STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

ACTUARIAL SUBCOMMITTEE

MAY 18, 2022 MEETING
HELD VIA ZOOM
CONVENED AT 3:00 p.m.

Present:

Peter Adomeit, Chairman
Trustee Michael Bailey
John Flores, General Counsel to the Treasurer, Ex-Officio member of the Retirement Commission
Trustee Karen Nolen
Actuarial Trustee Claude Poulin
Actuarial Trustee Timothy Ryor
John Herrington, Retirement Services Division Director
Jean Reid, Retirement Services Division
Donald Wilkerson, Retirement Services Division
John Garrett, Cavanaugh Macdonald
Cindy Cieslak, Rose Kallor LLP

TRANSCRIPTIONIST: Karin A. Empson

MR. HERRINGTON: I just was speaking with John Garrett. He didn't initially receive the invite, and so he hopefully - I forwarded it to him. So hopefully, he should be logging on soon.

CHAIRMAN ADOMEIT: Thank you, John.

Hello, John.

MR. GARRETT: Mr. Chairman.

CHAIRMAN ADOMEIT: Welcome aboard. Well, let me call the meeting to order. This is the State Employee Retirement Commission Actuarial Subcommittee meeting of May 18th, 2022 by teleconference.

Cindy, do you have the attendance, please?

MS. CIESLAK: Yes. Good afternoon. This is Cindy Cieslak. Present today, we have Chairman Peter Adomeit; Actuarial Trustee Timothy Ryor; Actuarial Trustee Claude Poulin; Trustee Michael Bailey; Trustee Karen Nolen; John Flores, General Counsel to the Treasurer's Office and Ex Officio Member of the Retirement Commission; John Garrett from Cavanaugh Macdonald; John Herrington, Retirement Services Division Director; Jean Reid from the Retirement

Services Division; Donald Wilkerson from the Retirement Services Division; and myself, Cindy Cieslak, General Counsel to the Retirement Commission.

Is there anyone I missed? Thank you.

CHAIRMAN ADOMEIT: All right. Peter Adomeit here. Item Number 1, Connecticut Probate Judges and Employees Retirement System Report of the Actuary on the Valuation Prepared as of December 31st, 2020 (sic).

John Garrett?

MR. GARRETT: Thank you, Mr. Chairman. It's a pleasure to be with you all again. This is also a pleasure to report an overfunded plan's valuation. We don't get to do this very often. But so this is the June 30, 2021 Actuarial Valuation of the Probate Judges and Employees Retirement System. Again, the biggest story, of course, is the investment environment that we had for the two calendar years. Gains have been certainly a benefit to the plan, also, the additional funding that the employers have contributed to the system.

So let's start with the summary. Does everybody have a report available?

MS. CIESLAK: This is Cindy Cieslak. Do you want me to screenshare it? Or I did give you the option to screenshare it as well.

MR. GARRETT: Yeah, I'm on two different computers, so I - if you want to - would you all prefer it to be on the screen while we talk?

CHAIRMAN ADOMEIT: It's useful, yes.

MR. GARRETT: Okay. Cindy, if you could share, that'd be awesome. And if we look at a few pages in, Page 1 of the report actually, so that's the comparative summary of this year's December 31st - I'm sorry, I said June 30, but it's December 31st, 2021 versus December 31st, 2020. See the headcount is pretty stable, drop of four to the actives, an increase in seven to the retirees. Deferred vested's added four.

Middle of there, the market value, we see where we asterisked the December 31st, 2020. That's where that last five-million-dollar contribution was carried as a receivable. In that valuation, we actually discounted it back from the deposit date and we carried the receivable of about 4.8 million in that valuation. So in the assets this year, we actually see the amounts being shown and we disregarded that five million. So we're not double counting that five million.

The market value of assets is up to 143.6 million, and the actuarial value is about nine million less than that, 134.6. The unfunded liability is actually a surplus of 6.8 million dollars, and we see the amortization period is marching down - as you know, it's established, so it’s fixed - counting down one year. It’s a closed amortization period. It has 15 years remaining in it. So when we spread that 6.8-million-dollar surplus, you know, we actually get a negative annual amortization cost.

