STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

ACTUARIAL SUBCOMMITTEE

MAY 19, 2021 MEETING
HELD VIA ZOOM
CONVENED AT 3:07 p.m.

Board Members Present:

Peter Adomeit, Chairman
Michael Bailey, Trustee
Robert Coffey, Trustee
John Flores, General Counsel to the Treasurer's Office, Ex-Officio Member
Karen Nolen, Trustee
Claude Poulin, Trustee
Tim Ryor, Trustee

Also Present:

John Garrett, Cavanaugh MacDonald
Ed Koebel, Cavanaugh MacDonald
Judge Beverly Streit Kefalas, Probate Court Administrator
Lisa Hansen, Probate Court
John Herrington, Retirement Services Division Director
Donald Wilkerson, Retirement Services Division
Cindy Cieslak, Rose Kallor LLP, General Counsel to the Retirement Commission

TRANSCRIPTIONIST: Karin A. Empson

(Proceedings commenced at 3:07 p.m.)

MR. ADOMEIT: Then I will call the meeting to order. And what happened to my cursor? Here we go.

Cindy, shall I read it, or shall you read it off, the attendance?

MS. CIESLAK: Whatever your preference is, Peter.

MR. ADOMEIT: Go ahead, yeah.

MR. CIESLAK: Okay. All right. Good afternoon, everyone. My name is Cindy Cieslak. I apologize I do not have my video on. I had a very minor medical procedure this morning that didn't go as well as I wanted it to. So I am in no shape for you to see what I look like right now. But I am healthy; I will be fine. But I didn't want to turn on my video.

In any event, today, we have Chairman Peter Adomeit, Trustee Michael Bailey, Trustee Robert Coffey, Trustee Karen Nolen, Actuarial Trustee Claude Poulin, Actuarial Trustee Tim Ryor. We also have John Flores, General Counsel to the Treasurer's Office and Ex Officio Member of the Retirement Commission. We have John Herrington, Retirement Services Division Director. We have Donald Wilkerson from the Retirement Services

Division. We have John Garrett and Ed Koebel, both from Cavanaugh MacDonald. And we have Judge Beverly Streit Kefalus, and we have Lisa Hansen from the Probate Court.

Did I miss anyone? Okay. And I'm Cindy Cieslak, General Counsel to the Retirement Commission from Rose Kallor.

MR. ADOMEIT: All right. Thank you, Cindy.

Okay. Having called the meeting to order, we are going to go to Item Number 1, Additional Employer Contributions to the Probate Judges and Employees Retirement System, PJERS, in the current fiscal year ending June 30th, 2021.

Who wishes to speak to this? Judge Streit Kefalus? Do you wish to speak to this?

JUDGE STREIT KEFALUS: Thank you for that opportunity. So I'm Judge Beverly Streit Kefalus. I'm the current Probate Court Administrator. I believe you've met my predecessor, Paul Knierim, about two years ago on a similar request. And what we are seeking today is approval to transfer an additional contribution to the PJERS, the Probate Judges and Employees Retirement System, of $5 million. The last actuarial study through December 31, 2019 indicated what our actuarial-determined contribution would be for the current fiscal year, which we have already transferred those funds, as well as for the upcoming fiscal year ending 2022.

And we remain – we're, I guess, in the dynamic of many pension funds. We are not in a bad position. But an additional contribution of $5 million will continue to get us closer to a hundred-percent funded basis. And based on my analysis of our current fund balance and the upcoming liabilities with retirements, I believe it would be prudent to use the funds that we have on hand for that additional contribution.

I would respectfully ask for your approval.

MR. ADOMEIT: Thank you. Is there any discussion?

No discussion. Okay.

MR. POULIN: No. This is Claude Poulin. It seems that you would be very close to full funding after this additional $5-million contribution because they actually determined employer contribution for this fiscal year was about $3.5 million, and the funded ratio was 95.2%. So that it looks that this would bring you - depending of course on the investment performance, this would bring you close to full funding; doesn't it?

MR. KOEBEL: Yeah. And this is Ed Koebel from Cavanaugh MacDonald. And Judge and Lisa Hansen, you know, requested this amount from us as to what amount they would need to pay, as of this fiscal year, in order to get them to be very close, or at, or near. Of course, we've got investment experience to finalize and finalize the 12-31-2021 valuation.

But we had an estimate of, you know, $5.7 million in the last valuation as the unfunded accrued liability. And using estimates for the 12-31-20 valuation, we estimated it to be actually under $5 million. So this additional $5 million should get the plan really close, if not above, a hundred percent funded.

MR. ADOMEIT: Thank you, Ed. Is there any further discussion? Okay. We need a motion to approve the probate judges fund lump sum contribution of $5 million.

MR. POULIN: I move to accept the Probate Judges and Employees Retirement System's proposal to pay an additional contribution for the current fiscal year of $5 million.

MR. ADOMEIT: Thank you, Claude.

MR. COFFEY: I'll second that.

MR. ADOMEIT: Okay. Is that Bob?

MR. COFFEY: Yes, it is.

MR. ADOMEIT: Okay. Thank you. Is there any further discussion on the matter? Hearing none, all in favor of the motion, say aye.

UNIDENTIFIED SPEAKERS: Aye.

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

Thank you Judge Streit - is it Kefalus?

JUDGE STREIT KEFALUS: Streit Kefalus. Yeah, that's why everyone just calls me Judge Beverly. It's a little more manageable. Thank you again for the opportunity to see all of you and for you scheduling us on your agenda today, and I appreciate your approval.

MR. ADOMEIT: Just a second. I got a phone call that snuck through after I'd shut my system down.

Okay. You're very welcome. Thank you for coming. And spend it wisely.

Okay. We can move on to Item Number 2, Preliminary Discussions of State Employees Retirement System, SERS, Experience Study.

Ed, is this yours?

MR. KOEBEL: I believe - I see John Garrett's smiling face there finally.

