STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

ACTUARIAL SUBCOMMITTEE

JUNE 21, 2023 SPECIAL MEETING
HELD VIA ZOOM
CONVENED AT 2:33 p.m.

Present (via Zoom):

Peter Adomeit, Chairman
Michael Bailey, Trustee
Claude Poulin, Actuarial Trustee
Tim Ryor, Actuarial Trustee
Mark Sciota, Municipal Liaison
John Garrett, Cavanaugh Macdonald
John Herrington, Retirement Services Division
Robert Helfand, Retirement Services Division
Charlotte Moller, Retirement Services Division
Jean Reid, Retirement Services Division
Kathryn Balut, Retirement Services Division
Cindy Cieslak, Rose Kallor LLP

TRANSCRIPTIONIST: Karin A. Empson

1 (Proceedings commenced at 2:33 p.m.)
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5 CHAIRMAN ADOMEIT: Okay. Peter Adomeit
6 here. This is a special actuarial subcommittee meeting
7 of the Connecticut State Employees Retirement
8 Commission by teleconference.
9 Cindy, do you have the attendance,
10 please?
11 MS. CIESLAK: Good afternoon. This is
12 Cindy Cieslak. Present this afternoon, we have
13 Chairman Peter Adomeit, Trustee Michael Bailey,
14 Actuarial Trustee Claude Poulin, Actuarial Trustee Tim
15 Ryor, Municipal Liaison Mark Sciota; from the
16 Retirement Services Division, we have Charlotte Moller,
17 Jean Reid, Katie Balut, Robert Helfand; from Cavanaugh
18 Macdonald, John Garrett; and Cindy Cieslak from Rose
19 Kallor, General Counsel.
20 Did I miss anyone? All right, Peter,
21 over to you.
22 CHAIRMAN ADOMEIT: Okay, thank you very
23 much. Peter Adomeit here. The actuarial subcommittee
24 is to make the CMERS reforms; that's the only item on
25 the agenda.

1 Who is going to lead the discussion,
2 please?
3 MR. GARRETT: Well, I'll be honest with
4 you. And Charlotte, welcome back and congratulations.
5 She has done a fantastic job of summarizing this
6 throughout. So in absence of John, I would pick
7 Charlotte to kick it off.
8 MS. MOLLER: Yeah, I'm not sure if John
9 Herrington was supposed to be here.
10 Katy, do you know if he was attending
11 today?
12 MR. HELFAND: I believe he was planning
13 to attend.
14 MS. MOLLER: Okay. I don't want to steal
15 his thunder. I'm not sure if he had prepared
16 something. But let me - you know what? I'm going to
17 try to give him a call real quick and just—
18 CHAIRMAN ADOMEIT: Yeah, why don't you do
19 that?
20 MS. MOLLER: Okay, thanks. Sorry about
21 that.
22 MR. GARRETT: Cindy, I have a few things
23 to share on the screen when my time comes up. So if
24 that's available for me to do, that would be great.
25 MS. CIESLAK: All right. You should have

1 that ability now.
2 MR. GARRETT: Thank you.
3 CHAIRMAN ADOMEIT: Should we go ahead
4 then with John Garrett and await - or are we waiting
5 for John Herrington?
6 MR. GARRETT: I'm ready to discuss the -
7 you know, the details, and kind of—
8 CHAIRMAN ADOMEIT: Okay. Let's go ahead
9 and use the time up then.
10 MR. GARRETT: Right.
11 CHAIRMAN ADOMEIT: Use the time. Don't
12 use it up, but use the time. Thanks, John.
13 MR. GARRETT: Well, you know, and I
14 think, you know, the key would be the discussion of the
15 process from John and/or Charlotte. Both were - I
16 mean, it was an extremely - I mean, being an actuary
17 and seeing, you know, sometimes, how the sausage gets
18 made, I got to say, I was incredibly impressed by how
19 well the comptroller put together the task force to
20 kind of look into it.
21 And the consensus that was built with the
22 different parties - you had management; you had, you
23 know, police unions, general employees' unions - it was
24 really an uplifting process. Because, many times, you
25 know, you see the sausage being made, and you just kind

1 of slam your forehead. But I've got to say that the
2 process that, you know, was used in Connecticut's case
3 was fantastic.
4 I can - you know, in the absence of John,
5 our report does kind of discuss the pieces. I think
6 John would probably be great at laying out exactly, you
7 know, the process. But - and maybe as soon as he shows
8 up, if he makes it, then we—
9 Is he coming in, Cindy?
10 MS. CIESLAK: This is Cindy. He's coming
11 on right now.
12 MR. GARRETT: All right, great. I
13 stalled just enough.
14 MS. MOLLER: Thanks, John.
15 CHAIRMAN ADOMEIT: Okay, John. John
16 Herrington, take it away, please.
17 MR. HERRINGTON: Okay, right. So we're
18 here today to consider the Revised Actuarial Valuation
19 for CMERS as of June 30th of 2022. This reflects all of
20 the legislative and policy changes that were
21 implemented under House Bill 6930 and the agreement of
22 the working group. The idea was to reduce the employer
23 contribution rates, and it appears that we have been
24 successful in doing so.
25 So, John, if you could walk us through

1 the revised report?

2 MR. GARRETT: Absolutely. And if I can

3 share – well, let's see; I think I can share my screen.

4 So let me jump on that.

5 First off, what I wanted to show was –

6 does everybody see the chart I have listed?

7 CHAIRMAN ADOMEIT: Yep.

8 MR. GARRETT: So the process, you know,

9 was a lot of potential changes that were being

10 considered. And the basis - the tool that we used was

11 we built open-group projections of the system. And

12 this was, you know, the tool that allowed us to kind of

13 see the force of changes to the outcome of the long-

14 term contribution rate expectations. So this is

15 showing really projected actuarially determined

16 employee contributions.