As you remember, about seven, six, seven years ago, the Actuarial Subcommittee, as approved by the Commission, approved that the minimum contribution to these plans, once they’re overfunded, would be no less than the normal cost. So you see at the bottom there, we actually come up with an actuarially determined contribution, which is the normal cost. If we allowed that surplus, the negative amortization of that, so that 642-thousand-dollar reduction to that - but again, because of that policy, we established that no less than the normal cost would be contributed. So therefore, the required contribution to actuarily fund this plan to soundness would be the 2.9 million dollars.

Really, we can – you know, the rest of the report is driven primarily by that good investment return. The additional funding that the State has made in an overfunded plan, we’ve put back to Page – pretty far back there, Cindy - Page 12. This is where we kind of look at the gain/loss for the year. We can see that there was a beginning surplus amount of about 2.6 million dollars. We would expect the UAL at December 31st, '21 to be just over three. We did have some modifications. And then the gain/loss, a gain of 2.15 million.

The modifications, let me talk to you about that a little bit. So again, the story was primarily that investment return. But we did make some changes to kind of put this plan in line with some of the assumptions that have just changed for SERS. So this was, you know, post-SERS-experience-study. Part of that was a change to the wage inflation assumption. We dropped it from three-and-a-half down to three. That also impacted the rates of salary scale, the expected rates of increases in each individual member's salaries.

We did change the mortality basis to the new table as produced in the experience study with SERS. That is the Pub-2010 above-median general employee mortality table. We also amount-weight those rates. And then we projected generationally with the MP-2020 improvement scale.

We made some minor adjustments to rates of withdrawal, disability and retirement. Again, that was based on that prior experience study. So this was really the first valuation where that's being utilized, these new assumptions. Decrease the UAL - the net effect of all the assumption changes was a decrease in the UAL of that roughly 1.56 million.

So on Page 12 there that we're looking at, that's that change due to the actuarial assumptions and methods. So the net effect is we had a decrease in the UAL due to the changes in assumptions, and we also had a further decrease due to experience, which reflects that actual UAL surplus at 6.8. So that's really the good news.

This plan, provided that that normal cost contribution is made each year, you know, based on these plans being invested in the market, you know, these conditions that we see in valuations, such as a surplus or, you know, having a UAL that requires additional contributions to fund, those are, you know, just circumstances. And because the assets are so volatile, we wouldn't count on this plan always being overfunded. Therefore contributions of the normal cost, and not reducing that normal cost contribution by the current surplus, we think is a prudent way to fund these plans.

So that's really the basis for the recommended contribution for the PJERS plan for the upcoming fiscal year. So—

MR. RYOR: So—

MR. GARRETT: Yeah, go ahead, Tim.

MR. RYOR: Oh, yeah, this is Tim Ryor. I mean, I think when you presented this last year, I mean, it was close enough – there's not much of a difference, but – you know, and maybe even currently, but – and of course, the market since 1/1, if we ignore that for the time being, I mean, you just look at the valuation date, you know, there's another nine million dollars in unrecognized gains in the asset value. And the difference between - you know, 740 thousand is a pretty material number.

So I know you said you wouldn't expect it, but, correct me if I'm wrong here, I mean, if you project out all assumptions being realized, and the State continues with this investment policy, the plan is going to indefinitely become more and more overfunded.

MR. GARRETT: I absolutely agree. I mean, so the condition though of – so, you know, if we fast-forward here to today, I mean, the market – most plans that we've talked to through the end of April were down by 10 percent. I think some were even down 14 percent now, so, you know, this far, the end of May. So again, that nine million that was there, it's a circumstance of a valuation. It was that one day—

MR. RYOR: Absolutely.

MR. GARRETT: But that six-million-dollar surplus is a little more stable. And, you know, I think it can be counted on. I think – what I would say as an actuary, and probably you too, Tim, would say, that this plan is likely to remain overfunded, but, you know, there are circumstances out there where that six-million-dollar surplus, it gets eaten up pretty quick.

