

STATE OF CONNECTICUT
STATE EMPLOYEES RETIREMENT COMMISSION
ACTUARIAL SUBCOMMITTEE MEETING

AUGUST 18, 2021 MEETING
HELD VIA ZOOM
CONVENED AT 3:10 p.m.

Trustees Participating (via Zoom):

Michael Bailey
Karen Nolen
Claude Poulin
Tim Ryor

Other Participants (via Zoom):

Peter Adomeit, Chairman, Retirement Commission
John Flores, General Counsel to the Treasurer's Office, Ex-
Officio Member
John Herrington, Retirement Services Division Director
Jean Reid, Retirement Services Division
Donald Wilkerson, Retirement Services Division
John Garrett, Cavanaugh Macdonald
Thomas Rey, CLA
Cindy Cieslak, Rose Kallor, LLP

TRANSCRIPTIONIST: Karin A. Empson

1 (Proceedings commenced at 3:10 p.m.)

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5 MR. ADOMEIT: All right. Do you have the
6 rollcall, Cindy?

7 MS. CIESLAK: I do.

8 MR. ADOMEIT: Okay. So I can call the
9 meeting to order then.

10 Because we're being recorded, please state
11 your name before you speak. Peter Adomeit speaking.
12 And we have one item on the agenda, the CMERS Schedule
13 of Employer Allocations.

14 So I'll turn it over to-

15 MS. CIESLAK: Peter, this is-

16 MR. ADOMEIT: What's that, Cindy?

17 MS. CIESLAK: This is Cindy Cieslak. Would
18 you like me to announce those who are present?

19 MR. ADOMEIT: Oh, yeah, sure. Please do, for
20 the record.

21 MS. CIESLAK: This is Cindy Cieslak. Today
22 we have Chairman Peter Adomeit; Tim Ryor, Actuarial
23 Trustee; Michael Bailey, Trustee; John Flores, Ex
24 Officio Member to the Retirement Commission and General
25 Counsel for the Treasurer's Office; Claude Poulin,

1 Actuarial Trustee; Karen Nolen, Trustee; Jean Reid from
2 the Retirement Services Division; Donald Wilkerson from
3 the Retirement Services Division; John Herrington,
4 Retirement Services Division Director; John Garrett
5 from Cavanaugh Macdonald; and Thomas Rey from CLA. And
6 I'm Cindy Cieslak, General Counsel to the Retirement
7 Commission from Rose Kallor.

8 MR. ADOMEIT: Okay, thank you, Cindy.

9 The one item on the agenda, I'll turn it over
10 to John Garrett.

11 MR. GARRETT: Oh, I think that allocations
12 are going to be presented by CLA (inaudible).

13 MR. ADOMEIT: I'm sorry.

14 MR. REY: Hey, Mr. Chair. This is Thomas
15 Rey. I'm here to present apologies. I'm kind of
16 filling in for the actual engagement partner, Jason
17 Ostroski. He had a conflict in Denver today. He's
18 presenting to a legislative audit committee there, so I
19 was asked on relative short notice to kind of fill in
20 on his behalf. So I'm happy to present the one item on
21 your agenda today.

22 The only thing I'll ask, and I don't know if
23 I'm asking Cindy, but I can't share my screens. I
24 don't know if - I can also just do it verbally if
25 everyone has the materials.

1 MS. CIESLAK: I'm going to give you access to
2 share right now.

3 Do you want to try sharing now?

4 MR. REY: All right, perfect. Can everyone
5 see that?

6 MR. ADOMEIT: Sure can.

7 UNIDENTIFIED SPEAKER: Yeah.

8 MR. REY: Awesome. So, again, appreciate
9 everyone's time. Apologies for not being on camera,
10 but I'm actually in the hotel and airport, so I just
11 found a quiet spot. Hopefully don't have a ton of
12 background noise. But I just wanted to present the
13 results of the audit of the Employer Allocation and
14 Pension Amounts by Employer, and then also go through
15 some required communications.

16 Please do not - it may seem like I'm going to
17 rush through this, that there may be something in the
18 back of my head that's thinking I should, but I mean no
19 disrespect, so stop me at any time. And I'll try to be
20 as brief as I can, but without - with deference to any
21 question that the Committee has.

22 Let me see if I can scroll down here. So the
23 first item up is the actual schedules themselves, or
24 the - and this is what we do. I like to remind all
25 committees, so right in the - the only thing that we

1 really own in this, we do assist and work with CavMac
2 to generate these schedules. But the only thing that's
3 ours is the Independent Auditors' Report. That is on
4 Pages 1 and 2. Again, this is really why we're here
5 today, and I'll get into it.

6 So about six years ago, hopefully everyone on
7 this Committee knows, the GASB, the Governmental
8 Accounting Standards Board, kind of essentially came
9 out with a new standard, GASB 67, 68. Sixty-seven
10 affects CMERS, and then obviously 68 is really for all
11 the employers where they record their allocable share
12 of the pension liability. And that's what these
13 schedules are.

