



STATE OF CONNECTICUT

RETIREMENT SECURITY BOARD

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

Connecticut Retirement Security Board

Meeting Minutes

Wednesday, October 7, 2015

9:00 A.M.

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

Members Present:

Hon. Kevin Lembo, State Comptroller, Co-Chair

Deputy Treasurer Richard Gray (on behalf of Hon. Denise Nappier, State Treasurer, Co-Chair)

Deputy Commissioner Dennis Murphy (on behalf of Commissioner Sharon Palmer)

Michael Callahan

Ken Floryan

William Kosturko

Brendan Maher

James Russell (via phone)

John Sayour

Members Absent:

Thomas Barnes

George Kasper

Sal Luciano

Jamie Mills

Special Guests:

Anek Belbase, Center for Retirement Research at Boston College

Geoffrey Sanzenbacher, Center for Retirement Research at Boston College

Rashid Hassan, Mercer Consulting

Stacy Scapino, Mercer Consulting

Neil Lloyd, 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 9:04 a.m.

B. Adoption of Meeting Minutes

A motion was made by Ken Floryan to adopt the Meeting Minutes of September 2, 2015. Bill Kosturko seconded the motion. The minutes were adopted unanimously at 9:05 a.m. Deputy Treasurer Richard Gray abstained.

C. Contracts for Legal Services

Comptroller Lembo explained to the Board that the contracts with Groom Law Group and Finn Dixon & Herling are in the final stage of negotiation. The scope of work for the contracts is the same language used in the RFP for legal services that the Board reviewed and approved. He asked if the Board felt comfortable with giving the co-chairs the authority to approve and execute the contracts as they did with the contracts with the market feasibility study consultants. A motion was made by John Sayour to allow the co-chairs to approve and execute the contracts on behalf of the Board. Brendan Maher seconded the motion. The motion was approved unanimously at 9:07 a.m. Michael Callahan entered the meeting as the motion was being voted upon and stated he wished to vote in the affirmative as well.

D. Market Feasibility Study UpdateCenter 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 both the employer and employee surveys. Mr. Sanzenbacher started with the employer phone survey. The goals were to assess employer opposition and whether or not employers would be likely to switch from their existing private sector plans to the state plan if offered. Most of the firms surveyed were small firms, with 92.5% of firms without plans having fewer than 30 employees. For those employers without a plan, 50% opposed the program while 40% supported it. However, even though there was significant opposition to the program, this sentiment did not result in employers planning to discourage their employees from using the program. 57% of employers without a plan said they would neither encourage nor discourage employees to opt out of the program, while 33% said they would discourage people from opting out of the program and only under 10% said they would encourage opting out of the program. Reasons for support included that there was no employer match, lack of legal responsibility, requires employees to save, not high administrative burden on employers. Reasons for opposition included requiring employees to save being a bad thing, employer mandate, and that any state managed program would be a failure. If mandated, 48% of employers without a plan stated they would find a private plan rather than use the state program.



For smaller firms, about 50% of the firms managed their payroll internally. However, there was little to no correlation between support or opposition of the plan and payroll method or firm size. Employers with five or fewer employees were also asked if they would voluntarily enroll their employees in the plan, to which 58% of the firms responded yes and 25% responded no, with the remainder needing more information.

The employer phone survey also surveyed employers with an existing retirement plan offering for their employees. On average, about 18% of workers at these firms were ineligible for the firm's plan. Only two firms responded that they would stop offering their plan and move to the state plan, while only 7% responded that they would enroll their ineligible workers into the state plan. 48% of the firms would not enroll anyone, while about 44% wanted more information. The next step for the phone survey is for the contractors to provide a detailed written report with additional data for the Board.

Mr. Belbase gave an update on the employee survey. They were able to obtain over 3000 responses to the employee survey. The results presented today are different from last month because of the additional responses and because they have weighted the survey responses to make the participants look more like Connecticut's uncovered workers. Since the participants were more likely to be higher income, older, and white, the results had to be weighted to look more like the uncovered population. However, the bottom line was mostly unchanged. On average, 20% opted out of the program. The opt-outs increased with age and decreased with income. Women and minorities opted out at lower rates. Opt-out increased 5.5% when the contribution rate automatically escalated from 6% to 10%, which was statistically significant. Opt out decreased 3.9% if default contribution rate was 3%, which was marginally statistically significant. A deferred annuity increased the opt-out rate by 6.1%, which was statistically significant. An immediate annuity with 50% of assets resulted in a 4.3% decrease in the opt-out rate, which was marginally statistically significant. Mr. Belbase believes that the 50% immediate annuity was valued because it was framed referencing Social Security. Finally, the guarantee still increased the opt-out rate quite significantly by 12.9%, which is definitely statistically significant. Interestingly, California's study used some of the same questions as we did, and found a very similar result with their guarantee. Opt-out rates did not vary as a function of debt, spouse plans, firm size or tenure. Nor did they vary as a result of demographic or economic variables.