So what I would say is, and I think it would be prudent if the Subcommittee would consider at what point – so let's say it's maybe 10 percent overfunded is the point that we say that we start allowing a reduction to the normal cost. Because you're right; there's no benefit to anybody to continue to throw more money into a plan that has a large surplus; it's never going to get unwound. So—

MR. RYOR: Right. That was – you got the heart of my question, is at what point – you know, last year definitely, close enough. This year, it's getting a little bigger. At what point does that, you know, just contributing the normal cost without any caveat become, you know, too conservative.

MR. GARRETT: Right. You know, what I would say is maybe consider a policy that, so once a plan is, say, 110 percent funded, then you can offset the normal cost by half the amortization of the surplus. And then once it's 120 percent funded, all of it. And, you know, I don't think it's horrible to have a plan that's 120 percent funded, unless it's a closed plan. I mean, because this is—

MR. RYOR: Oh, no, absolutely. Yeah, I guess, what I might recommend is something like, you know, a different amortization policy for, you know, the overfunding. Because obviously we've got this shrinking amortization period that's for, you know, a charge base. But when it's a surplus, you want it to be spread over a longer period of time because you don't want to - so maybe, you know, have some other way of amortizing, you know, a gain base than - than—

MR. GARRETT: Yeah, and, you know, I mean, we're all discussing about how we're going to recognize the good news that's built up in the plan. So - and there's an infinite number of ways to do it, you know. I mean, we could do something as detailed as, you know, based on funded ratios. Or, you know, if we say that we're just going to open up - eventually, I think, at some point, even if this plan had a UAL, we'd want to stabilize the amortization period.

And so now we're down to 15 years. Maybe that's the point to where we just hold it at 15 years, and so we're always spreading that surplus over a 15-year period and recognizing that portion of it in the normal cost. And, you know, if you want to apply something that maybe we don't start recognizing and reducing the normal cost until the plan is X percent funded, or just go ahead and do it. As long as we maintain a 15-year funding period, then we're really only using, you know, less than one-fifteenth of that surplus to offset the normal cost every year.

MR. POULIN: This is Claude. I think it could be a combination of the two. You know, either the earlier of 15 years or the 10 percent, more-than-10-percent, more-than-20-percent formula, unless, of course, someone decides to invest in cryptocurrency.

MR. GARRETT: At the Connecticut Treasurer's Office? I don't think that would be—

MR. POULIN: I don't think so either.

MR. FLORES: What's the vesting schedule for this judges' plan? And I know the Governor appointed a number of individuals to be judges. Does the State service get transferred over immediately, or do you start from square one? Because that could affect funding, I would think.

CHAIRMAN ADOMEIT: That was John Flores speaking.

MR. FLORES: Yeah, sorry. Thank you.

MR. GARRETT: And, you know, I don't know exactly where the State - does the State Employees Retirement System maintain the service of - and this is John Garrett speaking. And this is kind of directed to John Herrington. Does the State Employees Retirement System maintain the service in the SERS for future benefit, or is that transferred and credited - I don't think it's credited as PJERS service. Is John Herrington on the—

MS. CIESLAK: This is Cindy Cieslak. John, you're—

MR. HERRINGTON: I was muted. Yeah, sorry. Yeah. So yeah, the issue is is that this is the probate judges' plan, which is slightly different from the regular judges' plan. But the question that you asked, right, with respect to the judges' plan, individuals who are appointed to the bench that have prior service, they have a 10-year period in which to make the determination whether they want that service credited in SERS or judges'.

MR. GARRETT: Which, I would imagine, most would want it credited in the judges' plan. And the judges', back to your other question - this is John Garrett again - Mr. Flores, is that there's a 10-year vesting requirement in the judges' plan.

MR. FLORES: So this is John Flores again. So the number of appointments isn't really going to impact these numbers then, is what I'm taking from that?