14 So funding and accounting are - so you have
15 two valuations. CavMac does two. We focused for this
16 audit on the accounting valuation, and our opinion
17 resulted in an unmodified or what used to be called an
18 unqualified opinion, but either way, a clean audit
19 opinion.

20 Again, not - there's no changes to the
21 schedules from past years. And as I said, a lot of
22 information, some of which is a little bit redundant,
23 particularly in the footnotes, to do the financial
24 statements. However, these are really essential for
25 the employers themselves in Connecticut and the

1 employers' auditors to use as its audit evidence to
2 record, as I said, their allocable share of the pension
3 liability.

4 With that, let me see if I can't get this out
5 of here. Okay. Any questions on the schedules? I
6 know, again, it may feel like I'm rushing, but I do not
7 mean to. And the result is a clean audit opinion. So
8 that's really what you're interested in. There are a
9 couple things that I am compelled to communicate under
10 audit standards. So if you don't have any questions on
11 those schedules, I'll move on to, you know, essentially
12 the next item.

13 So this letter, this second item - I think
14 there's three items in your package - is what we call
15 assessed 115 under audit standards, is a management
16 letter. When we're doing our testing - and one of the
17 key things that we're doing, a lot of what we're doing
18 when we audit these allocation schedules, unlike a
19 retirement, you know, an actual pension audit, there's
20 a lot of math in there; there's a lot of validation of
21 the math, but in what we have to do to get to a point
22 to issue an opinion is validate the data that's coming
23 in from the employers versus the census data that's
24 being used by Cavanaugh Macdonald.

25 And in doing that this year, we had a few

1 errors, if you will. They were not material, and I'll
2 get into that. But again, they were prevalent enough
3 that we documented those in this management letter, so
4 for this Committee. But it was really just a
5 validation of the census data. They had a couple - the
6 two primary issues were incorrect dates of birth, which
7 happens. There's probably no census data in the world
8 that's perfect. However, there's also then some active
9 participants that weren't even included in the census
10 data. And we were able to do that simply by taking
11 payroll data from that source data and using what we
12 call data analytics, in this case IDEA. It's a data
13 analytic software where we're essentially taking
14 payroll information from the employers and then
15 matching it up with the census, the entire census
16 information that Cavanaugh Macdonald is using, to
17 derive both the actuarial valuation and even the
18 funding valuation.

19 So we felt it was significant enough to bring
20 it up. At the end of this letter, you'll get
21 management's responses, which I appreciate because this
22 Committee may say, well, what are we doing about it?
23 This is essentially the responses to both the incorrect
24 dates of birth and the census data and then the active
25 employees. And part of that is the new system will

1 kind of help clean that up, but - and I'll get into it
2 as I mentioned - it's immaterial. If it was material,
3 then we'd be - we'd have a more significant issue that
4 perhaps would have impacted the valuation itself, or
5 the valuation would have had to be redone. So again,
6 don't want to be an alarmist, but did want to - it's
7 under audit standards that we're required to kind of
8 communicate those issues to you.

9 And then the last item that I wanted to bring
10 up to your attention is just there's required
11 communications under audit standards. And to those
12 (inaudible) governance, so in this case, the Actuarial
13 Committee, we just want - there's certain things that
14 we're required to communicate, any new accounting
15 policies, pronouncements; there were none. Obviously,
16 in this particular audit, the most significant estimate
17 is that valuation and the assumptions that are used in
18 deriving that valuation.

19 And, again, if we have any difficulties,
20 disagreements with management, we would be compelled to
21 have to communicate those to you. I mentioned the
22 immateriality of that error. It is immaterial and it
23 had no impact on the financials, which is why, again,
24 you had an unmodified or clean audit opinion. However,
25 it was big enough within our quantitative materiality

1 calculations.

2 We have various thresholds. One of them we
3 call a past journal entry threshold. So it's an
4 uncorrected misstatement or an uncorrected adjustment.
5 So this page that you can see essentially quantifies
6 for you the impact on the valuation. And as you can
7 see, the impact on the net pension liability, the
8 pension expense, and the actuarial payroll was less
9 than one percent. And then the deferrals, which are in
10 the past, was a little bit more than one percent, but
11 again, not material to the schedule, so nothing that
12 would compel us to make adjustments to the schedule,
13 ask Cavanaugh Macdonald to redo the valuation, et
14 cetera.

15 But if you wanted to know what the actuarial
16 impact or what the quantitative impact of those errors
17 were, this is where it is quantified for everyone. And
18 I know I blew through that really quickly, and I know
19 everyone may be on mute, but that is kind of everything
20 I wanted to touch on. And I'm happy to just entertain
21 any questions, comments, concerns from the Committee.

22 MR. POULIN: This is Claude Poulin.

23 MR. REY: Mm-hmm.

24 MR. POULIN: Is this a new finding for this
25 year, or was it immaterial in previous years and it was

1 not brought up? And-

2 MR. REY: Well, Claude, I think - go ahead.

3 Sorry, Claude.

4 MR. POULIN: And also, is it because in prior
5 years, there were different samples that had been
6 selected so that it didn't show up?