MR. ADOMEIT: Oh, there he is.

MR. KOEBEL: Hopefully, he can - it sounds like he can hear us. Hopefully, we can hear him.

MR. GARRETT: Yeah, I can. I'm sorry. You know, I was in a Zoom meeting this morning. Everything worked fine, but it was a mess trying to get hooked up this afternoon. But have we already discussed Groton?

MR. KOEBEL: That's last on the agenda.

MR. GARRETT: Oh, okay. All right. So the Experience Study, you know, we talked a little bit about a preview of it last time. And the hope was, of course, that we'd be at a position where we could start putting together some nice charts to kind of guide the discussion. The effort it would have taken to take our current analysis, which some of it, we're still kind of pounding through, and move to charts and stuff that would kind of help in the discussion, it would have taken well beyond the time we had to prepare for this.

So just to kind of give you an update, you know, we talked a little bit about mortality experience last Subcommittee meeting, and our feeling is still - and we didn't really get any feedback, but just to kind of reiterate that and see if you want to discuss a little bit, is just in the - I guess, in the overall issue, is data. You know, for gain/loss to be perfect, data has to be perfect, and for experience studies to be, you know, an easy job of setting rates, again, data has to be perfect.

So data is getting better, but in this period of time, from 2015 to 2016, there are quite a lot of bumps along the road. So for mortality, one of those bumps would be, for instance, when we have retirees and pay status, and then they don’t show up in a year. We assume, of course, that they died and why they’re no longer getting paid. And if we can see that, if it was just a data issue in one year and they come back in the next year, then we’ll fill that back in for the Experience Study. But we see a lot of deaths that, you know, we don’t have a confirmation and a code that says this person had died.

So we’re a little wary about maybe under-anticipating, you know, the actual longevity of the members of the plan. So we really in total showed that, you know, even when we exclude that data, that we think the move to be - for mortality, would be to go to just a very conservative, most recent table, which would be the Pub general employees for general employees, public safety for that hazardous duty folks; it would be the 2010 Pub-G or Pub-PS. It would be above the median because, again, we’re dealing in Connecticut; it's certainly an above-the-median state. And project that with the latest MP 2020 scale going forward.

We think that would be the basis we would recommend. Even with the data that we consider valid and reasonable, it sets A/E ratios, so actual to expected ratios, a tool that actuarial looks at, you know, what were the expected number of deaths versus the actual number of deaths, or in our case, it's benefit-weighted, so it's liability-weighted. When we look at that, it's close enough to one to say it's a valid fit based on the data we have.

General employee data in SERS is certainly credible. You know, there's a number of deaths. When we remove these credible - even when we remove those deaths that we think are, you know, not confirmed, just, you know, they no longer showed up receiving their retirement benefit, still credible. Public safety is not very few - exposures, we're fine, but the number of deaths, I think we had—

MR. KOEBEL: About a hundred.

MR. GARRETT: --yeah, like 70 males and 40 females, which most of them were beneficiaries.

So again, that's not really a credible group. So that's why I again - you know, what we would like to do is just go to the family of tables, which we think would be a strong candidate for a base table, and we've already kind of run the valuation results just to see what that impact would be since we're moving from a statically-projected table of the RPH-2014 white collar to this generational approach. And honestly, it didn't really move the needle that much on liabilities.

So that's our proposal for mortality. Anybody want to discuss that; any questions about that?

MR. HERRINGTON: I guess from our perspective, John, would it make sense—

MR. ADOMEIT: John Herrington speaking. Go ahead, John.

MR. HERRINGTON: Sorry about that. Would it make sense for us to try to reconcile some of those deaths, I mean, if that's an effort that we could undertake? I mean, I understand that there might have been issues over the past years, but if we have that population, we're in a much better position now to validate that information (inaudible).

MR. GARRETT: Well, you know, yeah, that would be great, John. In fact, I mean, if it'd be easy for you all to pull out just the date of death and the employee ID—

MR. HERRINGTON: Right.

MR. GARRETT: --and send us that list, then we'll confirm that back to the data we have. Again, it was roughly - I think for general employees it was in the 4,000 range for number of deaths.

MR. KOEBEL: Yeah, I think so.

MR. GARRETT: Of that, you know, about 1,600 of them were people that didn't have a status of death. It was just, you know, that they were no longer in payment status. The only ones we really would be worried about is, you know, of course, what happened in 2020, which, you know, we're not that worried about it because 2020 was the best data feed we've ever gotten.

So that would be great if you could just, you know, forward a listing of everybody who you show on the record as being deceased since July 1, 2015. That'd be great. We'll go in there and check the box next to their name to make sure they are confirmed, and then we'll just relook at this fit. We're pretty sure that this table would be a good fit, a good candidate anyway. The only, you know, thing is do we need to make an adjustment to it. And, you know, you kind of need to have a little bit more credibility. When I say credibility, you know, the actuarial terminology is sufficiency. But when I talk to you all about credibility, we also need to say, you know, the validity of the data too.

MR. HERRINGTON: Right, right.

MR. GARRETT: So two real items there. So, you know, once we feel pretty good, we'll lock that down. But, yeah, John, if you can get that to us, that would be great.

MR. RYOR: Yeah, this is Tim Ryor. Quick question. Just, actuary, you have to ask more significant - so when you say the ratio for the general population is close to one, is that one-point-oh-one, one-point-oh-two? How - what's - how many—

MR. GARRETT: Right. Let me—

MR. RYOR: --with a couple of digits.

MR. GARRETT: I have so many spreadsheets open. Let me get to the - yeah, so—

MR. KOEBEL: We're trying to get it as close to one-point-oh-oh as possible.

