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In The Matter Of:
SERC Actuarial Subcommittee

Actuarial Subcommittee

April 14, 2021

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STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

ACTUARIAL SUBCOMMITTEE MEETING

APRIL 14, 2021 MEETING
HELD VIA ZOOM
CONVENED AT 3:05 p.m.

Present:
Peter Adomeit, Chairman, Retirement Commission
John Herrington, Director, Retirement Services Commission
Jean Reid, Accounting Specialist, Retirement Services Division
John Garrett, Cavanaugh Macdonald, Consulting, LLC
Cindy Cieslak, General Counsel to the Commission, Rose Kallor

Trustees Present:
Karen Nolen
Claude Poulin
Tim Ryor
Robert D. Coffey
Michael Bailey

Court Reporter: Theresa Bergstrand, CSR #406

(The meeting commended at 3:05 p.m.)

MR. ADOMEIT: Cindy, why don't you read off the people in attendance, please.

MS. CIESLAK: All right. Good afternoon, everyone. Today we have Chairman Peter Adomeit, we have Actuarial Trustee Claude Poulin, Actuarial Trustee Timothy Ryor, Trustee Michael Bailey, Trustee Robert Coffey, Trustee Karen Nolen. From the Retirement Services Division we have Division Director John Herrington. Also from the Retirement Services Division we have Jean Reid. John Garrett is here from Cavanaugh Macdonald and I am Cindy Cieslak from Rose Kallor, General Counsel for the Retirement Commission.

MR. ADOMEIT: Okay. Thank you. I guess we have one item on the agenda which is GASB 68. So, Mr. Garrett.

MR. GARRETT: Well, thank you very much. Hopefully you all had some opportunity to review it, but I am going to try and share my screen to show you all it while we talk. Oh, Cindy, may I share my screen?

MS. CIESLAK: Does it let you, now? I just changed the settings.

MR. GARRETT: It does. It does. Okay. Everybody see the report yet.

MR. ADOMEIT: I have seen it and read it.

MR. GARRETT: Okay. So again, this is the requirement under GASB Statement Number 68. So as we do for SERS, this plan is required to report the plan reports under 67, a liability, what they call a net pension liability, NPL. And it is basically, for these plans, since they are projected to be fully sustainable, insolvent forever, that it's typically just the actual liability from the pension valuations, minus the market value of assets, instead of the actuarial value of assets, where we get the unfunded actual accrued liability.

Another difference between this and the valuation is, you know, we have towns that have elected to come in, and when they come in and credit their past service, they establish what we call an initial actuarial liability. And for the pension valuation, we carry, as a receivable, the present value of all those future payments on that initial liability that they created when they came into the plan. Under GASB the State Auditor's Office has decided to carry the receivable as the sum of the future payments. So it is typically a little bit larger than the present value, because it is not discounted back with interest. So, that used to be a big issue between, you know, when, when Bridgeport

Police and Fire had those large liabilities which they paid off a few years back, that difference was much larger. But now it is, you know, the liability is down to a pretty good size, or that initial liability, some of it, I think it is less than $10 million. So that difference, through this report, really the first page is a table that kind of gives all of the primary result of the GASB reporting. Obviously a lot of text, sorry about that. For some reason my page down isn't working, but --

All right. So, so this is based on the valuation that we have just recently completed June 30, 2020. We then also equate that to the measurement date, so that's the last time the actual liabilities were measured. And then it's, under GASB-67, those numbers are then reported as a measurement date of June 30, 2020. And then for GASB-68, they are just really used to report at that next fiscal year end. So we have a reporting date of June 30, 2021. So these numbers are available now to help us, then, or actually to set the total amounts that we then divide between the four groups in MERS, general employees with Social Security, general employees without Social Security, police and fire with Social Security, police and fire without Social Security. We will divide these liabilities among those four groups, then each employer in those groups are required under GASB-68 to report their portion of the liability for the plan. And so, there is a lot of allocating going on. It's a process that has been refined over the years. We think it is pretty good, now. And with your, your new auditors, we worked pretty well last year in getting that, that completed.