Mercer Consulting

Neil Lloyd from Mercer presented on the annuities option. Social Security will be a part of the target population's retirement income. Financial shock creates bigger retiree problems than base income. Therefore, it is more important for low income retirees to have emergency funds than annuities. Studies have shown that only less than 7% of retirees actually purchase annuities. And even annuity providers themselves sometimes limit the amount of assets that can be used to purchase an annuity to 50% of a retiree's assets. Mercer believes the Board's recommendation should be to make annuities one component of the retirement income strategy, but to offer other



components as well to better tailor the outcome to each individual. To use a holistic approach to retirement income, first you need to build an income floor to protect against poverty. Then you need to design to the “U”. Income shifts through retirement from high income in the beginning for the active retiree, to lower income in the middle for the more passive retiree, to higher income again later in retirement due to increased health issues. Unfortunately, annuities do not work well with the U shape. Should focus on financial education for younger workers, retirement education and building lifetime income products for pre-retirees, and retirement assistance with a withdrawal system for new retirees and continuing retirees. People are less likely to want an annuity as they get older, and we believe this is because they are focused on their retirement wealth. Should phrase retirement funds as income rather than wealth starting from the beginning of the accumulation period. Mercer recommends not using a lifetime product or managed accounts, at least at the beginning of implementing the program.

The Board discussed the difference between purchasing annuities at retirement and using an investment product that incorporates an annuity solution from the beginning. Mr. Lloyd believes that purchasing an annuity years prior to retirement on the private market will be expensive, that there are counterparty risks, and the more cost effective method is to use an annuity exchange at retirement. Mr. Maher questioned if it would not be more costly to offer an annuity as an option rather than mandating everyone transfer their assets to an annuity. Mr. Sayour discussed the role of interest rates in determining the annuity solution. Mr. Lloyd believes that mandating annuities will be a discouragement to those enrolled in the plan to remain in the plan. James Russell asked if the state program could offer an annuity from the common fund in the plan. Mr. Sayour and Mr. Lloyd discussed how that may violate the statutory requirement to remain separate from the State. Mr. Floryan questioned if an annuity was not mandated, could it still be the default distribution option. He stated that if the participant wants to take a lump sum then they can bring it to a private advisor. Mr. Lloyd responded that they would not recommend using an annuity as the default option, rather that systematic withdrawals should be the default option. Mr. Lloyd explained that managing the funds toward an annuity without an annuity mandate would not be the best method since they would not be able to determine participant likely behavior at distribution. Stacy Scapino from Mercer indicated that they could leave some of these questions open to allow the implementing Board the flexibility to decide.

Rashid Hassan from Mercer then presented on guarantees. There are two major issues with the guarantee options, the specific guarantee language in the statute and the portability requirement. Guarantee costs significantly lower the income replacement ratio. The only guarantee that meets both the guarantee statute and the portability requirement is the money market fund, which lowers the income replacement ratio the most, but it also can go negative in extreme economic circumstances, like in the 2008 financial crisis. Comptroller Lembo questioned whether or not we need to model a guarantee at all if none of them fully conform to the statute. Mr. Floryan suggested modeling the guarantee that gets the closest to the statute. He suggested the Money Market Fund gets closest to conforming to the statutory language, while the Target Date Fund with principal guarantee is closest to the spirit of the statute. Mr. Kosturko suggested using the Money Market Fund, as was discussed in the subcommittee meeting. A motion was made by Mr. Floryan to not include a guarantee in the recommendation but to include the Money Market Fund in the modeling analysis as the guarantee that most closely conforms to the statute. Mr. Sayour seconded the motion. The motion passed unanimously at 11:02.



Mercer did not have enough time to continue so Comptroller Lembo suggested they work with the subcommittee on the financial feasibility modeling piece. Genevieve Ballinger asked the Board members to email her with any questions or concerns on the financial feasibility modeling.

E. Financial Report

Comptroller Lembo shared with the Board that there was no new financial news to report.

F. New Business

Comptroller Lembo asked the Board if they felt comfortable with the law firms meeting with the consultants after their contracts are executed but prior to the full Board meeting next month. The Board agreed. Comptroller Lembo then reminded the Board of the special speaker meeting next week on Friday, October 16 from 9am – 12pm at the Legislative Office Building, Room 1B. Mr. Maher asked if there would be dial-in available, and Comptroller Lembo replied that there would be. We may also be able to get CT-N coverage. Mr. Kosturko then asked about the distinction between the different deadlines the Board has. Ms. Ballinger responded that the January 1st deadline is for the results of the market feasibility study, which will be the reports written by the consultants. However, the implementation plan is not due until April 1, 2016, so we will not need statutory language written until that time.

G. Public Comment

There was no public comment.

H. Adjournment

A motion was made by Dennis Murphy to adjourn. Mr. Kosturko seconded the motion. The meeting adjourned at 11:07 AM.