MR. RYOR: Okay. Oh, yeah, well - yeah, one-point-oh-oh, we won't argue with. I just didn't know, you know, if we were—

MR. GARRETT: Yeah, well, I mean, that's - that's - so the experience we just had is one item. The other - so when we look at, for instance, hazardous duty, males, based on the current table we've been using, again, the RPH-2014 white collar projected scale BB for I think the 2020, so it had kind of a static projection in it. The A/E ratio we get on the data we have is oh-point-nine-nine-three.

MR. RYOR: Okay. Oh, no, I meant – is that the general? I thought—

MR. GARRETT: No. I'm sorry. On the current expectation is one-point-oh-one-six. On the new proposed is oh-point-nine-nine-three.

MR. KOEBEL: On the new table is oh-point-nine-nine-three, yeah.

MR. RYOR: And that's for the general population? That's for the group that you have the 6,000 deaths on?

MR. GARRETT: No. Let me grab the nonhazardous—

MR. KOEBEL: That was for the hazardous group, Tim.

MR. RYOR: Okay, yeah, yeah. And maybe I heard you wrong, but I thought you were kind of picking the family based on the more credible group and then—

MR. GARRETT: Absolutely, yeah.

MR. RYOR: --kind of thinking hazardous was close, but you didn't have enough data to really hone that in, so—

MR. GARRETT: Yeah.

MR. KOEBEL: We don't have enough data, but it's still that table.

MR. RYOR: Yeah.

MR. KOEBEL: It still fits in—

MR. GARRETT: It looks pretty good.

MR. KOEBEL: --even though there was only 110,000.

MR. RYOR: Yeah. No, that's—

MR. KOEBEL: That table still fits in. We can't consider that data enough to be credible—

MR. RYOR: Sure.

MR. KOEBEL: --but that table still fits it very nicely even though - even with very few deaths.

MR. GARRETT: Yeah. So I have the nonhazardous - you know, and the primary mortality range, age 60 to 90, is one-point-oh-two-three.

MR. RYOR: Yeah.

MR. GARRETT: So it's a little - you know, a little bit - that we'd have more deaths than expected. So that's using the PubG-2010 healthy retiree above-median, and then we project it to the midpoint of the five-year experience until you project it to 2018 with the MP-2020.

MR. RYOR: Okay.

MR. GARRETT: But—

MR. KOEBEL: I know the non-actuaries on this call are just loving this conversation.

MR. RYOR: No, I’m good. That was enough detail. I just - and you mentioned the change in the liability. What are we talking about, like—

MR. GARRETT: A couple hundred million bucks in total, yeah.

MR. RYOR: What is that as a - I don’t have total liability committed in front of me. What is that as a percentage of—

MR. GARRETT: So it would change the funded ratio by oh-point-two. It would decrease the funded ratio actually by oh-point-two. I’m sorry, it would increase the funded ratio by oh-point-two. It’s a little bit of a decrease of the liability. It’s a table - what we’re using—

MR. RYOR: So you guys are thinking MP-2020, no adjustments, not trying to get closer to social security ultimate rates or anything like that?

MR. GARRETT: Right.

MR. RYOR: Okay.

MR. GARRETT: We - you know, if we had great data, you know, and had great data since 2015, you know, we might actually get into that kind of detail and actually bend the table so that we would get an A/E ratio of one on the base, you know, on the new assumption.

MR. RYOR: Yep.

MR. GARRETT: And then you generationally project and you should be pretty bullet proof.

MR. RYOR: Right.

MR. GARRETT: But I don't think we have enough confidence to do those type of adjustments to where we might do those (inaudible).

MR. KOEBEL: Yes, we're hoping for the next Experience Study within the group—

MR. RYOR: Okay.

MR. KOEBEL: --in there now that we're going to get better data going forward.

MR. POULIN: Do we know for the previous Experience Study the mortality rate (inaudible) was greater, that the actual was greater than the expected, or was it about the same, or lower?

MR. GARRETT: So the table would say on the current - the assumption we have in place already, that we actually had more deaths than expected. But again, you know, if we're looking at roughly twenty percent of those deaths are not, you know, what we would put a stamp of saying, hey, this is a definite death, we're a little gun-shy about stating that, you know, that's actually a truth.

What we do know is that the current

assumption on a benefit-weighted, so a liability-weighted basis, we had more liability released through the Experience Study than what we expected. So - but again (inaudible).

MR. POULIN: The reason I asked is that there seems to be - there appears to be a trend, especially in the last three or four years, the mortality rate from the National Academy of Sciences' recent report that I circulated last week, but Society of Actuaries as well, that the mortality is in fact increasing, especially for white males. Now it seems that it may have affected retirees as well. I don't know that.

Do we have enough data for active employees—

MR. GARRETT: Right, and—

MR. POULIN: --and compared to the national trend or—

MR. GARRETT: Yeah. And, Claude, I think what I read from that thing you shared, and I appreciate that, is that it was primarily working-age people, not necessarily post-retirement.

MR. POULIN: Yes (inaudible).

MR. GARRETT: So, and it seems like the drivers there were suicide, drug addiction, and then there was some, I guess, health-related cardiac-type of issues that, you know, would, I think, carry forward.

And so when we set these tables, because typically the active member mortality experience is not credible, even for some of the largest plans, it's pretty hard to check the box that, you know, you have a hundred-percent credible data. And that the liability generated from active-member death is pretty limited, that we typically like to say let's set it based on the biggest credible groups and just apply that to the active members.

So again, with that recommendation, we would take the PubG-2010 above-median family tables, whether it's general employee or public safety, and apply that for the active rates and mortality, project that with Scale 2020. And to be honest with you, Claude, if we went – if we rolled that back to the GAM-83, you know, the difference would probably - you know, I would expect to be an increase in liability for active mortality due to more deaths while in active status. But I don't know how material that would be.

So again, it's a pretty – you know, it's a pretty limited impact to the plan of active-member mortality.

MR. POULIN: Yep.

MR. ADOMEIT: Okay.

MR. FLORES: This is John Flores just for a quick question. Why would payments, these thousand payments, stop if it wasn't for death? What other reason would it be that the retirement benefit would stop?

