STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

ACTUARIAL SUBCOMMITTEE

SEPTEMBER 15, 2021 MEETING
HELD VIA ZOOM
CONVENED AT 3:05 p.m.

Present (via Zoom):

Peter Adomeit, Chairman
Michael Bailey, Trustee
Robert Coffey, Trustee
John Flores, General Counsel to the Treasurer's Office and Ex-Officio member of the Commission
Karen Nolen, Trustee
Claude Poulin, Actuarial Trustee
Tim Ryor, Actuarial Trustee
John Herrington, Retirement Services Division Director
Jean Reid, Retirement Services Division
Donald Wilkerson, Retirement Services Division
John Garrett, Cavanaugh Macdonald
Ed Koebel, Cavanaugh Macdonald
Cindy Cieslak, Rose Kallor, General Counsel to Retirement Commission

TRANSCRIPTIONIST: Karin A. Empson

(Proceedings commenced at 3:05 p.m.)

MR. ADOMEIT: Okay, is everyone present and accounted for? Are we missing anyone?

This is a meeting of the Actuarial Subcommittee of the Connecticut State Employees Retirement Commission for September the 15th, 2021.

And, Cindy, do you have the persons present, please?

MS. CIESLAK: Sure. This is Cindy Cieslak. Present today, we have Chairman Peter Adomeit; Trustee Michael Bailey; Trustee Robert Coffey; General Counsel to the Treasurer's Office and Ex Officio Member of the Retirement Commission, John Flores; Trustee Karen Nolen; Actuarial Trustee Claude Poulin; Actuarial Trustee Tim Ryor; Jean Reid from the Retirement Services Division; John Garrett from Cavanaugh Macdonald; Ed Koebel from Cavanaugh Macdonald; and I am Cindy Cieslak from Rose Kallor, General Counsel to the Retirement Commission.

MR. ADOMEIT: Okay, thank you, Cindy. And the item on the agenda today is the SERS Experience

Study Report. And who will present that?

MR. GARRETT: Thank you, Mr. Chairman. It's John Garrett and Ed Koebel; we're both on the call. But really basically, we just wanted to point to the report, the latest draft that Ed forwarded out today. There are really no material changes to it. There were some textual changes, primarily maybe the biggest one was thanks to Karen Nolen, opium (inaudible) to ebony - any credit for our work on the real wage inflation assumption. So we removed some of that referencing with their assistance.

But other than that, really it was just some textual changes. None of the numbers changed; none of the rates changed; none of the assumptions changed.

And we've also then - you know, at the end of our discussion, we opened up the idea about, you know, what should we consider for 2022. To be honest with you, it's kind of a blind educated guess. I guess it's not that blind; it's one eye closed anyway, that, you know, to us, since it's so short, we don't really prefund this addition of retirements that much, right, because this next valuation for 2021 is going to determine the ADEC for fiscal year ending 2023, the year after this would occur. So really, by the time the money is starting to be contributed, we'll have the

2022 valuation, which will have some if not all of that experience in there.

It might miss - just because 7/1/22, I think it's been determined in additional discussions that people who retire on 7/1/22 are still considered to be pre, so they get the current deferred COLA, you know, minimum nine months, if they retire on 7/1/22. I believe that's what's been agreed to.

Karen, you might know the specific - I know John Herrington would know right off the bat, but—

MS. NOLEN: You have to retire before July 1st.

MR. GARRETT: Okay.

MS. NOLEN: So since the retirements are the first of the month, it would be June 1st.

MR. GARRETT: Okay. Well, I'm glad I asked because my understanding was completely wrong. So what I would say is that with that then, the 2022 valuation should really incorporate most all the experience, and that's going to set the rate for 2024. So what we're talking about here is a one-year advantage in funding the potential loss, the additional liability, due to additional retirements.

So we have - let me share my screen just so we'll all have it in front of us when we discuss this.

We prepared some analysis on what the impact of these additional retirement rates will be. Does everybody see what I have there?

So the first column there under valuation results is really what we saw in the 2020 valuation results. The next one, the next column, says Experience Study bump-up retirement rates for Tier I only. So, as part of the Experience Study, because Tier I, you know, we don't think it's questionable whether or not they're going to retire at higher rates. We believe it's a certainty. And so we've already anticipated some of that bump in what we proposed for the retirement rates in the Experience Study. So that's the impact of the Experience Study including that bump to Tier I rates.