17 And I apologize if the font's kind of

18 small. I can help read out some things, or maybe I can

19 jump over here to Excel and kind of zoom in a little.

20 CHAIRMAN ADOMEIT: You see that little

21 plus sign on your picture? Just hit that a couple

22 times. At the top of your picture.

23 MR. GARRETT: Here we go; here we go.

24 All right.

25 CHAIRMAN ADOMEIT: Right there. There we

1 go.

2 MR. GARRETT: All right. So the way we

3 started was, we said, well, if we do a projection

4 today, knowing that - and at the time we started this

5 process, the investment rate of return for the year

6 wasn't looking too good. So we just said, let's assume

7 zero return for '23 fiscal year, and projected out the

8 '22 results. And that's the black dashed line on this

9 chart.

10 And so that's what the projection was

11 showing with the 17-year amortization period of the '22

12 amount, the UAL. And as you can see, you know, a lot

13 of pressure on increases and costs. And this is the

14 blended contribution rate of all four of the subsets

15 within MERS.

16 So next we said, well, you know, what

17 could be done would be a potential look at lowering the

18 - or extending the amortization period on the '22 base

19 out to 25 years. And again, we did kind of discuss

20 that informally. And because we use a level-dollar

21 approach in MERS, there was no, really, impact as far

22 as negative amortization potential of using this

23 methodology.

24 So the red line shows if all we did was

25 to re-amortize the UALs existing in '22 over a 25-year

1 period of time. So you can see it extends out the
2 period of time. You know, we have lower contributions
3 for the first 17 years, but then we have higher
4 contributions for the eight years beyond that. So
5 that's really, you know, no change in liability
6 measures, no change in plan provisions, no change in
7 expected cash flows. It's really just - except for the
8 amortization cost, it's really just extending out the
9 payment schedule on the UAL.
10 And so then we looked at other
11 alternatives. And the blue line represents if we
12 implement a drop deferred retirement option plan, which
13 I'm, of course, not a huge fan of, but in this case,
14 because really part of the problem is these retirement
15 eligibilities, especially for general employees, are so
16 early that, you know, we have cash flow that occurs,
17 you know, the payments out to the retirees and general
18 employees, a little bit earlier than really what would
19 be typically anticipated by a general employee type
20 plan.
21 So with drop, we considered that that
22 could be an incentive for people to work until later
23 years, especially general employees, and therefore slow
24 the amount of cash flow coming out of the system, but
25 storing it in this drop plan. So it's not really a big

1 plus or minus to the member, but it does provide an
2 incentive for those who really want to take a lump sum
3 of money with them when they retire and exit drop.
4 So a drop plan - again, any questions
5 about what a drop plan is, deferred retirement option
6 plan? It really just says that once you're eligible to
7 go into the drop, instead of retiring, the plan would
8 set up a mythical or notional account in which we store
9 your pension payments that would otherwise be paid to
10 you, and then upon drop exit, which is no longer than
11 five years later, you leave, you start your pension
12 payments that you were entitled to at drop entry, and
13 you take with you that lump sum that has accumulated in
14 the period of time you were in drop.
15 So the drop, because, you know, we can
16 get some, I guess, improved deferment of retirement
17 elections or the beginning of cash flow from the plan,
18 it does extend the period of time that we have payments
19 coming in before members actually leave the system.
20 And therefore, it provides really additional financing
21 by extending that period of time of active employment.
22 And so we see that we get a reduction in
23 costs, and that's a drop down to the blue line. And
24 then the last line includes all that plus a change to
25 the cost-of-living adjustments. So again, MERS is the

1 only system in Connecticut that really hasn't reformed
2 the COLAs since the 2008, 2009 markets. They still had
3 a minimum two-and-a-half-percent COLA. We know that
4 that's been generating losses. And with this, we do
5 have a graded period that the COLA floor, the minimum
6 that the COLA can be, drops from two-and-a-half to two,
7 to one-and-a-half, one, point-five percent, and then we
8 get a floor of zero. So after that five-year graded
9 period, we actually end up with the same COLA as what's
10 in the latest tier of COLAs for SERS, which makes
11 sense.
12 And so that yellow line kind of
13 represents what the total package of savings is. Now,
14 this is the version of the charts prior to some last
15 negotiations that kind of put that COLA floor in there.
16 So the savings is a little overstated in this chart
17 than what actually occurred. But still, if we look
18 over at the valuation report now - and let me flip to
19 the start of it. So Page 1 of the report shows what
20 the contribution rates are.
21 And I know we don't have - I don't know
22 if anybody has the original '22 valuation with them,
23 but I have noted what these changes are. So you see
24 general employee. This is the total actuarially
25 determined contribution rate for fiscal year '24. The

1 employer contribution rate for general employees with
2 social security drops 3.72 percent down to 15.85.
3 General employees without social security drops 4.97
4 percent to 20.39. Police and fire with social security
5 drops 3.97 percent down to 21.72. And the police and
6 fire without social security drops 5.24 percent.
7 Most of this is really savings. In this
8 ’22 valuation, this is savings driven, primarily from
9 the re-amortization of the UAL. There is some normal
10 cost changes because future COLAs to members are going
11 to be expected to be a little bit lower. But, you
12 know, those normal costs and savings, we’ll see here on
13 the next slide. Let me jump over there right now.
14 Here’s the split of how those
15 contributions are determined. So the normal cost you
16 see for general employees with social security, it
17 drops 1.25 percent. I believe that’s right. Let’s see
18 if I still have that up here, and I do. It drops -
19 yeah, I’m sorry - 1.32 percent from - nope, I got that
20 wrong too. Let me get to the right page here. Yeah,
21 it drops 1.25 percent from seven-and-a-half percent to
22 seven-and-a-quarter percent.
23 So that normal cost changes that we’re
24 seeing, and it’s one-and-a-quarter percent drop for
25 general employees with social security and 1.31 percent