MR. GARRETT: Well, John, we're going to send you the 2014, '15, and '16 data and - so, you know, no, you're actually right. I mean, the expectation is those are deaths. But when we look at the A/E ratio on the current assumption, we have like twenty percent more deaths than what we had expected. So to us, that says that, you know, there's something else going on here. The underlying data is very difficult to say let's use this and say it's as credible as it - you know, as far of the amount of it. It certainly has enough to be credible on that statistical type of approach, but again, the validity of it is still where we kind of question it.

MR. FLORES: All right.

MR. RYOR: This is Tim Ryor. Just to add some color to that too, having done those kinds of studies, you know, they have this data - the data - the people are not all connected in their data.

MR. GARRETT: Right.

MR. RYOR: So a bunch of people are gone. They're showing back up, but in their - they have them as a death, but it turned out, you know, the next year, they're resurrected because they just—

MR. GARRETT: Right.

MR. RYOR: --their bank account information got messed up, so they stopped. So it's—

MR. GARRETT: Yep.

MR. RYOR: --they're trying to sort out that to figure out – and so hopefully, that's just a small portion of the group.

MR. GARRETT: Yep. And Tim has exposed a weakness that - I think there's probably a handful of plans, and we work on, you know, literally hundreds, not us, but I mean, you know, our group. There are probably a handful of plans that give us the data so specific that we can track the new beneficiary to a retiree. So we have that tracing of the member who died and then the new person who shows up, so that you can actually balance that out, right. It's not entirely a gain due to the retiree death, and then we establish a new liability for the beneficiary.

That's kind of what we do in most cases because that data is not available to track it like that. But – which, you know, if we say we released the liability due to the retiree death, and then we add a liability due to the beneficiary starting of benefit, you know, that net of that is kind of what we're capturing in gain/loss. So, you know, that perfect data, we would know Mrs. Jones was the beneficiary of Mr. Smith and be able to track the liability that was there, what we expect it to be, and then what it is now. So—

MR. ADOMEIT: All right. Thank you. Any further discussion?

MR. GARRETT: Oh, oh, yes, sir, Mr. Chairman. We have, you know, a couple other things to - so we've gone through a lot of the other assumption. And thank you all. You know, again, we hope that between now and the next Subcommittee meeting, maybe we could just have a quick, you know, discussion with Claude, Tim, Ed, I, John just to kind of go through a little bit more of the detail, if that would be good.

But just kind of a general approach, I mean, what we're seeing for items like withdrawal and retirement, retirement, we have gone back and forth, and again, data is an issue there. So, you know, we don't want to zig when we should be zagging right now. There's a couple of things complicating it. One, of course, is that, you know, the number of retirements in Tier III, Tier IV are surprising. But when you realize that those are ARP transfers, that, you know - and because we had more than we'd expect, you would think that that's a loss. And it probably shows in the valuation and captured as a retirement loss due to a hybrid member or even a Tier II transfer from ARP, but in reality, what was charged to those members was really the most expensive case, is if they retired at first eligibility is what the amount of the ARP transfer was calculated as.

So even though they show in a valuation now that they're in it as perhaps a retirement loss, the reality is that we already have the money that pays for that loss, you know, typically from the retiree. I guess the only piece that might be missing is whatever of the six-point-nine percent expected return wasn't earned.

So that's one item. But we do have a little bit more work that we have to get through with retirement before we are ready to finalize this thing.

For withdrawal, we saw withdrawal as really pretty close to what we expected. There are only two categories that we think we need to adjust rates for. Again, this is kind of in a preliminary state, but what we saw was far fewer withdrawals. So the plan experiences a loss when not enough people withdraw than what's assumed. So we saw losses, and primarily driven by the public safety, the hazardous group, that had ten years or more of service. So we make a - I guess you could call it a select-an-ultimate type of approach, but it's the age-related withdrawal rates that differentiate by year of service up until ten. And then once we have ten years of service, we use that rate for all the rest of the years of service.

So for public safety, that ten-plus-year rate, we had expected more than what actually occurred, about thirty percent. We had an A/E ratio of about seventy-two, seventy-three percent. So that rate needs to be adjusted. But put into context, that rate currently is one-point-five percent, I think, Ed?

MR. KOEBEL: One-point-five.

MR. GARRETT: And so the adjustment we would - or it might be one-and-a-quarter.

MR. KOEBEL: Yeah, that's right.

MR. GARRETT: I think at nine years, it was one-and-a-half. So at ten years, I think it's one-and-a-quarter. The adjustment that we would make would be to move it to one. And so it's that - you know, it's taken a quarter point off that expected rate of withdrawal.

So again, the impact of that we wouldn't expect to be, you know, a huge loss. And then offsetting that is on males, again. General employees at the ten-plus category, we had more withdrawals than what we had expected, so a gain on that. So we think that rate needs to come down a little bit. But everything else, you know, for the data that we have and all the other rates, age-related, we even took out for the general employee group, because if it works for the biggest group, then, you know, we would try it with the smaller groups. But we took male and female general employees, the withdrawal rates, and we used graduation, Whittaker-Henderson B.

Tim, are you checking the box here? You know, we use Whittaker-Henderson B graduation methodology to try and see if we could – because the data is significant - to see if we could come up with graduated rates that looked good. And again, on a benefit-weighted - or salary-weighted for those rates, it was a mess. So – which kind of points us back to, you know, it’s an issue with data.

I mean, we shouldn’t see rates going up at ages, you know, with five years of service, six years of service. So we shouldn’t see big spikes. You typically see it when people are getting closer to retirement, but not at, you know, 48, all of a sudden, we have a much higher rate than we had it at 38, you know? So - but, you know, going back to withdrawal, we think it's going to be very modest adjustments to withdrawal.

The next item I'd like to talk about—

MR. HERRINGTON: John, before you go on, when we're talking about these withdrawals at certain year increments, we're talking about years in age, not years in service?