So, you are not going to see from us those precise allocations to all the participating employers, but that will be in the report that the independent auditor is going to provide. So what we see here is that, of course, the discount rate on the plan is seven percent. Since the plan doesn't run out of assets, GASB requires that if there is a projected date of asset depletion, then the actuary has to use a different discount rate. A short term, that municipal bond index rate, which is high grade 20-year municipal bonds. We have to use that to discount back any of the payments that would occur after the depletion date. So you see that this would be a particularly bad year, in that as of June 30, 2020, the measurement date, that discount rate dropped to 2.19 percent. Since the plan is forever sustainable, and we don't expect, or we don't project out a depletion date, then we don't have to use that load discount rate in looking in measuring the liabilities. So that is why the single equivalent rate is the same.

So the measures are the total pension liability, which again is the, pretty much it is, the same number that is reported on the valuation as of June 30, 2020, as the actual accrued liability. From that we subtract out the fiduciary net position, that is really auditor speak or accounting speak, for the market value of assets. So again, this is going to differ somewhat from the valuation, and the valuation would be subtracting from the actual accrued liability, the actual value of assets. So the net pension liability is $1.1 billion, and that represents a funded ratio for the (inaudible) 71.2 percent.

We determined the collective pension expense of the of the entire group, so this again is going to be a portion that is allocated out to all the participating employers of $275 million. And then we have deferrals. Deferrals are representing actual gains and losses due to experience, investment gains and losses, and any changes in assumptions, and those have different amortization periods. Investment gains and losses, are recognized over a five-year period of time and for each year's gain or loss. And then experienced gains and losses and assumption changes are recognized over the average working, future working lifetime of the entire plan. So that's, that math includes both the active members and the retirees, so it is really a pretty short period. This year is 4.37 years.

So the total of pieces, I guess, deferred outflows, which really are primarily, changes in assumptions that increase the liability, asset losses or actual wall experienced losses, all those go into the outflows. About $315 million collective deferred inflow is really a new item this year due to about a $74 million experience gain in MERS, and that is what is remaining to be deferred is about $59 million.

So that is kind of the highlights. I just wanted to touch on a couple things here. One is this, this, which I am sorry, page 5, shows the sensitivity of that measure of the net pension liability. Again, the total pension liability minus the market value shows how sensitive it is to changes in the (inaudible). And we see that, you know, if we had the rate one percent lower, we would be looking at almost a half, well over, well, no, almost a half billion dollars more in liability. And if it was one percent higher, to eight percent, we see it drops about $400 million.

Heading over to the investment, the measurement of the investment gain/loss, page 7. So there is a couple of little things here that we want to point out that

MERS, we don't want to use that receivable in calculating. So the receivable is actually in the actual value of assets, and it is going to be the CAFR disclosed net position of the plan, but for determining this, we removed that. So we see in item B on this table and item C, we are showing what the market value is net of that receivable amount. And then we just develop, really, what we anticipate the, the expected earnings. That is on line G, $189 million is what we expected. What we actually got was the $63 million. So we had a net loss in operating on market value this year of $126 million. And then it goes into, really, the pieces that we are deferring for the last five years. So again, investment gain/loss is recognized over a five-year period of time, and we see that in net total. We have a deferred outflow due to the investment experience of $116 million.

Now the next two pages we pick up the other two sources of deferrals. That is deferrals due to actual experience. We see that the gain from this year is $75 million, or gain in year 2020, experience gain, column B on that top table. The portion that we are going to recognize each year, and that is, again, being recognized over 4.73 years. And then the amount that is left to be recognized in future years. And then the

pieces that we have from the prior experience. You note that 2017 there wasn't a valuation done because that was when we were doing biannual valuations. So there really wasn't a gain or loss due to experience in that 2017 year.