1 drop for those without social security. Police and
2 fire with social security drops 1.26 percent, and
3 police and fire without social security drops 1.39
4 percent. It’s those normal cost changes that are
5 really showing, you know, the reduction due to the
6 provision changes of the COLA, the drop, the incentive
7 for drop.
8 And so, you know, it’s a minority of what
9 the savings are initially. Over time, again, you know,
10 with experience, you know, we should see that the long-
11 term costs are going to drop just based on the
12 elections of members to, you know, lengthen their
13 careers in order to be enticed to receive the lump sum
14 when they actually retire. Not huge. We didn’t – we
15 really wanted to caution ourselves against being overly
16 anticipating, you know, super changes to liabilities
17 and such due to the drop assumption.
18 So we really only assumed one-third of
19 the members would be enticed to go into drop. And
20 typically, drop, around the country, when it's
21 implemented, especially with police and fire, have
22 pretty high, 70 to 90 percent kind of range of
23 utilization rates. So I don’t think we’ve overcooked
24 anything in anticipating a fairly modest lengthening of
25 the average career due to drop.

1 And then—
2 MR. POULIN: John, this is Claude. I
3 have a question.
4 MR. GARRETT: Sure, Claude.
5 MR. POULIN: We have the numbers here in
6 the column on the right, which is the employer
7 contribution rate. Now, for the general employees with
8 social security as well as police and fire with social
9 security, the drop was approximately four percent. And
10 whereas for employees without social security and
11 police and fire without social security, it was - the
12 drop was about five percent for both of them.
13 Any reason for this, or is it just a
14 fluke?
15 MR. GARRETT: No, it's not. So, you
16 know, the key to us, as far as the provisional changes,
17 would be how much of the normal costs change. And the
18 difference between general employees with social
19 security and without social security, the normal costs
20 drop was 0.06 percent difference. So benefit-wise,
21 structure-wise, it really isn't that big of a change.
22 For police and fire, it was 13 basis points different.
23 So what's driving that is the
24 favorability of lengthening the amortization period to
25 those two groups. So it's really their liability

losses were larger along the way, so their UALs were larger. So the advantage of going to a 17-year amortization, going from 17 to 25, provided them more savings than it did for the other two plans.

So again, you know, the biggest losses along the way have been accumulated by the two without social security plans. So it's really their savings is a little bit larger, driven primarily by the reduction to the amortization cost, more so than the normal cost. So it's not a benefit - it's not necessarily a benefit change. It's really the amortization change for them.

Does that make sense, Claude?

MR. POULIN: Yes. Thank you, John.

MR. GARRETT: Yes, sir.

MR. RYOR: This is Tim.

MR. GARRETT: Hey, Tim.

MR. RYOR: Hey. I don't know if this is possible. Maybe late in the game, but going forward, if I could make a request. Like when we have things like this, could you - we could get like a, say, one-off page display that shows here where we were, here's the impact of the re-amortization, here's the impact of the COLA, and then here's the impact of the drop, just so we could like see them isolated so we're not like doing all this math on the fly, you know?

1 MR. GARRETT: Right. Yeah, you know, so
2 typically what we'd produce for the interim would be
3 what's called an actuarial impact statement.
4 MR. RYOR: Right.
5 MR. GARRETT: And I know you're familiar
6 with it. It just shows before and after—
7 MR. RYOR: Yeah, yeah. Yep. Yes.
8 MR. GARRETT: --and, you know
9 (inaudible).
10 MR. RYOR: I think it's required in
11 Connecticut; right? So—
12 MR. GARRETT: Well, so yeah. I mean, the
13 provisions though, what was produced was savings in
14 dollars, I think, was—
15 MR. RYOR: Okay. Yeah. So it wouldn't
16 be - translate to the—
17 MR. GARRETT: Yeah.
18 MR. RYOR: --the percentages.
19 MR. GARRETT: Exactly. So I think the
20 information that was used is the actuarial impact to
21 the bill was really the dollar change. And it was
22 projected over, you know, the 30-year.
23 MR. RYOR: And it wouldn't look like
24 this.
25 MR. GARRETT: It wouldn't.

1 MR. RYOR: It would just be (inaudible).
2 I like the - the graph was great, but if we could see
3 that graph like kind of - just through the first year,
4 obviously not the whole projections, but just the
5 various levels kind of broken out by these four groups,
6 the with and without. And just kind of, to the heart
7 of Claude's question, then you could see, oh, all
8 right, COLA drop, it was heavier in this group versus
9 that group. But here, with it all blended together, it
10 didn't - it wasn't—
11 MR. GARRETT: Right.
12 MR. RYOR: --it wasn't as obvious what
13 was - what was moving the needle. I mean, you could
14 kind of infer it.
15 MR. GARRETT: Right.
16 MR. RYOR: But it would be nice to see it
17 all in one place just so - so we're not doing our own
18 spreadsheets.
19 MR. GARRETT: Yeah. You know, why don't
20 we produce something. It'll kind of be in hindsight of
21 this meeting, but I think what it will show—
22 MR. RYOR: Yeah. No, I know our
23 timeframe for this is it's kind of water under the
24 bridge at this point. But going forward, that's a
25 helpful kind of decision—