MR. GARRETT: Years in service, yeah, yeah. So the table is - you've got to think of it as - it's in rows by age, and then we have a column for less than one year of service, one year, two year, three year, four year. So their attained years of service would fit into those categories. So, yeah, we dice it up pretty big. Sorry, I've got a—

MR. HERRINGTON: So the issue of that, I think that that's something that we need to discuss further because, based on the plan provisions, there should be no withdrawals beyond ten years unless there's a death.

MR. GARRETT: Well, so we draw - then we fall into a vested termination.

MR. KOEBEL: It's not a refund.

MR. HERRINGTON: Okay, okay, got you. Okay.

MR. KOEBEL: It's just somebody who leaves before retirement.

MR. HERRINGTON: Got you. Thank you.

MR. KOEBEL: Yep.

MR. GARRETT: But on the fun side, one of the things we're struggling with retirement, John, is that we have people with less than ten years of service, and we know that Tier II and Tier II-A allow that provision where you can have five years of state service and ten years of vesting service. And we don't – you know, at some point—

MR. HERRINGTON: Right, sure, yeah.

MR. GARRETT: --I know we're hopefully going to get service broken out like that. But at the moment, you know, we do have service that is really unitized. So we do have people who leave with less than ten years of service for retirement in Tier II and II-A, and we're assuming those are the people that have five years of actual state service. And so that's a whole other category. Not a whole lot of them, and so, you know, it's not really a material issue, but that again is one of those things we discussed about, you know, what's perfect data in our mind, and we'd have service broken out by how much counts towards benefits, how much counts towards eligibility for retirement vesting. So – and, you know, the hope is we're going to get there. And with the stride we made last year, I'm very confident we will.

So the last one is salary increases. These are really probably the foremost material assumptions actuaries make. And what we see with salary is we had a period of time, this five-year period of time, right, the CPI assumption actually changed during that period of time because of the changes to plan assumptions. Two-thousand-seventeen, I think, they went to the six-point-nine percent discount rate for '18, and with that, we dropped in the inflation assumption down to two-and-a-half.

But assuming two-and-a-half was throughout the entire five-year period of time, actual inflation over these five years was only one-point-five-six percent, right, you know, just a little over one-and-a-half percent. So we should anticipate that our salary expectations should have overshot the reality by at least that difference between what we assumed inflation was and the one-and-a-half that we actually got.

So, you know, we want to keep whatever new assumption we have. We're proposing that we maintain the two-and-a-half percent inflation assumption. It looks good. I think when we look at social security's new rollout for their projections, the intermediate inflation rate was two-point-four. Two-point-five seems to work, and when we looked at all the other items, like the breakeven rates of inflation, ten-year, thirty-year, that's the difference between nominal treasury bonds and TIPS of the same duration. You know, that's in the low two's, but it's increased.

So two-and-a-half we're still real comfortable with. We're also still real comfortable with the six-point-nine percent discount rate. But, you know, when we put this together, we use the building-block approach. So the pieces of salary are wage inflation, which itself is made of just price inflation plus real wage growth, we're looking at that a little bit different this year between hazardous duty and nonhazardous duty. So nonhazardous duty, we think that wage inflation is around three percent. So two-and-a-half-percent inflation, a half-percent of real wage growth.

For public safety, it looks like they have a little bit higher productivity piece in there, that real wage component. So we're looking at three-and-a-quarter for public safety, three percent for retirees. Then on top of that, we add the merit scale, which is salary – I'm sorry, service-rated. And so the net effect is we're looking at, for general employees, slight reductions, around a quarter-point, in the salary rate-of-increase assumption. And with public safety, very little change, if any. The ultimate rates are going to drop by a quarter-point for public safety, but pretty modest changes.

The thing we're missing is that discussion with Karen and OPM about what - you know, if they have anything in their planning for wage increases that we need to take into account in this Experience Study. You know, if you're telling me that, you know, everybody's going to get a ten percent pay raise in 2023, then we probably ought to put something in the valuation now to soften the blow when we get there.

MS. NOLEN: Well, I know that negotiations are currently going on. So at this point in time, I really don't feel comfortable saying the increase. But that is something that we can discuss—

MR. GARRETT: Okay.

MS. NOLEN: --as we move closer to the Experience Study.

MR. GARRETT: And, Karen, when would that be final, do you think, those negotiations? Are they ever over?

MS. NOLEN: I don't – unfortunately – normally, the negotiations are kind of staggered for the various unions, but the prior governor kind of put everybody on the same track. So almost all of the agreements expire June 30^{th}.

MR. GARRETT: Mm-hmm.

MS. NOLEN: So labor relations is currently negotiating pretty much all of the union contracts right now. I know that they are extremely busy, but I will try to see if I can get some information for you concerning that.

MR. GARRETT: All right. Well, yeah, you know, it might be something we – if you think it's going to be prudent to hold until that's a known thing – if it's going to be known, you know, this year before, say, September, then it might be something we can kind of leave a space in the Experience Study to drop that in once we know, if there's anything we think that we need to take into account to kind of soften the blow of a loss when it occurs. I mean, the liability measure is going to be higher this valuation, even though the pay raise might not occur until the future valuation, but it does soften the blow when that actually will occur, those pay raises.

So, you know, one thing I want to just roll back to discuss was retirement. I kind of just kind of glossed over it. But what we are seeing are more retirements than expected for Tier I. The Tier IV, the hybrid folks and that, that's really not eligibility of actives; that was the movement of people from ARP. So we're not worried about that. Again, that loss has been paid for.

But we actually see that Tier II normal retirement eligibilities, we're seeing less than expected. And, John, you know, typically your processing of retirement is one of the better indicators of the emerging trend, and you all are - are you all peddling the bike as fast as you can for retirement benefit calculations?

