and using slightly higher annuity rates. Boston College uses age 62 as the retirement age and Mercer uses age 65 for the retirement age. Mr. Callahan and Comptroller Lembo think that both analyses should be kept in the final report. It was brought up that Boston College was contracted to do the market analysis and Mercer was contracted to do the feasibility study, including this analysis, however Ms. Ballinger pointed out that Boston College went beyond their work and responded to Mercer's work on their own. Ms. Mills likes the two projections and thinks it is helpful to have both in the report. It was agreed to leave both analyses in.

Comments 19-23 on pages 28-33 were accepted.

Comment 24 under the heading of Annuitization and retirement income on page 33 was accepted.

Comment 25, 26, and 27 on page 39 were accepted.

Comment 28 under the heading of modeling downside scenario financials on page 49 was accepted.

The Board then looked at the Appendices. The Board had already looked over Appendices A, B and C. Appendix D was added based on language in the December 8th meeting.

Comptroller Lembo asked for a motion to accept the final report. Mr. Floryan made the motion and the motion was seconded by Ms. Mills. The motion was unanimously accepted at 9:58 am.

The final report is completed and will be sent to the legislature before the January 1st deadline.

**C. New Business**

Ms. Ballinger is working on the agenda for the next meeting. In the next meeting, the Board will hear from Joshua Gotbaum from the Brookings Institute and Jamie Kalamarides from Prudential Retirement. Mr. Callahan suggested getting someone to present about the distribution process and about procedural issues, such as removing money from the payroll. The comment letter set forth by the U.S. Department of Labor will also be discussed at the next meeting. The Board will also discuss annuities and captive insurance in the future. Comptroller Lembo shared that the second report on implementation will be in the form of proposed legislation.

**D. Public Comment**

Kate Crowther, Ubiquity, Director of Government Relations

Ms. Crowther wondered if the Board was going to provide comments to the U.S. Department of Labor on the meaning of meaningful control of participants' accounts.

Ms. Ballinger responded that the comment will be discussed in the January meeting.

**E. Adjournment**

Comptroller Lembo asked for a motion to adjourn. Deputy Treasurer Gray made the motion. Mr. Floryan seconded the motion. The meeting adjourned at 10:04 a.m.