7 MR. REY: I think you kind of answered all
8 the questions. As I said, we have always had maybe
9 some errors in the census data. But none that - and
10 this year we found some in our testing, so back to -
11 that's part of your - third part of your comment, where
12 then obviously we expanded those samples and dug in
13 and, I think - and, John, correct me. Again, I wasn't
14 the engagement partner, but I think it was a total of
15 50 participants that were affected. It could be -
16 maybe it was more.

17 Either way, the answer to all three parts of
18 your question is yes, this is new in the sense that it
19 got big enough as I was trying my best to - without
20 getting in the weeds on our quantitative materiality
21 calculations. Ideally, when we ask CavMac to quantify
22 it, had it come in less, then we may or may not have
23 even been compelled to communicate it to you. Because
24 it was over that past journal entry threshold that then
25 triggers this schedule and also just the fact that we

1 are required by audit standards to communicate it to
2 the Committee.

3 MR. POULIN: Now I have another question.
4 This is Poulin. On that - the chart that I see now is
5 the summary of uncorrected misstatements audit. And it
6 shows that the increase in your total deferred outflow
7 of resources was 6.7 million. Now, if we look at the
8 financial statement totals, end total, the second
9 column, it is shown as 277 million, 281. Now, in the
10 GASB report, it was 314,650,000.

11 Is the different between the two, is it also
12 because of the errors in the dates of birth that were
13 incorrect this year?

14 MR. REY: Yes, Claude.

15 MR. ADOMEIT: Claude, this is Peter Adomeit.
16 Are you citing from the page? Because my page says
17 377. I think you said 277.

18 MR. POULIN: Did I say - no, I meant 377.

19 MR. ADOMEIT: Yeah, okay. Thank you.

20 MR. POULIN: Three-hundred-and-seventy-seven
21 million compared to 314,650,000 in the GASB report.

22 MR. REY: And I believe the answer is yes,
23 yes, Claude.

24 MR. POULIN: All right.

25 MR. REY: I don't know if John has anything

1 to add to that. But again, the total error was -
2 between both was about eight - that eight-and-a-half
3 million. Oh, and I'm sorry, yeah. But it's seventy-
4 four (inaudible).

5 MR. POULIN: That's the liability.

6 MR. REY: Yes. Yep.

7 MR. POULIN: And the difference between the
8 two amounts, between GASB 68 and this report, the total
9 delta was about 62,600,000. So the rest would be
10 accounted for by the incorrect dates of birth
11 (inaudible)?

12 MR. REY: Dates of birth, Claude, yes,
13 correct.

14 MR. POULIN: Thanks.

15 MR. ADOMEIT: Okay, Peter Adomeit here. Any
16 further questions?

17 MR. HERRINGTON: Yes, so I guess I would just
18 want to address this. So I believe the issue in terms
19 of the missing enrollment, that number was closer to 75
20 than to 50. I'm a bit interested - and, you know, I
21 understand, Tom, Jason is in a much better position to
22 answer this, and I certainly appreciate you, you know,
23 joining us on this call. But my understanding was that
24 some of these issues came to light based on the fact
25 that you all represent some of the participating

1 entities in other engagements and were able to cross-
2 reference that data against our data.

3 MR. REY: That's absolutely correct. And
4 again, I did a bad job of talking about the data
5 analytics. But, yes, when we have access to that
6 source data, we can bring that in, correct, from
7 payroll centers, various employers, et cetera, and then
8 kind of do - merge that data with the census data and
9 do compares and contracts and look for, you know,
10 anomalies, things that may be missing, things that
11 aren't matching up.

12 So that's exactly right. And for this group,
13 I hope that you know - I mean, I lead a group that we
14 work with retirement systems all around the country,
15 and I know John would agree, there's no census data,
16 there's no entire census data that are deriving either
17 funding valuations, or in this case, accounting
18 valuations that are probably perfectly scrubbed and
19 clean. But that's obviously one of our primary risks,
20 so that's why we do that audit exercise, to validate
21 the completeness and accuracy of the census data.

22 I think this issue hopefully will be moot
23 with the implementation of the new system. And
24 obviously the cleanup of these 75 folks plus some of
25 those other dates of birth, we'll know on a go-forward

1 basis. But - so it's important enough to discuss; it's
2 important enough for you to know that it existed, but
3 obviously, going back to my opening comments, it was
4 immaterial and did not impact the schedules that will
5 be used and will be kind of corrected on a go-forward.
6 And any blending of these errors on a go-forward will
7 be just - will simply be incorporated into future
8 accounting, both by CMERS and the participating
9 employers.

10 MR. GARRETT: And Claude and Thomas, if I
11 could jump in too, I'm sorry for the delay, but, you
12 know, Claude's always ahead of me, so I had to go to
13 find the GASB 68 report. But I think that difference
14 between the \$314-million deferred outflows you're
15 looking at, Claude, that GASB 68 report you're looking
16 at is for the collective plan. So that's all the
17 groups together, but it doesn't include any collective
18 deferrals for individual employer differences between
19 what was expected to be contributed and what they
20 actually contributed, and then also for changes in
21 their allocations.