And then we looked at an additional bump to Tier II, and we looked at both a 10-percent – and not an increase in the rates, but an additional 10 percent of eligible retirees would retire in fiscal year 2022, and that's that third column. The fourth column is 20 percent, and the fifth column is 30 percent. So that's the 10, 20 and 30, I think that we talked about at the last meeting, of what that impact is. You see they're all pretty minor.

Now, one thing that's not really shown here –

we show the additional number of retirees in the bottom row of those. But what's not being shown right now is what do we already expect for retirements in fiscal year 2022. And it's roughly about 2,400 retirees, both – we expect around 2,400 in '21 and around another 2,400 in '22. And so you can see that really a 20-percent increase in the rate more than doubles the number of retirements we expect for 2022. There's an additional 2,500 on top of the 2,400 we're already expecting to go out that year.

So, you know, what we were talking about as maybe a potential consideration for the committee, the commission, is that maybe we wait until we're actually putting together the valuation. We kind of assess what additional retirements we've seen through – by that time, it's going to be probably some experience through October 1 anyway, which October 1 would be one of the higher months of retirement. And, you know, at that point, then consider whether or not we add a kicker rate onto the Tier II, Tier II-A retirements.

Or we can pick something we think is reasonable. One of the things I think scared us all early on was this Boston College study – was it Boston College? Or Boston Consulting Group, I think; right? That study that they surveyed, and it turned out that it was not a highly participated survey, but, you know, 72, I believe, 72 percent of those surveyed were expecting to retire by fiscal year end 2022. So, pretty scary, 72 percent of the people go out the door. And, you know, I think that's as unreal as assuming zero would be expected to go.

So, with that, I'll open it up to any questions and further discussion on this retirement rate issue for 2022.

MR. ADOMEIT: I should—

MR. GARRETT: Ed, is there anything that I left out that you needed to add there?

MR. KOEBEL: No. No, John, I think you hit it all. I was glad you said the 2,400 that we already assume are going to retire. That was the only thing I was going to add.

MR. GARRETT: Okay, good.

MR. ADOMEIT: Yeah, I should share some information from a meeting of the Connecticut Bar Association Committee on Labor Relations held remotely yesterday. And they were taking the speaker - not the speaker, but a person who spoke took the 40-percent-are-going-to-retire at face value. I did not think it was my job to point out anything, so I remained silent. But they also said that the legislature passed a statute which mandates a review of that issue for 2022, about which I was unaware.

So I just wanted to pass on those two pieces of information to the Subcommittee.

MS. NOLEN: I'm not sure that legislation passed.

MR. ADOMEIT: Then, if it did not, then we were misinformed.

MS. NOLEN: Things were so hectic at the end of the session; I haven't really followed up on that to see if it passed or not. But—

MR. ADOMEIT: Yeah, it was - well, it was a pretty well-known management and labor lawyer who made the presentation. That was just a part of it. I did not write down the citation he had.

MR. POULIN: This is Claude.

MR. ADOMEIT: I think it may have been and they implemented it.

MS. NOLEN: You mean the 900-page (inaudible)?

MR. ADOMEIT: Yeah, I guess (inaudible). Yeah, I don't have any further comments.

Does anybody else have any comments or questions?

MR. POULIN: Yes, I have a question. It's really a comment. I was surprised to see that the increase by eight or 10 percent or 20 percent or 30 percent of the retirement rates were (inaudible) as a minimal impact on all these numbers. Whether it's the liability, the unfunded liability, the funded ratio, the numbers are virtually - well, they don't increase very much. So it was kind of a pleasant surprise.

MR. GARRETT: Yeah, we agree, Claude. You know, we've got to remember, this is a pretty mature plan, and a vast majority of that liability is in retirement already. So this is - this flow of actives is really not that - and the other thing too, I mean, we do have some pretty significant retirement rates already in place, you know, as part of the Experience Study. Just the base rates we're using are pretty good, 21, 25, you know, somewhere in the 20- to 25-percent range for most Tier II, Tier II-A type folks. So—

MR. ADOMEIT: Okay. Are there any other questions or comments?

MR. GARRETT: Well, and just to - Mr. Chairman, this is John Garrett again. Just to kind of reiterate, I don't know if a decision is necessary, you know, for - we do certainly, you know - to us, this being an educated guess, we're happy to include as many people as we can and share the burden of making that educated guess. But I don't know if - you know, if there is a decision today from the Subcommittee, we're more than happy to implement it and put it into the final version of the Experience Study.