1 MR. GARRETT: Yep.
2 MR. RYOR: --just kind of to see it at a
3 glance to get your head around it.
4 And the other question I had was related
5 to the COLA. And I might not have understood it in the
6 way it was written because it's – you know, the whole
7 60 and the 75 percent, and now it's, you know, the
8 floor is going to zero, and it doesn't – well, one,
9 confirm it. So it's going to zero; it's not – there's
10 no - there won't be ever a negative. So if there's
11 deflation, it is a floor of zero.
12 MR. GARRETT: Right.
13 MR. RYOR: Some of the wording says, no
14 floor, which isn't technically accurate. There is a
15 floor; it's zero percent.
16 MR. GARRETT: You're right.
17 MR. RYOR: And then – but I was a little
18 confused on – different versions I found were worded
19 differently. It almost seemed like the COLA, you know,
20 if I'm understanding it right, under two percent, they
21 get whatever CPIW is.
22 MR. GARRETT: Correct.
23 MR. RYOR: But then when you go to like –
24 say it's – say CPIW is three, are they at 1.8? Or is
25 it—

1 MR. GARRETT: No, it would be 60 percent
2 of that. So 1.8 - and so the actual CPI of - it would
3 be two in that case. So—
4 MR. RYOR: Oh, okay. So two is - two
5 ends up being a floor.
6 MR. GARRETT: Right.
7 MR. RYOR: So it is still—
8 MR. GARRETT: Yeah.
9 MR. RYOR: Because, I mean, some of the
10 wording said, well, if it's under two, then you do this
11 thing. But if it's over two, you do this other thing,
12 and that other thing gets you less than two, and maybe
13 I wasn't looking at the—
14 MR. GARRETT: Yeah.
15 MR. RYOR: --maybe there's other longer-
16 worded versions that make it clear.
17 MR. GARRETT: Yeah, so—
18 MR. RYOR: But it never seemed like - but
19 it's not additive. It's not like two percent plus 60
20 percent of the excess over two.
21 MR. GARRETT: No, no. So, I mean, it
22 wasn't really how it actually happens. So when it's
23 zero to two, it is CPI.
24 MR. RYOR: Yeah.
25 MR. GARRETT: So just consider that like

1 a sloped line, you know, of (inaudible).
2 MR. RYOR: Mm-hmm.
3 MR. GARRETT: Then once it hits two, it
4 stays at two until the CPI exceeds, what, 3.3 percent.
5 And then once the CPI exceeds 3.3 percent, then 60
6 percent of that CPI known number is used—
7 MR. RYOR: Okay.
8 MR. GARRETT: --up until—
9 MR. RYOR: And then it goes to the 75.
10 Okay.
11 MR. GARRETT: Correct. Correct.
12 MR. RYOR: That's kind of - well, I had
13 two versions that one did it that way, which I was
14 pretty sure was the right answer, but another was an
15 additive. I was fairly confident that 1.8 was never
16 going to be the right answer because I couldn't see
17 that getting—
18 MR. GARRETT: Well, it was nice that you
19 said you only had two versions, Tim. Because I bet you
20 probably had four versions.
21 MR. RYOR: Yeah, yeah, yeah. No, there
22 were - so, all right. So that's good to get clarity on
23 that. But where I was headed with all of that was how
24 you came up with the assumption.
25 MR. GARRETT: Right.

1 MR. RYOR: Because I was a little
2 surprised that you're only using two, which, agreeable
3 that, you know, some of the time, it's going to be less
4 than two. If CPI is less than two, the actual will be
5 less.
6 MR. GARRETT: Right. Right.
7 MR. RYOR: But it seems like, at least
8 from my historical analysis, that over, you know, I
9 think it's 110-year history of the CPIW, on average,
10 using that math, you get something not too far off of
11 cue, but definitely higher. It's asymptotic on the
12 side of above two, not below two. So I was wondering
13 what the backup was for picking an assumption of two
14 percent going forward was.
15 MR. GARRETT: Right. Yeah, so actually,
16 what we see with this is that that last step, when the
17 floor goes to zero and the CPI up to two percent, based
18 on our assumption right now, you know, we're assuming
19 the CPI is two-and-a-half percent. That might change
20 with the economic study, although I have seen the
21 investment guys' expectation for inflation over the
22 next 20 years is 2.1 percent. So I don't know if - you
23 know, we haven't really finalized what our economic
24 assumptions are.
25 But let's assume it stays at two-and-a-

1 half percent. We built a model of 1,000, you know,
2 returns from a distribution of CPI at two-and-a-half
3 percent expected rate and a two-and-a-half percent
4 standard deviation. And then we applied the COLA
5 provisions to all those random returns. And what we
6 got was like a median expectation of around 1.9. So we
7 felt okay using two percent.
8 MR. RYOR: Okay. All right. So you
9 asked the question. You weren't looking – you weren't
10 back-testing based on historical data.
11 MR. GARRETT: No.
12 MR. RYOR: But you were taking capital
13 market assumptions for CPI—
14 MR. GARRETT: Yeah.
15 MR. RYOR: --going forward, and your
16 stochastic model was producing something close enough
17 to two to call it two.
18 MR. GARRETT: Yeah. Yeah.
19 MR. RYOR: Okay. Well, that answered the
20 question.
21 MR. GARRETT: Okay, good. And, you know,
22 that, we're going to revisit that with the experience
23 study too, which I think we'd like to preview.
24 MR. RYOR: Oh, you covered my follow-up
25 question. So – so—