And then the assumption changes, the last assumption change we had was really shown in the 2018 measures. Total increase of about $440 million. We recognized thus far $266 million, and what is left to be recognized is $175 million.

And so that's, that's really, that is really it. This, again, is just a required accounting disclosures for all the participating employers that have a portion of the liability of Connecticut MERS. Again, those more specific allocations of these liabilities and pension expense and deferred amounts to each of those participating employers is going to be provided and shown. We are going to give them all the information and they are going to go through it and check it, this is the auditors, and then they are going to report completely and then that is going to be the basis of the information that goes out to the employers for them to put into their financial reporting for year end '21. So with that, I'll be happy to address any questions you may have.

MR. ADOMEIT: Thank you, John.

MR. POULIN: Claude john, I do have a question about something had has bugged me for years, now. It is that, why is it that the don't call deferred inflows, gains and deferred outflows, losses? Because the use the jargon that isn't comprehensible for a pension consultant, not just an actuary, a pension consultant. So why is that? And I think (inaudible) is doing the same thing.

MR. GARRETT: Yeah. They just wanted, I think they wanted to be very clear that they are not using any actuarial terms.

MR. POULIN: I know accounting gains, accounting losses.

MR. GARRETT: Yeah, it is absolutely maddening. It took us a couple of years to actually get used to that, you know. Because in balancing this out and making sure that our numbers are correct, there is a reconciliation process we use, and part of it is to capture the changes in the deferred outflows and the changes in the deferred inflows. And, you know, you take the, the NPL at, the net pension liability, at the beginning of the year and you add the pension expense anyway, you do all this to reconcile it, and I tell you, I still sometimes will add what I should be subtracting and subtract what I should be adding in order to get that balance equation to go right. The good thing is, you can pretty easily tell something is wrong. So, so it's -- but yeah, I think it is just an aversion that accountants have in using actuarial terms. I think they want to make sure that they are they are not crossing, crossing that fine line.

MR. POULIN: Thank you.

MR. GARRETT: Yes, sir.

MR. ADOMEIT: Are there anymore questions or comments from those assembled?

MR. POULIN: John, when will the employers receive this report, after --

MR. GARRETT: Probably the rest of this month, and it might go into the first part of May, we'll be working on all those allocations. And once we get everything to balance out and we balance, we balance out of the plan, then we are going to balance out to the four groups and then we are going to balance out to each individual employer in those four groups. So it takes a little while to get all that to work out. Once we have it finished, then we send it off to the auditors and their report is probably, you know, again, this is for reporting June 30, 2021. So we are months ahead of the date that employers are going to use it. And employers aren't really going to be looking for this too heavily until about, you know, some of the early ones, in August. But for the most part, most employers are kind of looking for this type of information to include in their preliminary financial reporting or, around September is what our experience is. So, so we are hoping that this, that the auditors will be done with it, I would say July at the worst. So that is when that is going to be coming out.

MR. HERRINGTON: Yeah, I think that was the time frame, last year, wasn't it? It was the August meeting.

MR. GARRETT: I believe you are right. And that is kind of usually what it is. If there is a desire to move that up, we could probably have everything to the auditors, again, I think by months end, month of April. And that might give them a head start, but I don't think they have even -- John, have they even contacted you about their initial, don't they go around and survey or do something, look at some of the towns to --

MR. HERRINGTON: I have had initial contact, right, but we haven't had our annual, you know, kind of get together yet. I mean, I would expect that that is going to occur in a couple of weeks. There are a couple of MERS entities that really do want this information by August 31st. So, you know, from the perspective of, and they are very vocal, and from the perspective of those,

those towns, it is preferable that it is approved for the August meeting. I feel more comfortable that we, you know, shoot for July, and if we have some type of pick up, we are available for August.

MR. GARRETT: Well we will do our best to get it out by the end of the month, but it could push over into that first week of May. But again, that shouldn't, that shouldn't be the auditors are waiting on (inaudible) --

MR. ADOMEIT: John, this still is in a draft form, I take it?