MR. HERRINGTON: Correct. Right, right. So I'm not certain what the number of appointments to the probate court were, but—

MR. FLORES: Oh, this is probate. That's right. I'm sorry.

CHAIRMAN ADOMEIT: Are there any further comments from anyone? Okay. Hearing none, we will need a motion to recommend acceptance of the report to the Commission.

MR. POULIN: This is Claude Poulin. Mr. Chairman, I move to accept the Report of the Actuary on the Probate Judges and Employees Retirement System Valuation Prepared as of December 31, 2021.

CHAIRMAN ADOMEIT: Is there a second?

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

CHAIRMAN ADOMEIT: Thank you. Any further discussion? Hearing none, all in favor, say aye, or raise your hand.

UNIDENTIFIED SPEAKERS: Aye.

CHAIRMAN ADOMEIT: Nay, or raise your hand. The ayes have it.

MR. GARRETT: If I could add, Mr. Chairman – this is John Garrett again. We have a pretty good number of months to discuss what that funding policy change is for the next valuation, as Tim had recommended. And again, I mean, I don't disagree that the direction it's expected to go would be to be increasing levels of overfunding. But – you know, so I think either stabilizing that funding period – once again, I mean, that was one of the problems that we had with SERS years ago was those closed funding periods.

As those periods get shorter and shorter, gains and losses are getting dumped into a UAL that's being amortized over a shorter and shorter period of time, so it's causing a lot more contribution volatility than, you know, is really necessary. So we're going to face the same thing here. It's just right now, that contribution volatility is increasing reductions to the normal cost.

But I think you'd want to stabilize this funding period at some reasonable level. I would say

15 years is pretty reasonable. It's probably right around what the normal cost spread is, Tim, for the actives. You could make it longer, 20 years. That means we're going to be picking up a little bit less of this surplus as an offset to the normal cost going forward. And then, as Claude had discussed too, setting targets for the gates of funded ratio where you do or do not offset that normal cost.

MR. RYOR: This is Tim Ryor. Yeah, based on what you were saying - and I like the funded ratio, I think 110 or 120, something like that. And so based on that and where the - and I should have maybe followed up with my conclusion and why I was willing to vote on the report was that, you know, we're at 15 years now. So I would think we could see how the market - see where we are when we see this valuation next year, decide if we want to run it down to 14, and freeze it at 15, you know, see where the funded ratio is, how did the markets play out in 2022. You know, did we go up to 110 percent funded, or did we stay at 105?

And so it's - you know, we can just deal with the amortization and then, you know, worry about the policy of extreme overfunding at a later date.

MR. GARRETT: And this is John Garrett again. You know, I think that makes sense because we don't know exactly what this market is going to look like at December 31, 2022. So the direction it's going is pretty hard down. So, you know, we might certainly blow through that nine-million-dollar cushion in the actuarial value of assets and it might actually reduce the UAL for next year. So—

MR. RYOR: Right.

CHAIRMAN ADOMEIT: Okay. Has this been discussed out?

MR. GARRETT: And that was a quasi-agenda-point, Cindy, so we're not really off-topic.

CHAIRMAN ADOMEIT: Oh, no, you're not. No, no. We would have called you on it.

All right. I guess we are through at this point. So we need a motion to adjourn.

MR. POULIN: I move to adjourn. This is Claude Poulin.

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

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

UNIDENTIFIED SPEAKERS: Aye.

CHAIRMAN ADOMEIT: Opposed, nay, or raise your hand. The ayes have it. Thank you all very much.

MR. GARRETT: Thank you.

CHAIRMAN ADOMEIT: Are we going to see you tomorrow, John Garrett?

MR. GARRETT: If you'd like me to be there, I'll be happy to.

CHAIRMAN ADOMEIT: Yeah, because just as a backup in case someone has a question.

MR. GARRETT: That's a 9:00 a.m. start, and I think I have the Zoom information for that meeting tomorrow.

CHAIRMAN ADOMEIT: Okay, great. Thank you very much.

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 3:00 p.m. on May 18, 2022.

Karin A. Empson

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06/14/2022

Date