If not, if we want to play it by ear and see how retirements are progressing between now and, say, October, when we're trying to maybe finish up, or certainly get into the meat of finishing the SERS valuation for 2021, you know, we can hold off at that point, have another meeting. It might not be a regularly scheduled Actuarial Subcommittee meeting, but if we can get together and discuss some of the data that John might be seeing, as far as the trend in actual retirements this fiscal year, you know, that might be another way to go.

But to us, it's not overly material that we build in an assumption in this Experience Study. To us, this amount of money, you know, if the only advantage of building in something is to catch one year of additional funding before we actually know what the gain/loss is, you know, it's not like we're going to change the outcome of prefunding these additional retirements that actually do occur.

MS. CIESLAK: For the record, this is Cindy

Cieslak. And I just want to note that Donald Wilkerson from the Retirement Services Division joined us during Mr. Garrett's presentation.

MR. ADOMEIT: Oh, thank you, Cindy.

Well, obviously this document should be presented to the full commission so that they know what we're doing. I don't know quite the format to take, simply a request to accept it and pass it up, or what? Claude, you've done this before.

MR. POULIN: Yeah. But I do have a question. Would we present it as is, or would we recommend a 10-percent increase, 20-percent increase, 30-percent increase? Because the document, the one that we looked at two weeks ago, says that we could either assume a 10-percent or 20-percent, but the impact, in a way, is so negligible that could we have an actual recommendation, at 20-percent, for instance, or could we leave it as-is and just accept the report as it is?

MR. RYOR: This is Tim Ryor. I think having this document is helpful. I mean, I think what we were alluding to at the last meeting was, you know, wait until there's some more data. And then, you know, if it seems like we're trending towards 6,000 retirements, then maybe 30-percent is the right answer. I'm just inventing numbers there, but you get the idea.

And so, I think if we accept the report as-is, I think it can wait until the accepting of the valuation report to make the final call on that.

MR. POULIN: I agree. Well, if that's the case, then I would move to accept the State Employee's Retirement System, the Judges Family Support, Magistrate and Probate Judges and Employees Retirement System Experience Investigation Report for the four-year period ending on June 30th, 2020.

MR. RYOR: I'll second that motion. Tim Ryor.

MR. ADOMEIT: Is there any further discussion? Hearing none, all in favor, say aye, or raise your hand.

UNIDENTIFIED SPEAKERS: Aye.

MR. ADOMEIT: Opposed, nay. The ayes have it.

That completes the item on the agenda. So it looks - Cindy?

MS. NOLEN: Excuse me, Peter. It's Karen.

MR. ADOMEIT: Oh, I'm sorry. Karen.

MS. NOLEN: I have a question for, I guess, Jean and Donald. I know that, you know, October 1st is a big retirement month. Do you have any statistics so far on what's come in for October 1 retirements?

MR. WILKERSON: I can speak to that.

MS. REID: I do not.

MR. WILKERSON: Yeah. So, you know that—

MR. ADOMEIT: Donald Wilkerson speaking. Go ahead.

MR. WILKERSON: Oh, sorry.

MR. ADOMEIT: That's all right.

MR. WILKERSON: So, you know that State employees potential retirees now work through the DAS retirement pod. And so those that are in-scope deal with the retirement pod, and the agencies that are out-of-scope, such as the Board of Regents, the community colleges, higher education in general, judicial, they don't go through the retirement pod. So as of now, we have approximately 27 retirement applications in for October. We expect many more, of course. And knowing that, we still have two more weeks to go to the end of the month.

We will get an avalanche in the last two weeks of the month, and I can't necessarily speak to the time - the retirement pod's timeline, but we tend to get a vast majority in the last few days of the month. So I know that John probably has additional insight on some of the expected numbers. Patty Meskers in member accounts also works more directly with the pod in terms of the ones that may have intended to retire, but even not always that intention to retire results in the actual application coming in.

So I don't want to throw a number out there because, again, it's difficult to say right now. Normally, October, as you know, is upwards of 250, you know, in that range, but - and we do expect much more than that.

MS. NOLEN: Thanks, Donald. I'm sorry I put you on the spot. I keep forgetting that we have that new pod at DAS.

MR. WILKERSON: Oh, that's okay.

MS. NOLEN: I apologize.