MR. HERRINGTON: Right. Yeah. So I would say, right, over the past 12 to 18 months, we have seen an increase in retirements compared to, you know, what we have as the ten-year average. Let me see what I can pull up. Right, so, yeah, so all across the board, right, so typically we have about 1,980 retirements a year. Last year, 2020, over the full calendar year, we had 2,050, so a slight increase. But the increase month-over-month for each month in 2021, with the exception of March, has been, you know, considerably higher, you know, twenty or, you know, maybe even twenty-five percent higher each month.

The largest deviation actually was last month where typically we would have 268 retirements in April, we had 337 this month - or last month.

MR. GARRETT: Yeah, so that's the month that gets them the January 1 COLA; right? Yeah. So it's going to be that. Again, we're still dealing with the data we have, but then that discussion with OPM or other interested parties about what do we need to do specifically for retirements that occur in fiscal year '22 and how big that is.

Karen, thanks for sharing that Boston Group report. But it scared the living daylights out of me that, you know, two percent of your eligible folks are going to go out whether it's early or normal. So—

MS. NOLEN: Yeah. I think the report mentioned around 8,100 retiring before, you know, the end of June in 2022. I can tell you that when we were putting together the budget at OPM, we looked at the current trend of retirements, which as John said has - you know, it's over 2,000 a year. For budget purposes, we were thinking that the tsunami would not be 8,100 people walking out the door. We figured 3,000 more than normal.

So if we're normally averaging about 2,000, then we assumed that before June 30th, 2022, there would be 5,000 walking out the door.

MR. GARRETT: That's - that's—

MS. NOLEN: So those were the assumptions that we used. We did not go as high as the 8,100.

MR. GARRETT: Right. And of course, we did a twenty-percent increase, which would mean that, you know, if we're getting 2,000 and we expected 2,000, then our increase was 2,400. So again, the numbers, even when we talk about 5,000, that's a heck of a lot of people.

Now, you know, some of those people are actually going to be gains to the system. You know, I mean, people that are near that retirement age are at the highest path of, you know, increase in their present value of their benefits. And then those that take early retirement take a six percent reduction. That's - you know, after about three years, that's pretty close to the actual equivalent. It's a little bit of a subsidy in maybe year one and year two, but after about three years, a six-percent annual reduction is about break-even. And if people are retiring earlier than that, it's actually a little bit of a gain to the plan.

So, you know, that number is kind of - you know, takes a little bit of - I think my heart skipped a beat. But, you know, still, it would be great if we have it out there, we agree. And again, you know, this is more of a collaboration of what this rate should be. You know, it's anybody's guess, but—

Now, the other side of it too is kind of what we discussed about salary, is putting in that rate today means the liabilities we generate in the '21 valuation are going to reflect that we're going to have more retirements in 2022. But I'll guarantee you that when we get to 2022 and those kind of numbers occur, we're still going to have a loss in 2022. But this softens the blow of that loss because you've already, you know, been counting some of that in the liabilities of the plan.

But it's not going to completely offset that loss, nor do you really want to. Because for one thing, the additional funding you're going to get in that next year due to an increased liability is - you know, you're going to make some investment return off of it. So you're already kind of taking one step towards funding it in that process.

But again, I mean, regardless of what we do, if we get to 2022 and we're reporting the valuation to you that November and we have a big retirement loss, well, you know, even though we might have done exactly and assumed 8,100 went out, that we still could have a loss. It just depends on how we do that.

But one big change this year across the board on all the active member decrements, so retirement withdrawal, is we are liability-weighted. So people that have a bigger impact on liabilities have a bigger effect in setting the rates. And we're seeing that there's really some dramatic differences. Whereas headcounts – we're talking about withdrawal – headcounts, we would have said, oh, we can actually increase the rates of withdrawal, which would lower the cost. But when we look at the liability weight, it tells us to go the other way. So that's the hazardous duty folks. You know, we've had like a five-percent margin more withdrawals headcount-wise than expected, but liability, we had a loss.

So it's good that we're doing this. It's a little bit more involved, but still, I think the rate-setting we're going to go through is going to be a little bit better. And hopefully we'll see where the rubber meets the road is the size of the gain/losses that we show in valuations going forward. We're hoping to significantly reduce that, if not minimize it.

MR. POULIN: I have a question. This is Claude. I have a question for Karen.

Karen, you mentioned that the estimate is about 8,100 retirements before June 30th, 2022. What is the number of eligible's, or do we know it?

MR. HERRINGTON: Karen, you're on mute.

MR. GARRETT: Karen, you're on mute.

MS. NOLEN: Thank you. I know that the eligible's, that is in the BCG report somewhere. But I thought it was over 20,000 were actually eligible.

MR. HERRINGTON: Right, right. So the issue would be, right, it's about 20,000 if we include ARP (inaudible) large reasons that they are not impacted by anything other then the Medicare reimbursement. That number from the BCG report, and that was just executive branch.

MS. NOLEN: Mm-hmm.

MR. HERRINGTON: When we account for the non-executive branch, it's about 14,000 that are eligible today that have not already retired.

MS. NOLEN: Yeah. I know that they did include people that were eligible for early retirement, but I know a lot of them aren't really - because of the six-percent penalty, you're probably not going to have a lot of those taking it, unless they're only like a year shy.

MR. HERRINGTON: Yep.

MR. GARRETT: Yeah, we don't call that a

penalty, Karen. We call it an early retirement reduction factor.

MS. NOLEN: As a new employee—

MR. GARRETT: The employees call it a penalty. Some of them call it highway robbery. Yeah, that's—

MR. ADOMEIT: Okay.

MS. NOLEN: Well, I remember when we first proposed it, but now that I'm near that age, I view it as a penalty.

MR. GARRETT: Perspective.

MR. ADOMEIT: All right. John?

MR. POULIN: It's really a new subsidy.

MR. ADOMEIT: John Garrett, do you have anything else? None?