22 So there's two other pieces of deferrals, two
23 other sources of deferrals, when we report this GASB
24 information to the individual employers that pick up
25 additional deferrals due to, again, differences in

1 actual to expected contribution amounts and differences
2 in their change and their share of the NPL.

3 So I think that's the differences in their
4 schedule. They're showing the total deferral of the
5 sum of all the employers, which is going to be - again,
6 because it has additional pieces in there, it's going
7 to be larger than the plan itself because the plan
8 doesn't track those individual employer allocations of
9 those deferred amounts.

10 MR. REY: Thanks, John.

11 MR. POULIN: Thank you.

12 MR. HERRINGTON: And then, Thomas, so I had
13 another question, and perhaps this is better for Jason,
14 but it appeared to me that you were able to uncover the
15 possibility of a data error through the use of some
16 software product independent of that alternate source
17 of reference?

18 MR. REY: Yes, sir. So, well, all we're
19 doing is - again, it sounds fancier than it is. It's
20 just a more powerful database than, say, Excel. It's
21 IDEA; there's also ACL. So where we're able to take
22 large datasets and do a lot of different things with
23 them - but in this case, it's very simple matching. So
24 you'll take source data from an employer payroll
25 information and then match that up with that employer's

1 information within the primary census data file and
2 then just do compares and contracts, if you will.

3 So that's where some of the errors were date
4 of birth obviously. So we were matching up John Doe
5 and John Doe, but John Doe's date of birth for varying
6 reasons maybe didn't match what was in the actuarial
7 census file. And then obviously there were some folks
8 out of that census data that were not included. And by
9 the way, sometimes that's a false positive, but I think
10 - and Jason could probably - definitely speak to this
11 more than I could in the sense that I think all that
12 was vetted, and it was verified. In fact, they should
13 have been included. Otherwise, you wouldn't - I
14 couldn't be - we wouldn't be having this discussion.

15 MR. HERRINGTON: Right, right. And so I
16 guess what my issue is, so we've identified, you know,
17 kind of the steps that we're prepared to kind of take
18 so that next year's census data is that much better,
19 but I was wondering whether, you know, there's some
20 need or ability for us to rely on that type of software
21 or an equivalent as we, you know, work through our
22 census data. And I guess that that question might be
23 as much for you, John Garrett, as well, in terms of
24 what we should use so that we can, you know, test our
25 data, you know, better before we actually transmit it

1 to you.

2 MR. GARRETT: Well, you know, I mean, that's
3 going to be tough as far as, you know - like I think
4 they show the source of these are input errors. And if
5 those are input errors at the MERS level, then, you
6 know, somewhere you're going to have to have the
7 actual, you know, corrected information somewhere to
8 match to. So if we had - you know, if we had the
9 corrected information, we could certainly do those
10 matches. What we could catch, it changes from dates,
11 from year to year, but we would always assume those are
12 corrections to prior incorrect data.

13 MR. HERRINGTON: Right. And I guess, to me,
14 another that we haven't talked about would be, as I
15 understand it, that there's really two sources for the
16 problem. And I have been focused more on, you know,
17 missing people who actually are participating in the
18 plan, but there's two sources for those. One is just
19 kind of like our processing or, you know, delays in us
20 using, you know, enrollment forms for individuals, how
21 we're classifying those individuals until we perfect
22 that paperwork. That - I think that looks pretty easy
23 for us.

24 But the other is kind of the result of issues
25 with our conversion of legacy data. And I was just

1 wondering whether, you know, we can kind of hone in on
2 that population to be able to confirm whether that
3 population was rooted in past valuations and to try to
4 test where they dropped out, and that maybe, you know,
5 what we should do is identify individuals that drop out
6 from one year to the next and ensure that, you know,
7 that they either have a bona fide termination after
8 retirement.

9 MR. REY: And again, from CLA's perspective,
10 we're happy to kind of work with CMERS on that as well
11 on a go-forward, even if it's just spot-checking some
12 of the larger employers or some of those problem-child
13 - again, I can't speak to which employers were - if
14 there was a cross-section or if we could identify
15 certain employers that we can say, okay, I think we've
16 cleaned up that data. And I do believe, at least in
17 talking to Jason this morning, that the new system
18 implementation will be helpful in kind of correcting
19 that on a go-forward as well.

20 MR. GARRETT: You know, and John, as far as
21 the - I think kind of what you're thinking about would
22 be, as we're plodding through the data, is to kind of
23 capture screens of issues that we have, provide those
24 screens to you for you all to do some further research
25 on. I mean, a lot of the times - you know, for

1 instance, if we get data in and we have births of dates
2 (sic) of 1900, and that was a pretty common thing, is,
3 you know, a lot of times, when it defaults, it defaults
4 to 1/1/1900. So, you know, when we find that, of
5 course, you know, we change that to the average
6 birthdate, you know, like 6/30 of the year that the
7 average - so we assume like an average date of birth
8 just to run the valuations and so it's not any kind of
9 material problem.