MR. WILKERSON: That's okay. I wish - believe me, I just - I'm in contact with them on a regular basis, and I tend to - I'll put it lightly - encourage them to get as many packages in earlier than - we'll just say sooner than they necessarily send them. We always want them as soon as possible. Payroll for September retirements closes this Friday. We also - we're done with our September retirements and that was - basically that count was at 234 for September. And that's, you know, again higher than normal.

But again, we all know that every month going forward is going to be higher than normal. And so what we focus on as we complete the current month's retirements, we do transition to the next month's, but we also work on finalizing previous retirees. As you know, it's important to finalize. When we calculate pensions, for instance, for September retirees, the final paychecks have not often been paid yet.

So keep in mind, when we started working on September retirees at the end of August, they haven't even received their final paychecks as terminated employees. And so, for instance, there's a confirm tomorrow, and the check that people will receive tomorrow is through last Thursday, which last Thursday is September 9th, and that covers the end of August and the beginning of September. So we get them on the payroll, and then subsequently, you know, we finalize them, and we make a point to be up to date with finalization.

So, hopefully that provides some insight.

MS. NOLEN: Thank you.

MR. WILKERSON: You're welcome.

MR. ADOMEIT: Thank you, Donald.

MR. WILKERSON: You're welcome.

MR. GARRETT: You know, Mr. Chairman, if I could just add, too, one thing. What we need to be, I guess, you know, aware of too is that with the "SAG awards", a lot of transfers of pretty near-term retirement-eligible people came in from ARP. And we saw that in the Experience Study too. We saw a lot of retirements now. You know, the amount they paid, they paid the cost of retiring at first eligibility.

So, you know, all I'm saying is that the amount they transferred covers really whatever is going to happen to them. Because, you know, if they retire July 1 - or before July 1 of 2022, we've already charged them. Really the more expensive cases, if they retire at first eligibility, and then we charge them pre-7/1/2022 benefit-type, you know, the early retirement reductions, all that stuff, were already built into those calculations.

So I think my recommendation would be to wash out any of the additional retirements that occur, wash out the ARP transfers from those, because those really shouldn't be anything we're concerned about as far as generating losses on. The reality is that we're probably generating gains from most those who went beyond their first eligibility, which is what they paid for.

MR. ADOMEIT: Okay. Thank you, John. Are there any other comments or questions?

MR. RYOR: This is Tim Ryor. You don't have a sense of the impact of the asset gains through 6/30/2021 yet; do you?

MR. GARRETT: You know, I did look at that, Tim, and I didn't write anything down about it. I was thinking we were going to be generating around $300 million a year for the smooth periods. So each year, we're going to be picking up around $300 million in gains. So, you know, it's not a pure methodology that comes up with a dollar amount that you spread over four or five years.

MR. RYOR: Right.

MR. GARRETT: But being it is 20 percent, it looked to us like, you know, you're going to pick up about three-hundred million bucks.

MR. RYOR: You don't have a sense of how that translates to ADEC percentage; do you?

MR. GARRETT: I believe it's - I would say it's probably in the neighborhood of half-a-percent of pay.

MR. RYOR: Okay. That's good ballpark. Thank you.

MR. GARRETT: Mm-hmm.

MR. ADOMEIT: Hello, John Herrington.

MR. HERRINGTON: Hello. Sorry I'm late.

MR. ADOMEIT: That's all right. Did any of you have questions that John Herrington could answer?

MR. GARRETT: Yeah. By him being in on this call, I'm pretty sure he's being late for another one now.

MR. ADOMEIT: So how many people are going to retire, John?

MR. HERRINGTON: Yeah, I don't know. I mean, it looks like, you know, I would say October, you know, as I said, is probably the bellwether. It's slightly higher than normal at this point, but we still have two weeks to go. So, I mean, I'm fairly certain it's going to be north of 300. To me, I would say, you know, I'm interested in whether it hits 400 or not. And if it hits 400, I think that we're going to have a fairly large number come the spring. We're still in the process of kind of delivering and disseminating the, you know, true impact of the 2022 changes.

So, I do believe that, you know, there is a portion of individuals that, once they learn more about the changes, they may be less inclined to retire, but, I mean, it's really hard to handicap. You know, one perspective that I had, it has nothing to do with the money whatsoever, but they're employees that are concerned that, you know, half of their unit is leaving, and they don't want to be left holding the bag.

MR. ADOMEIT: What's the relationship with the cost-of-living issue, John?