MR. GARRETT: -- from this, we will make a final decision and send to John and I --

MR. ADOMEIT: We didn't hear that. Why don't you say it again, please.

MR. GARRETT: So there is no change from the subcommittee for this report (inaudible) --

MR. ADOMEIT: John, we are having a problem -- I am having a problem hearing your audio.

MR. POULIN: I think it is breaking up.

MR. GARRETT: Oh --

MS. CIESLAK: It is getting better. My suggestion would be if your turn off your camera and the audio might come through without any break up. Sometimes if the internet is hit too hard the video makes it difficult for the Zoom to keep up.

MR. GARRETT: Is that good?

MR. ADOMEIT: So far so good.

MR. GARRETT: All right. So yes, I am sorry. Mr. Chairman, what I was saying was that if there is no change from the actuarial subcommittee, we could make a final version of the GASB-68 report for MERS, and send that to John tonight so it would be ready for the commission meeting in the morning.

MR. ADOMEIT: Okay. Excellent. And Claude, you can make the motion tomorrow to amend the agenda to accept this report. You are muted, Claude. You are still muted.

MR. POULIN: I was muted. I move to accept the MERS GASB-68 report for year ending June 30th 2020, with a reporting date of June 30th, 2021.

MR. BAILEY: I'll second that. Michael Bailey.

MR. ADOMEIT: Thank you, Michael. Is there any further discussion? Hearing none, all in favor say aye. Opposed, nay. The aye's have it.

Good. So we will present this tomorrow to the Commission, and then Claude if you could make the motion to amend the agenda tomorrow, that would be appreciated.

I think that is the only business we have. Is there any further discussion on this?

MR. HERRINGTON: Just a quick question for John, so when we get the August allocation, or maybe it is July, that's going to tie back to this final version, so it is just an allocation of, you know, the numbers in total will be what you just showed us, is that accurate?

MR. GARRETT: That is correct.

MR. HERRINGTON: Okay.

MR. GARRETT: If I have a moment, if there is a moment that I could discuss just some preliminary information that, concerning the experienced state for SERS, if you all have a little bit of time for that?

MR. ADOMEIT: Sure. Go ahead.

MR. GARRETT: So we are hoping that soon here we will be ready to discuss some of the input that we would like to get from Karen, OPM, about projections of number of retirements that would occur by July 1, 2022, maybe some projections on what they are expecting for across the board pay increases, items like that. But one of the preliminary things that we have already done, and I think we are ready to discuss with Claude and Tim further, is looking at the mortality experience.

And so, you know, if possible, maybe we follow this up with just a conference call with Tim, Claude and John and whoever else might be interested discussing some of the actuarial details of, you know, the mortality experience that we just noted. The good news is, is we don't really see anything to be worried about, in that even going to a very conservative base table, which would be the pub, general employee for general employees and police and fire for hazardous duty, going to those basis, above the median, weighted by benefit amount and projected with MP2020, we really don't see much change at all in the funded ratio of SERS. So mortality alone was, which, you know, a lot of plans see a three to four percent pop in liability, we are not really seeing that, probably because we had a pretty conservative basis going into this.

So that is kind of our preliminary, but we just wanted to discuss a little bit more of the details and maybe set up that conference call with interested parties at some time as soon as we can, I guess.

MR. HERRINGTON: So John, that sounds like we are talking about two different calls, one on mortality and one on the experience based on projections for retirements, replacements and consolidated freezes, those two calls?

MR. GARRETT: That is absolutely correct, John. So that first one, maybe the first one, we are ready for as soon we can get together is really on the mortality. So I know Claude and Tim, we would like to get their input into the mortality discussion, but then another call-in is really going to need to be with state agencies that might be able to give us some insight into what is being projected for future salary increases, and also, then, how heavy they think that participation and retiring prior to 7/1/2022 is going to be.