10 But - so before we actually do that, we could
11 pull the screens out and show you what we see as being,
12 you know, less than perfect data. And, again, you
13 know, it probably could be an extensive list, but over
14 time, we would - that would be whittled down. I think
15 that's a great idea. It might take us a little bit
16 more time in doing the data processing, but it could be
17 well worth it in paying off in better data down the
18 road.

19 MR. ADOMEIT: I have a question. I don't
20 know what the answer is. Where you have two sets of
21 data and they don't match, is it automatically assumed
22 that ours is wrong and theirs is right?

23 MR. REY: Well, Peter, again, from an auditor
24 perspective, the answer is no. As I said, there's
25 always in that testing what we consider false

1 positives. I think in this case, once we started
2 identifying a few that - you know, more than just, you
3 know, a handful, we then dug in and validated that. So
4 those 74 folks have been validated.

5 And, by the way, garbage in, garbage out. We
6 always use that right there. There were instances
7 where we found that the person's birthdate was
8 incorrect because the information that was received by
9 CMERS, you know, the input was correct; the information
10 that was received was incorrect; right?

11 So it's not always-

12 MR. ADOMEIT: Yeah.

13 MR. REY: --an indictment of someone, of that
14 primary actuarial file. There's various reasons. And
15 John even said, sometimes an actuary doesn't even know
16 the date of birth, for varying reasons, and they'll
17 default. And that is okay, right, for the valuation
18 purposes. We find a lot of that as well. So - but in
19 this case, once we started finding the date of birth -
20 and then I think someone pointed out, even more - you
21 know, probably the bigger concern is just - and from
22 our - is completeness and accuracy. So accuracy is one
23 thing; completeness is - you know, you're always
24 fearful that there's a group of folks that should be in
25 there that aren't, or vice versa.

1 So that's - but you would have to have it
2 pretty pervasive to move the needle on the valuation.

3 MR. GARRETT: Again, you know-

4 MR. ADOMEIT: Peter Adomeit here. Thank you,
5 Thomas.

6 MR. GARRETT: Again, you know, just to point
7 out one other - I am too, which is, you know, this
8 finding was that there were 74 members of MERS that
9 were omitted. But I'll guarantee you, in that same
10 valuation, there's probably, you know, more than one
11 person who was included in the valuation that probably
12 shouldn't have been. So, you know, we're focusing
13 right now on the \$8.5 million of additional liability
14 due to people not being included in the plan, but I'll
15 guarantee you there's some liability in there that
16 probably shouldn't be in there for people who have left
17 the plan and took our refund too.

18 I mean, we see it in all the state-wide
19 systems and there's no - maybe Liechtenstein's public
20 employees retirement system has perfect data. Other
21 than that, I don't think I've ever seen, you know,
22 anything that measures to be 97-percent good. So-

23 MR. REY: And I can concur with that.

24 Because we do - as I said, this is pretty much what we
25 do. And obviously, we're working with even larger data

1 sets in other systems, and there is no set of data
2 particularly that's deriving these valuations that's
3 100-percent perfect. Our concern, as you might guess,
4 as I said, for both financial statements and these
5 schedules, is does it materially impact the numbers.

6 MR. ADOMEIT: Thank you.

7 MR. POULIN: This is Poulin. In computing
8 the actual impact and the accounting impact of these
9 misstatements, two methods are used, the iron curtain
10 method and the rollover method. Now, they seem to
11 yield the same result, but I'm intrigued by the origin
12 of the term, iron curtain. For me, it means something
13 entirely different.

14 MR. GARRETT: Yeah, I don't know too many
15 Marxist actuaries that would use that method, but to be
16 honest with you-

17 MR. POULIN: The rollover is Afghan.

18 MR. GARRETT: So, yeah, I mean, what we did
19 is we included - you know, we determined the liability
20 for those 74 people that were excluded. It was \$8.5
21 million. To actuaries, you know, changes to
22 liabilities for data issues like that of less than one
23 percent of the AL is typically deemed to be, you know,
24 in the nonmaterial type of - I mean, it's material;
25 it's \$8.5 million; but is it material to the results?

1 You know, it probably doesn't move the needle a whole
2 lot.

3 So that \$8.5 million, we actually did the
4 measurement of.

5 MR. POULIN: But why is it called iron
6 curtain? Where does the expression come from?

7 MR. GARRETT: Well, we used the Georgia
8 Bulldog method. I have no - I've never heard of either
9 of those methods. I mean, what we did, we just did an
10 actual evaluation of those 74 people, running them
11 through the same coding for the four different
12 subgroups of MERS pertaining to the ones that they
13 should have been included in, and then we add it all
14 up. And that's where we get the \$8.5 million.

15 MR. POULIN: Thanks.

16 MR. GARRETT: I'm going to find out. I'm
17 going to research that too, Claude. I'm going to start
18 Googling iron curtain actuarial math.