MR. HERRINGTON: Right. So there's going to be a change to the COLA effective August 1st where individuals are going to have to wait slightly longer to receive their first COLA. Right now, an individual would receive a COLA within nine or 14 months of their retirement date. Beyond August, they're going to have to wait a minimum of 30 months, so that means, over someone's lifetime, there may be two or three fewer COLAs, and then there's a difference in the calculation.

So really what it comes down to, we short-circuit it to, if inflation is less than two percent, the COLA is going to be slightly lower. If inflation is over two percent, the COLA is going to be the same, regardless of the retirement date. So it really impacts individuals who have, you know, some concerns of low inflation going forward, there's a possibility there could be a change in COLA. If, you know, we hit the actuarial assumption of two-and-a-half percent inflation, you know, over the next 30 years, there really would be no change to anyone's COLA.

MR. ADOMEIT: What's your best guess as to how the rank and file understand this?

MR. HERRINGTON: The sky is falling.

MR. ADOMEIT: Yeah. Yeah. Yeah, I had a conversation with an attorney who works for the State, and he says, I'm going to retire.

MR. HERRINGTON: Yeah.

MR. ADOMEIT: Because I guess - he didn't say, the sky is falling—

MR. HERRINGTON: Mm-hmm.

MR. ADOMEIT: --but whatever the legalese is for that term.

Okay. Are there any other questions that anyone had of John Herrington? Nope? All right.

Well, we've made the motion, and it passed. So we're going to pass it up to the full commission to look at too. And I guess we're at the point of adjournment. Are we done?

MR. GARRETT: Um—

MR. ADOMEIT: John Garrett?

UNIDENTIFIED SPEAKER: You're silent, John.

MR. GARRETT: Thought I was unmuted. Okay. So, Tim, you know, I've been taking a look. I think I way underestimated what that impact of that gain is going to be. Ed, you agree with me. So—

MR. RYOR: Silently fact-checking you.

MR. GARRETT: Yeah. I mean, the gain in 2021 valuation is - you know, I would anticipate it to be close to $700 million. Is that kind of what you're getting, Ed?

MR. KOEBEL: Well, again, I didn't hear the return, the estimated return, but I just put it at 25 percent in there.

MR. GARRETT: Right.

MR. KOEBEL: I see about a one percent drop in the ADEC.

MR. GARRETT: Right.

MR. KOEBEL: Or 70 basis points depending on—

MR. RYOR: Okay.

MR. GARRETT: So, yeah, I mean, Ed, it's - I'm thinking that what we saw in the teachers' plan, and SERS is similarly allocated, I think we're looking around at 21-, 22-percent rate of return, a little bit less than that.

MR. KOEBEL: Okay. So then it might be about 70 to 80 basis points on the ADEC.

MR. GARRETT: Yeah. Yeah.

MR. RYOR: Okay.

MR. GARRETT: Yeah, I think that's a pretty good guess. And then, you know, there is some residual behind that. It’s not going to be that level again for, you know - but there’s still probably another, you know - another couple of years of still picking up gains after that, due to that asymptotic nature of the smoothing.

MR. RYOR: Right. But you’re probably - are you converging - you’re - are you flipping back over, where now actuarial value is a little bit less than market?

MR. GARRETT: I believe - let’s see here. (Inaudible) Yeah, it’s about seven-, eight-hundred million dollars upside down, yeah.

MR. KOEBEL: Yep. Yep.

MR. RYOR: I like it. Thank you. I’m feeling better about that method now.

MR. GARRETT: Well, you know, actually, Tim, we live long enough to see it go the other side, you know?

MR. ADOMEIT: All right. Well, I don’t want to cut the meeting off prematurely. It’s up to you folks to decide whether you’re all talked out.

I guess you’re all talked out, which makes us at the point of adjournment then.

MR. RYOR: This is Tim Ryor. I’ve move to adjourn.

MR. POULIN: Second. This is Claude.

MR. ADOMEIT: Claude. Okay. All in favor, say aye, or raise your hand.

UNIDENTIFIED SPEAKERS: Aye.

MR. ADOMEIT: Opposed, nay, or raise your hand. The ayes have it. We will see you all tomorrow. Thank you so much.

(Adjourned at 3:33 p.m.)

I, Karin A. Empson, do hereby certify that the preceding pages are an accurate transcription of the Connecticut State Employees Retirement Commission, Actuarial Subcommittee meeting held electronically via Zoom, conducted at 3:05 p.m. on September 15, 2021.

Karin A. Empson

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10/24/2021

Date