1 MR. GARRETT: And, you know, we'd like to
2 preview that with you and Claude as soon as we have
3 that ready. I would hope it's in the next couple of
4 weeks.
5 MR. RYOR: Yeah. Yeah.
6 MR. GARRETT: But the other point too,
7 with all these changes - well, is everybody okay? Do
8 you want me to go through the summary, the changes? I
9 think it was back on the front part of this valuation
10 report. And we kind of hit the-
11 One thing I haven't discussed is that
12 there was an additional incentive there for people to
13 extend their active service. If drop is not an
14 incentive for them, then there's an additional
15 incentive that they get roughly a 10-percent increase
16 in the multiplier for years of service earned after
17 2025, if they meet criteria; they already have extended
18 their career.
19 So there's an additional incentive there
20 that really, you know, that was added kind of after the
21 fact of drop. And in our effect, it's really kind of
22 lessening, you know, the enticement of drop. So it
23 really didn't have much of a difference just because
24 we're saying that now, you know, those people who would
25 rather have a higher multiplier for the years of

1 service, you know, after reaching that point, are now
2 not going to like drop, which it doesn't matter to the
3 plan in total because in both cases, we've extended
4 people's careers, received the additional funding for
5 that longer period of time as well.
6 Some of the features of the drop I didn't
7 discuss either is this idea that, you know, as an
8 enticement, once people are eligible to go into drop,
9 if they go into drop, their member contribution rate is
10 cut in half for the first two years. And after they
11 complete two years, then their member contribution rate
12 ceases.
13 And that there's an interest feature to
14 the drop that for, at the end of their second completed
15 year in drop, they would receive interest credit on
16 their account balance that was at the beginning of the
17 year. So their first year of accumulated drop balance
18 would get interest at the second year. And then, at
19 the third year, their accumulation for the first two
20 years would get interest.
21 And so one of the tasks we're going to
22 have and also include in the experience study would be
23 what rate of interest, what should be that index. And
24 we've kind of come up with three suggestions. But
25 we're going have a discussion in our experience study

1 and then let the actuarial subcommittee, you know, kind
2 of go from there. You might have alternatives.
3 But, you know, in our mind, you know, we
4 could set a rate. We could just say four percent. We
5 could set it based on, say, like a five-year treasury.
6 It does fluctuate. And right now, that number would
7 probably be a little, you know, higher than some of the
8 other indexes we could use. And, you know, the third
9 would be - the third suggestion would be to kind of tie
10 it to the municipal bond rate used in GASB for
11 financing the liability and, again, that's a 20-year
12 high grade municipal bond and index.
13 So all those are pretty – you know,
14 pretty decent choices for that. But the key is that
15 the provisions don't allow more than four percent
16 credited to the drop account, no matter what that index
17 would be. So it would have a ceiling no matter what
18 index is selected. So that's something that's also
19 going to be included in the experience study, is a
20 discussion of the drop credit interest rate index.
21 MR. POULIN: John, this is Claude.
22 MR. GARRETT: Yes.
23 MR. POULIN: On one hand, there would be
24 the interest increase. But on the other hand, the drop
25 – while he is on drop, the employee would not accrue

1 COLA; right? So that the interest would be in lieu of
2 COLA—
3 MR. GARRETT: That's right.
4 MR. POULIN: --it is likely to be
5 superior to the COLA that you would have received. So
6 that they wouldn't say, well, we lose the COLA. There
7 is a quid pro quo; is that correct?
8 MR. GARRETT: There absolutely is, you
9 know, to the plan liability-wise because that doesn't
10 start the compounding of the COLA for the benefit.
11 There's actually a little bit of a liability lowering
12 for the plan by doing it that way. But to the member,
13 they are getting probably a higher rate of interest on
14 their drop account than they would have gotten in a
15 COLA in dollars.
16 But again, liability-wise, since the COLA
17 doesn't start compounding until they exit drop, there's
18 actually an advantage to the plan on the liability
19 side. In dollars, the members are probably going to be
20 fairly indifferent to whether they got their COLA
21 credited or not.
22 So during—
23 MR. POULIN: If the employee - this is
24 Claude again - elects a different retirement option,
25 before or after the drop, the election - let's say that

1 he is married. Would he elect the 50-percent option or
2 whatever percent option before the drop or when he
3 leaves drop?
4 MR. GARRETT: So as he enters drop. So
5 it's as if he elected to retire, except he's not going
6 to receive the payments. They're going to go into the
7 drop account. So he selects his joint survivor annuity
8 at that point. That way, if he dies during the drop,
9 then his election has already been made, so there's no
10 - you know, there's no issue with it.
11 So they make their selection going into
12 drop. The calculation is done just as a retirement
13 calculation is done today. That determines the amount
14 that's going to be credited in a notional account
15 during drop. And then that's also the basis for the
16 benefit to be paid in the event of their death during
17 drop.
18 Well, so—
19 MR. POULIN: If it were - sorry, John.
20 MR. GARRETT: I'm sorry. Claude.
21 MR. POULIN: Let's assume that he chose
22 the 50-percent survivor benefit option to his current
23 spouse. Let's assume that - we have these cases
24 recently where he's in drop and then he dies, or his
25 spouse dies and he remarries, but before the actual

1 retirement at the end of drop. So what would happen in
2 this case—
3 MR. GARRETT: For - for—
4 MR. POULIN: --if the spouse, when he
5 actually retires and leaves the work force, it's not
6 the same spouse that was there four or five years ago?
7 MR. GARRETT: Right. So those
8 implications to his benefit are the same as if he had
9 retired. So for all purposes of the plan, entering
10 drop, a person is treated as retired, except in two
11 cases. And one is if he dies during the drop, that
12 person will get interest credited to the date of their
13 death. So not - they won't have to wait for the
14 anniversary. They'll get a partial year of interest up
15 to the date of their death.
16 And the other instance is if they become
17 disabled, the member should have an election on whether
18 they want the plan's otherwise disability benefit as if
19 they had not elected to drop, or they can retire as of
20 that date and take their drop account.
21 So that's the only two instances.
22 Everything else, they should be treated just as if they
23 are a retiree. So whatever happens to their selection
24 of their contingent annuitant, whatever happens, all
25 that should be the same as if they had elected to