19 MR. RYOR: This is Kevin Ryor. Quick
20 question just to make sure I heard something right. So
21 it sounded like a lot of the missing data, it was
22 because you're comparing to actual - the employer
23 census data that you're getting separately? Is that
24 accurate?

25 MR. REY: That is accurate, yes. So we got

1 the source data directly from the employer and then
2 matched that up with the census data that's maintained
3 at CMERS and is used by the CavMac.

4 MR. RYOR: So to John's point earlier, I
5 mean, you're checking that both ways though? You're
6 not just looking for missing entrants? Like you're
7 (inaudible).

8 MR. REY: Absolutely. Yep. Again, the whole
9 point of the task - for these schedules, yes. I mean,
10 as you - I don't want to minimize what the audit risks
11 are, but, you know, these schedules, it's all - it's a
12 lot of math, right, just math, crossed footing - you
13 know, footing down, et cetera, everything's
14 mathematical. The net pension liability has already
15 been derived previously under GASB 67. These are the
16 68 schedules. So again, our issue really for 67, the
17 derivation of the net pension liability, the deferred
18 inflows, pension expense, et cetera is all about
19 completeness and accuracy of that census data file.

20 And, yes, we're looking at it both - again,
21 completeness and accuracy. So we're looking at it both
22 ways.

23 MR. RYOR: Okay. Thank you.

24 MR. REY: And as I said, sometimes, it's - we
25 - as you might guess, particularly as - until - it gets

1 a little more refined. So once we get that data, we
2 can refine it year-over-year. But, you know, in those
3 - if I had a brand-new client, you know, there's a lot
4 of false positives that you have to work through.

5 MR. ADOMEIT: Peter Adomeit here. Okay. Are
6 there any further questions or comments?

7 Okay.

8 MR. HERRINGTON: I guess just one issue that
9 I wanted to raise. So again, I mean, this was quite
10 the issue, I think, that Thomas had to kind of present
11 on short notice. I've had discussions with Jason, so
12 Jason, you know, unfortunately had a conflict today,
13 but he certainly will be available to present to the
14 full commission tomorrow.

15 I know in past years, there hasn't been much
16 of a presentation or, you know, a desire to ask
17 questions regarding this issue. I think this year is
18 different because of this specific finding. So I would
19 think that we should allot time for Jason to present to
20 the Commission tomorrow.

21 MR. ADOMEIT: Peter Adomeit here. John, is
22 this on the agenda for tomorrow?

23 MR. HERRINGTON: No.

24 MR. ADOMEIT: Okay. So we'll have to ask
25 probably Claude Poulin, who is our professional mover

1 of motions. And then, what will we be being asked to
2 do, just simply accept the report?

3 MR. HERRINGTON: Right, I think accept the
4 report. But I think before we accept the report, I
5 think it probably would be useful to the entire
6 commission if we heard Jason kind of, you know, provide
7 a summary of this issue.

8 MR. ADOMEIT: Okay. John, are you implying
9 that the Actuarial Subcommittee then is not in the
10 position to accept or reject the report? What should
11 we do at this point? We should get it before the
12 Commission?

13 MR. HERRINGTON: Well, no. I mean, I
14 believe, I guess, I would leave that to Tim and Claude
15 in terms of whether the Subcommittee can recommend
16 acceptance. I just think that, you know, because of
17 this issue, which is atypical, you know - I guess CLA,
18 we've engaged them - this is the fourth year. We've
19 never had a finding of this magnitude. And I think it
20 would warrant, you know, at least some presentation to
21 the Commission and further discussion.

22 MR. ADOMEIT: Okay. So we should then simply
23 present the report to the full commission tomorrow? Is
24 that the consensus?

25 I guess people are nodding their heads, I

1 guess.

2 MR. FLORES: So what's the full commission
3 going to do tomorrow? This is John Flores.

4 MR. ADOMEIT: To discuss this further, I
5 guess.

6 MR. RYOR: This is Tim Ryor. Don't they
7 normally accept - I mean, they still - we still vote
8 tomorrow to accept it, but usually based on the
9 Subcommittee's recommendation. So I think we can still
10 make a recommendation today, but - and then still have
11 the presentation.

12 MR. ADOMEIT: I'll be guided by what the
13 Subcommittee wants, obviously.

14 MR. POULIN: I agree.

15 MR. ADOMEIT: Okay. Then we would need a
16 motion. Tim, Claude?

17 MR. POULIN: Want to go ahead, Tim?

18 MR. RYOR: I'll move - yeah, I'll move to
19 accept the report.

20 MR. POULIN: Claude, second.

21 MR. ADOMEIT: All right. Is there any
22 further discussion?

23 Okay. Hearing none, all in favor, say aye.

24 UNIDENTIFIED SPEAKERS: Aye.

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

1 it.