You know, right now we loaded the 2020, the expectation of retirement in fiscal year end 2020 in the SERS valuation. We increase the rates by 20 percent for that year. But, you know, I think there is a feeling that that might be light or, you know --

So, so that's, you are right, John, that is two different calls. The first one we are ready for about mortality as soon as we can put one together, and the second one, whenever that is convenient for all the state agencies that you might want to invite in.

MS. NOLEN: John, this is Karen. I can send you a copy of the report that BCG Group did concerning some of the anticipated retirements coming up at the state. I'll sent that to you this afternoon, that may have some information in there for you.

I must admit that in that report, while they looked at mainly the large agencies, they didn't, although they did have a survey that went out to people that were eligible asking them if they plan to retire, there are some statistics in that report that may give you a little bit of guidance, so I will forward that to you.

MR. GARRETT: So how long was 20 percent --

MS. NOLEN: No, it wasn't that bad.

MR. GARRETT: According to (inaudible) --

MS. NOLEN: I am sorry. John, you froze on my screen. I didn't hear what you said.

MR. GARRETT: Oh, so --

MR. ADOMEIT: We would rather hear you than see you, John. Go back to audio only, John, we can't hear you.

MR. GARRETT: Yeah, I don't know what is lagging here. I notice you all like a little bit -- but, and, you know, I am pretty close to Alabama here, and that is like a --

MR. ADOMEIT: Maybe in the same building is using up the bandwidth, which I assume that is what is happening, because we can't hear you.

MR. GARRETT: Oh, when I said --

MR. ADOMEIT: Now we can.

MR. GARRETT: Okay. Yeah, I am pretty close to Alabama here and, you know, that's the, that's the black hole of internet over there.

So, yes, Karen, we would love to get that report and go ahead and start to take a look at it, and then, you know, somewhere probably between what BCG is saying and, you know, probably there is a reality of what is going to happen, but, you know, that idea of considering different ranges, and then seeing how sensitive the valuation results are to the high end and the low end of that range kind of gives us of an idea of where we might want to be.

MS. NOLEN: Okay.

MR. POULIN: Back to the mortality investigation for that period, the last 13 months, of course, there was a surge in mortality, a major surge, because of COVID-19. On the other hand, I understand that looking at the papers from the Society of Actuaries and also the American Medical Association, the Journal of American Medical Association, that other causes of that mortality has gone down. For instance, in this season, the flu season, the number of deaths has been minuscule compared to prior years. So that, since we don't know the, really the cause of death or, I don't think we should know, either, but would there be a way, you know, to take this into account and to smooth the mortality curve, if you will?

MR. GARRETT: That is a great comment and question. What we would, so what we are, we would like to do, is not overreact. So what we are seeing is actually higher rates of mortality than we would have expected under the prior assumption. And there is a couple of things about that. One is data. Data has been improving, but data is not perfect. And a lot of cases during this five-year period that we are looking at, we had no show, you know, a retiree that just disappeared, and we don't know if that disappearance is a correction for a disappearance that might really need have occurred years before or was an actual death of somebody in that year. So --

MR. POULIN: Okay.

MR. ADOMEIT: Okay. Thank you.

MR. GARRETT: -- table --

MR. ADOMEIT: Are there any other questions of John? All right. Well hearing none, that is the only item on the agenda, so I guess I'll entertain a motion to adjourn.

MR. BAILEY: Bailey, motion to adjourn.

MR. POULIN: Second.

MR. ADOMEIT: All right. All in favor say aye. Opposed, nay. The aye's visit. Thank you all very much. Thank you, John. And thank you, Claude.

(Whereupon the hearing concluded at 3:33 p.m.)

C E R T I F I C A T E

I, Theresa Bergstrand, CSR, a Notary Public for the State of Connecticut, 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, convening at 3:05 p.m., on April 14, 2021.

WITNESS my hand this 20th day of July, 2021.

Theresa Bergstrand

Theresa Bergstrand, CSR
My Commission Expires 3/31/2026