1 retire as of drop entry.
2 MR. POULIN: Yeah. So the actual date of
3 retirement for a drop employee/retiree is the time he
4 commences drop?
5 MR. GARRETT: Yeah, but—
6 MR. POULIN: (Inaudible) Let's say that
7 during the four-year period, he has a new wife, and he
8 actually retires after four years. Would the new - the
9 new wife would then get the benefit, because his
10 election that was made when he commenced drop was the
11 wife who existed at the time of the beginning of drop?
12 MR. GARRETT: Right.
13 MR. POULIN: So then the plan would have
14 to be amended in that respect so that - because at the
15 present time, the actual date of retirement controls
16 the option, the election.
17 MR. HERRINGTON: But I think in this
18 case, the actual date of retirement is the date that
19 the person enters the drop, because that's the date
20 that we're paying retirement benefits and that's when
21 the accrual of all retirement credit ends. So that is
22 the retirement date. But what we're talking about, the
23 second date, is the date that they actually collect the
24 money. But that's not a new retirement date.
25 MR. POULIN: Oh, thanks, John. Okay.

1 MR. GARRETT: Yeah. All right. Let's
2 see. I think I had just one more - let's go over to
3 Page 24. Just to show that really again, liability-
4 wise, the only change here to the gain/loss - of
5 course, you know, the plan provision changes is noted
6 on Item 7 now. So liability-wise, it was a 96-million-
7 dollar pretty minor change to the liability. You know,
8 a lot of the changes are really out into the future in
9 the normal costs.
10 So it wasn't a wholesale change in what
11 we are carrying for a liability, 96 million dollars
12 less, but still, you know, when you see the long-term
13 projected, the savings are - represent a lot more than
14 that. So—
15 MR. RYOR: This is Tim Ryor. So related
16 to that point, I'll just add a comment for the record.
17 You know, some of the writeups talked about, you know,
18 doing things to reduce the cost of the plan, which, you
19 know, it's important to point out that the change in
20 amortization didn't change the cost of the plan, it
21 just moved around how it's being paid for.
22 Now, some of these other things, by
23 virtue of the negative 96 million here, did actually,
24 you know, reduce the estimated—
25 MR. GARRETT: Right.

1 MR. RYOR: --with important point there,
2 estimated, because who knows what actual experience
3 will show, but I just wanted to be, as the management
4 actually on record, saying that costs have not
5 necessarily been changed, but are being paid over a
6 different payment period.
7 MR. GARRETT: I agree a hundred percent.
8 MR. POULIN: I have a general question,
9 John. In the memorandum that we received, on Page 1,
10 it says that the savings over the next 30 years will be
11 740 million dollars. And has there been a revised
12 calculation? Because apparently, the house member, the
13 delegate, Maria Horn, she said in her presentation that
14 the savings would amount to 830 million instead of 740.
15 MR. GARRETT: Yeah.
16 MR. POULIN: Is this (inaudible)?
17 MR. GARRETT: That's some of those last-
18 minute changes. So that difference - that chart that
19 we showed up front, that was a chart that tied into
20 about an 830-million-dollar overall savings over the
21 next 31 years of projection. And there was a change
22 which added the graded COLA, the floor, which put some
23 costs back in. And so, primarily, it was that and the
24 incentive that added was, you know, a little bit - a
25 tiny fraction.

1 But primarily, the savings of 740 is kind
2 of what we showed as far as the impact to projected
3 costs based on the final bill, including that change to
4 the - including the graded COLA. And we also added a
5 30-year eligibility for drop for police and fire so
6 that they could go into drop at 30 years of eligibility
7 instead of waiting to age 55.
8 MR. POULIN: Thank you.
9 MR. RYOR: So this is Tim again. So, you
10 know, obviously, this is - the 96 million here is, you
11 know, accrued liability. So is the delta in present
12 value to future benefits—
13 MR. GARRETT: It depends on the value of
14 future normal costs, yeah. Yeah, that's - yeah.
15 MR. RYOR: Well, yeah. No, no. I mean -
16 yeah, that'll be that, plus the 96 million.
17 MR. GARRETT: Right.
18 MR. RYOR: So the present - the change in
19 the present value of future normal costs is in the
20 hundreds of millions?
21 MR. GARRETT: It is, yeah.
22 MR. RYOR: Okay.
23 MR. GARRETT: So again, I mean, the
24 average decrease to the employers' share of the normal
25 costs, 1.25 to 1.4 percent reduction in their annual

1 expected normal cost rates.

2 MR. RYOR: Because what was the time

3 period that the - whether it's the 830 or the 740

4 million in, quote, savings?

5 MR. GARRETT: Yeah, it actually turned

6 out to be 31 years of the projection.

7 MR. RYOR: But is it apples to apples, so

8 we're not really factoring in a, quote, savings related

9 to the amortization change?

10 MR. GARRETT: So it actually shows - you

11 know, it has savings for the first 17 years due to the

12 amortization change, and it has additional costs that

13 offset, right, for the next eight years until we get to

14 the 25 years. Then it's just - it's normal costs from

15 that point out.

16 MR. RYOR: So does that net to a positive

17 number?