MR. GARRETT: No, sir. That was it. Just kind of a preview. Again, we'd love to have a meeting, get some details. We'd first like to get to a point to where we're pretty happy with what we have for retirement. And then maybe push some data out, some charts and stuff to John and Tim and Claude, and then maybe we can set up a meeting to discuss the actuarial side of things with that. And then we'll go straight to drafting up the report right after that.

So I would say maybe in the next week and a half, we were hoping that we would have things nailed down to where we're ready to start (inaudible) and producing those nice tables and charts that everybody can kind of see behind the curtain a little bit more. And again, I apologize nothing was ready to share today, and the effort to put all that together on this preliminary information we have would really have been a waste of time, to be honest with you.

Well, I hope we would have thought it was a waste of time. Hopefully you all don't feel this was a waste of time.

MR. ADOMEIT: So John Garrett, what you're proposing then is a conclave of the actuaries; correct; to meet in advance?

MR. GARRETT: Yes, sir.

MR. ADOMEIT: Yeah, okay. Just want to make sure I—

MR. GARRETT: Yeah. We'll all have our secret decoder rings on too.

MS. NOLEN: John, if I could just get some clarity on the salary information. You just want like a general increase that we're expecting for the next year?

MR. GARRETT: Right. I think typically, you all go through the process of saying this is kind of of the COLA base rate that we—

MS. NOLEN: Mm-hmm.

MR. GARRETT: And we would kind of compare that to what we're coming up with for wage inflation. And then the merit scales, you know, typically, you can't help us too much on that unless you share with us the actual step-rate plans.

MS. NOLEN: Okay. So that's in general.

MR. GARRETT: And again, that's typically the last step of your, right, negotiation process is putting the step-rate plans together. So in the interim, if we could confirm kind of what you all are looking at for the cross-the-board rate and make sure that we have some margin in there.

MS. NOLEN: Okay.

MR. GARRETT: And then, you know, if you can share anything on those step-rate plans, then we'd be happy to take a look at that and make sure that we're not too far off of that. But typically, the process we use, that building-block approach, things fall out pretty good. And that service-based salary increase rate that's, you know, above wage inflation is pretty consistent. And it - you know, the process - I'm not too worried about not having that, but it would be great to have.

MS. NOLEN: Okay.

MR. GARRETT: The teachers, what they do is they share with us the contracts of the ten largest school districts in the state. So we kind of take that as the driver of the step-rate plans.

MS. NOLEN: Okay.

MR. ADOMEIT: Okay.

MS. NOLEN: I will try to get you something definitely by the end of this week.

MR. GARRETT: Oh, awesome, awesome. Thank you.

MR. ADOMEIT: All right. Is there any further discussion on Item Number 2? Hearing none, we'll move to Item Number 3, Groton Housing Authority, Withdrawal Cost Calculation, a lot. John should speak to that.

MR. GARRETT: Mr. Herrington, you want to start us off on that, or do you want me to jump in?

MR. HERRINGTON: Right. So I would say that Groton, that they're on, you know, two overlapping issues. The first is that they may have submitted a formal request for the cost to withdraw. There also is the issue that we've identified that Groton has unofficially withdrawn, in the sense that they are no longer enrolling new hires in the plan, and that they are enrolling them in a 403(b) plan similar to what we've experienced with Hartford Housing and Thompson.

MR. GARRETT: Yeah, so those two pieces, we actually have - does everybody have that PDF? And you shared that today, John, I know. But so on that sheet, there's two different calculations. One, the top part is the statutory withdrawal calculation that's really prescribed, and we followed it along. Actually, the Division of Retirement had all the data that we needed, and really the only thing left for the actuaries to do would be to calculate the present value of what they called the reserve and that basis.

And so going through the top part, Sections 1-A and 1-B are just the sum of the contributions that were made by the employer. And did that include the members? I can't remember. I think that's just the employer piece; right?

MR. KOEBEL: Yeah, I think that's just the employer.

MR. GARRETT: Right. So Item 1-B would be if they made any amortization payments, so if they had joined MERS and had a past service liability they amortized. Those payments would have been some there, and there were none. And again, we only go back to about 2013. I think they were in the plan for, what, 40 years, John?

MR. HERRINGTON: Yeah.

MR. GARRETT: So I don't know if they had an amortization payment prior to 2010, but we didn't see anything.

And then Item 2 would be, how much is paid by the retirement fund for all the benefits for people that are retirees attributed to Groton Housing. That was that $605,000-amount. And then below that, we calculate the reserves, the reserves for the retired members. So going forward, right, so the $600,000 is what's been in the past. The $916,000 is for the four retirees, what's the present value of their benefits on the plan's current basis.

Item 2-C would be for the one member, Ms. D'Onofrio (phonetic), is - we treat her as a vested terminated member of the plan; doesn't show that she has retired. So her vested terminated liability, $126,000. From those amounts, we subtract how much those members contributed in total, and we have that as around $84,000.

So the net of the reserve necessary to fund the future benefits for their current four retirees and one deferred vested is $960,000. So the sum of the pieces, we take those and add 1-A and B together with A

– 2-A, B and C, and we come up with $1.56 million of – I'm sorry, I got that wrong. We add 2-A—

MR. KOEBEL: 2-A.

MR. GARRETT: --to 2-B and C, and so 2 sums to be $1.56. We subtract from that how much they contributed over their, you know, history, and that's $300,000. So the net is how much deficient they are on this withdrawal calculation basis, this $1,262,000 - $1,263,000.

But that's on the basis that's kind of prescribed in the code for somebody who wants to follow the process of withdrawing from MERS. That's really – there's nothing in there that's, you know, not really prescribed by the code.

The bottom one is kind of the calculations that we perform for Thompson and Hatch to get them caught back up and make them, you know, retroactively whole with MERS. So this is that make-whole type of calculation that we've done for Thompson and Hartford Housing. And on this basis, there's really only four active members, and one of those is Ms. D'Onofrio, whose contributions are up above, so up until 2017. And so we actually have her (inaudible). We've kind of netted her out through 2017.