2 Okay. And then, Claude, tomorrow, you can
3 move at the Commission level tomorrow to add it to the
4 agenda.

5 MR. POULIN: And so-

6 MR. ADOMEIT: Yeah.

7 MR. POULIN: I will move tomorrow to-

8 MR. ADOMEIT: Okay, right.

9 MR. POULIN: --add an item after Item 17 of
10 the regular agenda.

11 MR. ADOMEIT: All right. And, Tim, you'll be
12 around tomorrow?

13 MR. RYOR: Absolutely. Yep.

14 MR. ADOMEIT: Thank you.

15 MR. RYOR: Not going to the beach until right
16 after.

17 MR. ADOMEIT: Okay. All right. Well, thank
18 you, Thomas. Thank you, John. I guess we're at the
19 end of our agenda; are we not?

20 MR. REY: Thanks, Mr. Chair.

21 MR. GARRETT: And, Mr. Chairman, I'd - you
22 know, I was hoping that we would have a review of the
23 draft Experience Study. We were - we - well, we're
24 finished with the economic piece. We're still kind of
25 down a rabbit hole with some of the demographic stuff.

1 I mean, if we - so I'd like to give a little bit of an
2 update.

3 I have a Powerpoint that I could share. I
4 didn't want to take up too much time if everybody - I
5 know you only saw one item on the agenda, so I don't -
6 and then I do want to have a discussion, especially
7 with the Subcommittee, concerning that add-on, the
8 expectation for additional retirements in fiscal year
9 2022, you know, by July 1, 2022.

10 We've kind of tested some sensitivity of the
11 results based on our preliminary demographic
12 assumptions that we're not ready to share yet. But -
13 so at the pleasure of the Subcommittee, I can go
14 through the economic pieces. I have, again, a
15 Powerpoint prepared that we were planning on, you know,
16 again presenting the entire Experience Study, but
17 wanted to hold off on demographic. We still have some
18 more work to do.

19 MR. RYOR: This is Tim Ryor. Would it be
20 possible, John, to get - I mean, I find - I don't know
21 if Claude agrees, but I find it hard to just like
22 evaluate it on-the-fly. If we could get that in
23 advance, that would probably be - I know it would be
24 more helpful for me to have a little time to digest it
25 and go through it-

1 MR. GARRETT: Right.

2 MR. RYOR: --then formulate questions.

3 MR. GARRETT: No, we actually agree. And
4 again - so our schedule right now is, the team, we're
5 going to have a draft report out by the end of the
6 month. Everything will be done, fixed, and put into
7 the report by the end of the month for the September
8 Board meeting that will be a few weeks beyond that.

9 But in the meantime, instead of us going
10 through it, why don't I share this economic piece
11 Experience Study Powerpoint. It has a lot of the
12 charts and the tables that will go into the draft
13 report. It has some discussion. Basically really what
14 we tested, everything pretty much sits at the same
15 rates that we're assuming now, discount rates, all that
16 stuff.

17 So really, in the most part, there is no
18 change to the basic economic assumptions of the plan.
19 So - but-

20 MR. ADOMEIT: I think what Tim is saying,
21 John, is that we're not prepared to-

22 MR. GARRETT: To talk about it.

23 MR. ADOMEIT: --to jump into it right now.

24 MR. GARRETT: Right.

25 MR. ADOMEIT: And there's a technical problem

1 as well. It's not on the agenda.

2 MR. GARRETT: Okay. All right.

3 MR. ADOMEIT: But we'll wait for you to get
4 it completed, and we're clearly - we are interested in
5 hearing it.

6 MR. HERRINGTON: All right. So I guess to
7 your point, John, are you saying that it would be
8 helpful if the Subcommittee discussed that issue before
9 you complete the report, and so we may need to schedule
10 a subsequent Actuarial Subcommittee meeting?

11 MR. GARRETT: Or perhaps even a subcommittee
12 of the Subcommittee. I mean, if - you know, it would
13 be good, just because, you know, assuming that there's
14 no increase - so if we set retirement rates in the
15 future based on long-term - you know, the emerging
16 trend of retirements, which are higher than what we
17 were assuming before, but we don't add any additional
18 increase for the likely retirements that are going to
19 be enticed in the year ending 7/1/22 because of the
20 changes to the COLA and the eligibilities in Tier II,
21 Tier II-A-

22 So, you know, one is - we talked about last
23 time is just let - I mean, we're only one year in
24 advance. Just let's run through the Experience. We'll
25 capture its gain/loss, and it will show up in the 2022

1 valuation. The other though is because we can kind of
2 see - you know, we kind of estimated, if it's 20
3 percent more people retire than what we expect, what
4 kind of impact that is and how visible. I mean, it's
5 \$160 million to the UAL. So it's a pretty material
6 impact if we do nothing and let that, you know, flow
7 through the loss.

8 To the ADEC though, it only gives us one year
9 of advanced funding if we take it into account for the
10 2021 valuation. And it actually is experienced in the
11 year 2022. So, you know, it's one of those things, to
12 us, it doesn't really have a difference because again,
13 there's only a one-year difference between the actual
14 gain/loss you're going to experience in 2022 versus an
15 expected increase in retirements for '21 to 2022. So,
16 you know, you're only getting a one-year advantage on
17 that partial funding.