18 MR. GARRETT: Well, that nets to 740

19 million dollars of savings. So there's actually more—

20 MR. RYOR: No, no. Like if you - yeah,

21 if you - yeah. So all right. I think you're headed to

22 where I was headed. The savings - the - quote, the

23 true savings related to the plan provision changes is

24 actually a bigger number because the amortization is a

25 net loss because we're kicking - you know, we're

1 spreading payments down, and the payments you pay on
2 the back end are with interest. So they're, in
3 absolute dollar terms, bigger.
4 MR. GARRETT: Yeah.
5 MR. RYOR: So when you sum all of that
6 over whatever period of time, the negatives are bigger
7 than the positives.
8 MR. GARRETT: Right.
9 MR. RYOR: So, okay. All right.
10 MR. GARRETT: Yep. Yeah. I mean, if we
11 looked at the savings just through the 17 years, you
12 know, it would be, you know, well over a billion. And
13 it's partially offset by the additional amortization
14 cost for extending the amortization period from 17 to
15 25, yeah.
16 MR. RYOR: Gotcha. Gotcha. That's where
17 I was headed, is to me—
18 MR. GARRETT: Yeah.
19 MR. RYOR: --any short-term look
20 shouldn't factor in the amortization because that's
21 just a payment timing thing.
22 MR. GARRETT: Yeah.
23 MR. RYOR: But not a—
24 MR. GARRETT: That's right. I agree.
25 Yeah, so, you know, I think, you know, we

will kind of split out as much as we can, Tim. Things kind of got kind of wild and hairy there towards the end of the negotiation process, and we were just trying to stay in the saddle to stay up with everything. And, you know, it takes time to run open-group projections to get the answers out, and a lot of – a lot of – a lot of, uh – a lot of excitement there. But we will go back and we'll pull out - you know, for these normal cost changes. And this valuation was being driven by - the COLA was being driven by the drop, was being driven by—

And I think what you'll see is primarily the drop in the normal costs rates are – I would suggest or I would expect that it's primarily due to the COLA changes, that the incidence of cash flow – you know, because when you consider a drop, we do change the cash flow as far as the incidence; right? We delay when we're going to make the payment, but that payment, when it is made, starts with, you know, the accumulation of what was going to be paid already anyway.

So as far as, you know, the impact to the liability of the drop, I don't think we certainly have over-anticipated any kind of dramatic savings due to that. What we do hope is that, you know, by extending

1 out the careers, we just have more time to actually
2 accumulate the money using now a lower normal cost to
3 accumulate it. So we have a lowered normal cost that's
4 expected to be paid in over a little bit longer period
5 of time.
6 You know, and when you think about the
7 drops that don't - that haven't worked and have since
8 either closed or - you know, those drops were super,
9 super excessive. They would credit a hundred percent
10 of the member's contribution. They'd get COLAs. They
11 would turn off all the contributions from
12 employer/employee. They would credit a hundred percent
13 of the pension benefit. They'd give COLAs. They'd
14 sometimes credit investment rates of return; they were
15 actually realized.
16 You know, so I think we've kind of
17 sidestepped a lot of the ugliness that drop experience
18 around the country, you know, we can certainly easily
19 pick from. I don't anticipate this drop, as we have
20 valued it again, only to stay (inaudible) a 33 percent
21 kind of utilization rate. I don't anticipate that
22 we're going to generate, you know, a future newspaper
23 article about how drop has killed MERS. So—
24 Although, you know, that newspaper
25 article might exist, but, I mean, I don't know if it's

1 going to be produced by an actuary or there's going to
2 be any evidence of that in the valuation report.
3 CHAIRMAN ADOMEIT: So is there any more
4 discussion? So are we going—
5 MR. POULIN: (Inaudible)
6 CHAIRMAN ADOMEIT: (Inaudible) going to
7 make all these changes?
8 MR. POULIN: I'm sorry. This is Claude.
9 I have a general question. Is it possible that the
10 fact that it will not be - that this program will not
11 be implemented for the next two years, before the next
12 two years, that there might be a stampede before July
13 1, 2025 attributable to the fact that people are - they
14 seem to be blinded by the COLA being delayed one year?
15 MR. GARRETT: Right.
16 MR. POULIN: And they forget about the
17 improved multiplier; they may forget about the drop,
18 the increased benefits to the plan.
19 MR. GARRETT: Right.
20 MR. POULIN: Is this a possibility, or am
21 I just being Cassandra? (Inaudible)
22 MR. GARRETT: It is a possibility, but I
23 think it certainly has been—
24 MR. POULIN: Okay.
25 MR. GARRETT: --you know, lessened by the

1 fact that - the grading of the floor COLA change, so
2 it's not a wholesale change from, you know, the current
3 two-and-a-half percent COLA to a potential zero percent
4 COLA. That graded floor, I think, is going to kind of
5 ease that in a lot of the future retirees' minds that
6 they don't have to rush through the door in order to
7 lock in a two-and-a-half percent COLA. You know, a two
8 percent lock-in is probably good enough and they get a
9 year in drop.
10 So really, I mean, the whole package is
11 to – you know, the current provisions are shown to be
12 unaffordable, and this is kind of how it was set up
13 through the process with the comptroller and Charlotte
14 and John. It was laid out as, this is what the future
15 looks like, and it's pretty – you know, it's pretty
16 unaffordable for the employers to maintain this. So
17 changes have to be made.
18 And so I think, in all cases, these
19 changes were considered to be, okay, well, you know,
20 here's a cutback, but then, here's a nice way to, you
21 know, if you have to extend your career, extend it
22 under drop and you get a lump sum. You know, you could
23 leave with three times an annual pension payment.
24 So again, I think the way the process
25 worked was, it was changes have to be made, but here's

1 some nice ways to offset some of the impact to the
2 individuals for those changes.
3 So I don't think - I think with that
4 latest change to grading the floor of the COLA, I don't
5 think we're going to see what we saw in MERS' case with
6 the 2022 change to their COLA.
7 MR. HERRINGTON: Right, and—
8 MR. POULIN: (Inaudible)
9 MR. HERRINGTON: John Herrington. And I
10 probably shouldn't put this on the record, but to the
11 extent that there's a mass exit, that means that we
12 haven't done a great job of communicating these changes
13 and educating the population. Because what I have
14 found - what I found during the 2022 surge was that, to
15 the extent that we could talk to people and walk them
16 through different scenarios in terms of what their
17 benefit would be if they retired prior to the changes
18 versus if they retired, you know, three or five years
19 down the line when they were planning to retire
20 anyways, in many of those cases, the person would be
21 better off by just sticking to their initial plan.
22 And what we need to do over the next two
23 years is to build tools and to educate as many people
24 as possible so that they fully understand the
25 consequences of the decisions and, you know, they're