So on this basis, we have that, from the employer, we would have expected $133,000 since they hired these three new active members, and this goes back to like 2012. February of 2012 is the hire date of one of the new active members. So we sum up the contributions that would have been paid on those active members, three of them, one hired in 2012, one in 2015, and one in 2019. We add to that the administrative expenses of $130 per participant is what the town has paid, and then what we'd expect the market value returns to have added to that using MERS market value returns. So that sums to be $179,000.

And then we look at how much the employees would have put in over that same period of time and the loss of earnings on that. That totals to be $33,400. And that sum, $213,000.

So really the net would be if you allow them to withdraw, I think step one would be, you'd first want to collect the two-hundred-and-thirteen for them having unilaterally withdrawn, get you caught up. This catch-up amount is only through March 31st, so the increase is about twenty – I think it was actually about $34,000 each quarter is what we'd expect it to increase.

So, you know, I think you'd first want to get the $213,000 to say, okay, now you're whole, and now, if you want to withdraw, that other calculation of one-point-three would be the amount for them to fill their deficit in before they leave.

MR. HERRINGTON: Right. And from my perspective, I think regardless of withdrawing or not, we collect the $213,000. I mean, so we would collect that regardless, and then the one-point-three, that's elective for the town, whether they want to go through with that transaction or not.

So I think this is something that we would need to discuss, Cindy, in terms of now that we have a number, how would we reach out to the plan to alert them to both issues, whether that's something that would be handled by the Division, or whether that would be something that would be handled counsel-to-counsel.

MS. CIESLAK: Yeah, it's really up to how the Commission would like to handle it. So I don't know if it's something that should also go to Legal & Personnel, or if something this Subcommittee wants to address, I leave that up to Peter and the Trustees.

MR. ADOMEIT: I think that's the procedure we have been following, get all the information, send it to Legal & Personnel, and then send it to the Commission.

Now, there's an additional requirement;

correct me if I'm wrong, John Herrington. But the new pension plan, if that's not really the proper word, but the new retirement plan, has to be comparable to the old one; am I correct?

MR. HERRINGTON: Correct. Yeah.

MR. ADOMEIT: And is what they've done comparable?

MR. GARRETT: Yeah, I understand they're in a 403(b) and it would depend. You'd have to assess what their contribution levels are of that 403(b). But, I mean, it could be comparable on average, but it's not going to be comparable, you know, to each individual. You're going to have some winners and some losers perhaps. That's assuming that they're putting in enough money that we even come close. So—

MR. ADOMEIT: Yeah, I just wanted to raise that issue knowing they talked about it. Okay.

MR. POULIN: I have a question and a comment.

MR. ADOMEIT: Claude.

MR. POULIN: Question is, is February 2012 the date when they started the defined contribution plan for new employees?

MR. GARRETT: You know, it seems - and Katy (phonetic) was on the phone with John and I the other day and she had some, I guess, data from them. But it seems like they had a person hired in February of 2012 that they never put into MERS. I think the plan was that they were going to transition out of MERS, and they started doing that with the person they hired in 2012. They did that for the person hired in 2015 and ’19; they kept them out of MERS.

But we see a record of employer contributions to MERS all the way through June of 2017. That was the date of the Division of Retirement share. So it looks like it excluded these three individuals that we’re now, you know, calculating that catch-up amount for. But Ms. D’Onofrio appears to have been in that record of contributions that were made 2017 and prior. So it’s just the three of the current actives are – four, yeah, I guess they’re active, four current actives.

The funny thing is we carry Ms. D’Onofrio as a vested terminated member because she stopped showing as an active in the records, when actually she’s still actively employed. It’s just from 2017, I think they put her into a 403(b) plan.

MR. POULIN: I want to comment on the comparability of the plan, of the replacement plan. It cannot be done in the aggregate because I believe that it would be for each individual. And for – if an individual is, say, age 62 as opposed to age 32, of course, a defined benefit plan would provide a much greater value for a contribution than the DC plan.

So that has this been followed and Thompson and the HAS—

MR. GARRETT: Well, they both came back into MERS, yeah.

MR. POULIN: --HAC.

MR. GARRETT: Yeah, they both came back into MERS, so I think - there was never a formal withdrawal, right, John? I don't think they—

MR. HERRINGTON: Correct. Correct.

MR. POULIN: Oh, so that's not an issue? That was not an issue then?

MR. HERRINGTON: Correct, right. We never reached that issue. Correct.

MR. POULIN: Is it likely to be an issue here?

MR. HERRINGTON: Yeah, I don't know. I mean, we haven't had those discussions with the key players at Groton yet. I mean, all of our discussions actually have been with Ms. D'Onofrio, who's impacted by this.

MR. ADOMEIT: John Herrington - I'm Peter Adomeit. Are any of the employees affected members of a union covered by a collective bargaining agreement?

MR. HERRINGTON: I don't know the answer to that.

MR. ADOMEIT: All right.

MR. HERRINGTON: I know that we have other similar situations, one for Bernice-Adam (phonetic) Housing, and in that case, they absolutely are covered by a collective bargaining agreement.

MR. ADOMEIT: Yeah (inaudible) did the research.

MR. HERRINGTON: Right.

MR. ADOMEIT: I can look it up.

MR. HERRINGTON: Yep.

MR. ADOMEIT: All right. Is there any further discussion? All right. I don't think we need a motion on that one.

I think we've completed our agenda. In that case, is there a motion to adjourn?

MR. POULIN: I move to adjourn.

MR. BAILEY: Bailey, second.

MR. ADOMEIT: All in favor, say aye.

UNIDENTIFIED SPEAKERS: Aye.

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

Thank you all very much.

(Adjourned at 4:09 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 3:07 p.m. on May 19, 2021.

Karin A. Empson

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08/27/2021

Date