18 So, yeah, we would like to have a discussion
19 about that. We think it would be good to get the call
20 of the Subcommittee on what their desire would be to
21 include something in this valuation coming up,
22 therefore it would be included in the Experience Study,
23 or letting it flow through the gain/loss and, you know,
24 whatever it is, it is, and it's measured in 2022 and it
25 impacts the funding at that point.

1 MR. HERRINGTON: So would two weeks from now,
2 would that be enough time for you, if we did it the 1st?

3 MR. GARRETT: Two weeks from now will
4 probably be right at the point the day after we send
5 the draft report. So, Tim, I'd like to give you a
6 little bit more heads-up than that. But, I mean, if
7 we're really just talking about this one issue about
8 what to do with retirement rates, we can maybe - as
9 soon as we get the retirement rates finished, we'll
10 kind of break out our pieces for that to discuss that
11 with the Subcommittee and have that in front of them
12 before that meeting in two weeks.

13 So, yeah, let's - that seems good to me.

14 MR. ADOMEIT: Okay.

15 MR. RYOR: This is Tim Ryor. It might be
16 helpful - I don't know if you can do just a separate
17 piece on that - it'd be good to kind of summarize,
18 here's what we're seeing; here's maybe something from
19 John on - you know, based on recent trends, here's what
20 we're expecting; here's what the normal assumption
21 would produce in total number of retirements; here's
22 what 20 percent produces; to lay it out for us so we
23 kind of get a sense of things at a high level.

24 MR. GARRETT: Yeah, and reality is, I guess,
25 August, John, I don't know if the system has any - how

1 quickly do you all compare like the number of
2 retirements you had in July of 2021 to July of 2020? I
3 mean, are you - is that kind of a - I know you all look
4 at that every time that data is available, but is it
5 available by August 18th for the month - you know, for
6 the month of July?

7 MR. HERRINGTON: Yes. But, I mean, we have
8 those numbers now. I mean, we wouldn't necessarily
9 have September's numbers, I mean, but we would be
10 close, right? I mean, I don't know how helpful that
11 is, but theoretically, you know, on, you know, August
12 31st, we would have some very close to what even up to
13 the September number would be.

14 Unfortunately, the month that's going to be
15 the greatest indicator to us would be October 1st. I
16 mean, our heaviest months are October, January, and
17 April. We anticipate that that's when we're first
18 going to see, you know, the magnitude of the impact
19 would be this October 1st.

20 MR. GARRETT: So, you know, this will be part
21 of that conversation, but we're kind of leaning to the
22 idea that, present the evaluation - I mean, present the
23 Experience Study only with the long-term trend for
24 retirement rates, and explicitly point out that we're
25 not anticipating any additional increase in those

1 assumptions. But then, as we're doing the valuation,
2 and we'll be kind of at the endpoint of the valuation,
3 I would hope, late October, early November, maybe we
4 can kind of re-look at - because again, October is
5 going to be a high month for the number of retirements,
6 maybe we look at the counts that are kind of emerging
7 from the Experience and reassess whether or not the
8 valuation that we're performing as of '21 needs to
9 include that additional expectation for retirements
10 just based on the emerging number of retirements that
11 the system sees.

12 MR. RYOR: This is Tim again. Am I
13 remembering wrong? I thought your assumption already
14 had a bump built in for 2022.

15 MR. GARRETT: So we put that in to price the
16 legislation that-

17 MS. CIESLAK: I'm very sorry to interrupt.
18 We were talking about scheduling a meeting to discuss,
19 and I'm going to be the technical difficulty here. And
20 to the extent we're going to discuss it, it is not on
21 the agenda. You can amend the agenda to include a
22 discussion, but right now, I would recommend that there
23 is no discussion.

24 MR. ADOMEIT: All right.

25 MR. GARRETT: Call me, Tim. Call me.

1 MR. ADOMEIT: All right. You guys can
2 continue this discussion. And then we will come
3 forward with the information at a time when we're all
4 prepared.

5 MR. HERRINGTON: All right. And in the
6 meantime, we'll schedule something for September 1st at
7 the same time.

8 MR. ADOMEIT: Right. Okay. Thank you.

9 I guess we're at the end of the meeting. We
10 have covered the only item on the agenda.

11 MR. POULIN: And some.

12 MR. ADOMEIT: And some. So is there a motion
13 to adjourn?

14 MR. POULIN: I move to adjourn.

15 MR. ADOMEIT: Thank you, Claude.

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

17 MR. ADOMEIT: Thank you, Mr. Bailey. All in
18 favor, say aye.

19 UNIDENTIFIED SPEAKERS: Aye.

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

22 Thank you all very much. This is like a
23 course on actuarial science, piece by piece.

24 Appreciate-

25 (Adjourned at 3:58 p.m.)

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5 I, Karin A. Empson, do hereby
6 certify that the preceding pages are an accurate
7 transcription of the Connecticut State Employees
8 Retirement Commission, Actuarial Subcommittee meeting
9 held electronically via Zoom, conducted at 3:10 p.m. on
10 August 18, 2021.
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18 Karin A. Empson

19 Karin A. Empson
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21 09/15/2021

22 Date
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