1 acting on actual data as opposed to rumor and
2 conjecture.
3 MR. GARRETT: You know, and there's one
4 other feature that I didn't discuss - and this is John.
5 But that drop, you know, that - so say they stay in
6 drop for three years and they accumulate, you know,
7 more than three times their initial annual payment in a
8 lump sum. That lump sum is a fully eligible rollover
9 distribution.
10 So they can move it to - however they
11 want. You know, they can go buy a house, cars, boats,
12 or roll it to an IRA or, you know, some other plan that
13 might be eligible to receive a rollover. And it just
14 adds to their retirement benefits. So they don't have
15 to take it as a fully taxable distribution, is what I'm
16 saying.
17 MR. POULIN: This is Claude. This
18 comment is not related to the memorandum, but to the
19 house bill. I don't think I got the final house bill
20 online. I have here something that's called - it was
21 supposed to have been passed on June 7th, a raised bill,
22 number 6930. And it says that this is more about
23 government structures and municipal retirement plans
24 than it is about the changes that we talked about.
25 And it says on Page 1 that all

1 municipalities were allowed to tell the state wherein
2 the plan is a defined benefit, a defined contribution
3 plan. Then the second, this says, Section 1-A, capital
4 B, the funded rate issue and such.
5 Well, now, there might be some confusion
6 from municipalities that don't have defined benefit
7 plans, because by definition, a defined contribution
8 plan has a funded ratio of one hundred percent; isn't
9 it? So that this would only apply to a plan like MERS.
10 Isn't it? So that there wouldn't be - the funded ratio
11 of such plan would only be if there is a defined
12 benefit plan. Is that correct?
13 MR. HERRINGTON: That's correct. So that
14 would, if applicable - correct, right. There should be
15 a parenthetical that says, if applicable. This is just
16 something that Charlotte and I will address. We have a
17 meeting next week with OPM. So OPM already collects a
18 lot of this information, and they collect a lot of this
19 information, I believe, largely from the towns that
20 offer 403(b) plans, and perhaps also 457 plans.
21 So it's tailored to the DC world. But
22 that's something that we can address with OPM and the
23 communications that go out to the towns in terms of the
24 actual data that we would be collecting.
25 And, Charlotte, did you have anything

1 more to offer on that point?
2 MR. MOLLER: Nope, nope. I think you got
3 it, John. Thanks.
4 MR. HERRINGTON: All right, thanks.
5 MR. POULIN: Thanks, John.
6 CHAIRMAN ADOMEIT: Is there anything
7 further?
8 Now, do we need some sort of motion
9 coming out of this meeting, a recommendation to the
10 full commission?
11 MR. GARRETT: I would think so, because
12 the anticipation is that this revision, the reform,
13 impacts the '24 fiscal year contributions. So I
14 believe the adoption by the commission would be
15 necessary.
16 CHAIRMAN ADOMEIT: Okay. How would we
17 phrase the motion?
18 MR. GARRETT: I would say that, you know,
19 you accept the 2022 revised valuation that includes the
20 package of reforms as signed by the governor.
21 CHAIRMAN ADOMEIT: Okay. A motion to
22 accept the 2022 - what's that word, valuation?
23 MR. GARRETT: Revised actuarial
24 valuation.
25 CHAIRMAN ADOMEIT: Revised - revise my

1 handwriting - including the package of reforms as
2 signed by the governor.
3 So we need such a motion.
4 MR. BAILEY: Mr. Chairman, this is
5 Michael Bailey. I'll make that motion.
6 MR. RYOR: This is Tim Ryor. I'll
7 second.
8 CHAIRMAN ADOMEIT: Okay. Any further
9 discussion? Hearing none, all in favor, say aye or
10 raise your hand. Could you take down the—
11 MR. GARRETT: Yes, I will right now.
12 CHAIRMAN ADOMEIT: Yeah, so we can see
13 everybody. All in favor, say aye or raise your hand.
14 Opposed, nay or raise your hand. Unanimous; the ayes
15 have it.
16 Okay. We will send that over to the full
17 commission tomorrow.
18 MR. GARRETT: And we'll be available for
19 that meeting as well. And I apologize, but I am late
20 for the teachers' meeting now. So thanks.
21 CHAIRMAN ADOMEIT: Thank you, everyone.
22 MR. HERRINGTON: Thank you.
23 MS. CIESLAK: Peter, this is Cindy
24 Cieslak.
25 CHAIRMAN ADOMEIT: Yeah, we need a motion

1 to adjourn. Yeah. Okay.
2 MR. RYOR: This is Tim Ryor. I move to
3 adjourn.
4 CHAIRMAN ADOMEIT: Okay.
5 MR. POULIN: Second.
6 CHAIRMAN ADOMEIT: All right. All in
7 favor, say aye or raise your hand. Yeah, the ayes have
8 it; unanimous.
9 Thank you, Cindy.
10 (Adjourned at 3:24 p.m.)
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I, Karin A. Empson, do hereby certify that the preceding pages are an accurate transcription of the Connecticut State Employees Retirement Commission, Special Actuarial Subcommittee Meeting held electronically via Zoom, conducted at 2:33 p.m. on June 21, 2023.

Karin A. Empson

Karin A. Empson

07/19/2023

Date