STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

ACTUARIAL SUBCOMMITTEE

DECEMBER 20, 2023 MEETING
HELD VIA ZOOM
CONVENED AT 3:04 p.m.

Present:

Peter Adomeit, Chairman
Michael Bailey, Trustee
Karen Nolen, Trustee
Claude Poulin, Actuarial Trustee
Tim Ryor, Actuarial Trustee
Ted Wright, Chief Investment Officer, Office of the Treasurer, Ex-Officio
John Garrett, Cavanaugh Macdonald
John Herrington, Retirement Services Division Director
Robert Helfand, Retirement Services Division
Jean Reid, Retirement Services Division
Ben Sedrowski, Retirement Services Division
Megan Piwonski, Retirement Services Division
Cindy Cieslak, Rose Kallor LLP

TRANSCRIPTIONIST: Karin A. Empson

1 (Proceedings commenced at 3:04 p.m.)
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5 CHAIRMAN ADOMEIT: All right. Good
6 morning. Peter Adomeit speaking. This is a virtual
7 meeting of the Actuarial Subcommittee of the State
8 Employees Retirement Commission using Zoom technology.
9 Cindy, do you have the attendance,
10 please?
11 MS. CIESLAK: Yes. This is Cindy
12 Cieslak. Present today, we have Chairman Peter
13 Adomeit; Trustee Michael Bailey; Trustee Karen Nolen;
14 Actuarial Trustee Claude Poulin; Actuarial Trustee Tim
15 Ryor; Chief Investment Officer, Office of the
16 Treasurer, and Ex Officio Member of the Retirement
17 Commission, Ted Wright. We have the following
18 individuals from the Retirement Services Division, John
19 Herrington, Robert Helfand, Ben Sedrowski, and Megan
20 Piwonski, and Cindy Cieslak from Rose Kallor, General
21 Counsel to the Retirement Commission, and John Garrett
22 from Cavanaugh Macdonald.
23 CHAIRMAN ADOMEIT: Okay, thank you,
24 Cindy.
25 MR. GARRETT: (Inaudible) Mr. Chairman.

1 How are you doing?
2 MS. CIESLAK: My apologies, everyone.
3 This is Cindy Cieslak. I meant to mute myself, but
4 instead stopped the recording. There was a one-second
5 delay in the recording.
6 CHAIRMAN ADOMEIT: All right.
7 MS. CIESLAK: There is not going to be
8 any - no information was missed.
9 CHAIRMAN ADOMEIT: All right. Mr.
10 Garrett, you have the floor.
11 MR. GARRETT: And I'm going to - oh,
12 Cindy, could you give me the screensharing privileges?
13 All right, let's see. Can everybody see that? Let me
14 (inaudible) get rid of this stuff over here. All
15 right, is that better? I can zoom in maybe a little
16 bit more. Or not.
17 CHAIRMAN ADOMEIT: Well, the bottom of
18 the report, John, is obscured.
19 MR. GARRETT: Yes.
20 CHAIRMAN ADOMEIT: There, it disappeared.
21 MR. GARRETT: All right. Let's see. Hm,
22 it's not letting me scroll it.
23 So what we have today is the Connecticut
24 State Employees Retirement System's valuations for the
25 year ending June 30, 2023. And also the Judges, Family

1 Support Magistrates, and Compensation Commissioners'
2 valuation report for the same period. And I'm starting
3 here with the – yeah, mine's running awfully slow for
4 some reason. Every time I hit the down button, it kind
5 of lags here.
6 But starting over here on Page 1, we have
7 really the comparative results comparing (inaudible)
8 State Employees Retirement System. So we saw an
9 increase in active membership, just about 600, a little
10 over one percent. Annual compensation, however, went
11 up quite a bit. So there were a lot of pay raises
12 involved in last year. We did kind of go back and
13 forth on the salary items this year in that it was a
14 year that there were 27 pay periods for those that were
15 paid bimonthly. And there was also a lot of other
16 additional one-time compensation that we wanted to
17 include in the historical salary, but not necessarily
18 in the projection going forward of salary for the
19 valuations.
20 We see the retirees went up kind of more
21 at a normal pace. And then, of course, the cost-of-
22 living adjustment increased their allowances. We did
23 have a higher-than-expected cost-of-living adjustment
24 for retirees. The assets, the market value performed
25 quite well. Actuarial value went from just under 20

1 billion, 19.7 billion, up to just under 22 billion.
2 The market value, which includes just over a billion
3 dollars, the amount transferred was one-billion-forty-
4 six-and-a-half million. We discount for the valuation
5 purposes because it was received in October, I believe,
6 and we discount that back based on a 6.9-percent
7 discount rate. So we're carrying about one-billion-28-
8 million in receivable contributions included in this
9 market value.
10 So the unfunded liability went down this
11 year from 20.9 down to 20.1. The funded ratio
12 therefore improved 48.5 percent up to 52 percent. So
13 John Herrington asked me to go back to, you know, as
14 far back as we have some reliable projections that we
15 performed. We're going back to 2016 and the projection
16 we did before the SEBAC 2017 agreements went into
17 place, and I think in that valuation, the funded ratio
18 was 35.5 percent. So quite an improvement in funded
19 ratio since 2016, much of that, of course, is the
20 additional monies that have been coming in, but
21 certainly a lot of it has been in the policies that
22 have, you know, changed through that period of time.
23 We determined the actuarily determined
24 employer contribution rating in the bottom section of
25 that table. The '23 valuation sets forth a fiscal year

1 '25 contribution, and we get that to be just over two
2 billion dollars less than the prior year. So it's gone
3 down about 27 million dollars in this period of time.
4 And then that's shown as a percent of payroll, below
5 that, and that's gone down significantly, almost five-
6 and-a-half percent, a little over five-and-a-half
7 percent.
8 Going to the components of the valuation
9 toward the back here, it was a pretty heavy loss year
10 again driven primarily by the increases in salary. Let
11 me see if I can get there quicker if I just go to the
12 end then come back from there. I don't know what's
13 lagging here, but it's obviously - it's an issue. I do
14 apologize. I don't know if my laptop is updating or
15 whatever, but I even have brand-new wi-fi here at the
16 house.
17 So I wanted to jump back to the
18 development of the assets. Well, just off the top of
19 my head, the assets, the market return was pretty close
20 to nine percent. We measured it at like 8.95 percent,
21 I believe. The Treasurer's Office shows a return for
22 the period ending on June 30 of just over nine percent.
23 Of course, we're always going to be a little different
24 because actuaries kind of take shortcuts in determining
25 that return. We assume all of the cashflow occurs in

1 the middle of the year, and of course, the Treasurer's
2 Office is going to be more precise with the time-
3 weighting of those inflows and outflows into the fund.
4 Get rid of that, see if we can just get
5 there the old-fashioned way. So when we had an 8.9
6 percent market return, you know, for the actuarial
7 smoothing process, we really kind of look at the
8 difference between that market value at the end of the
9 year and what we expect the actuarial value to be, and
10 we move 20 percent towards market. And it's a proxy
11 for a five-year smoothing method. You know, when we
12 recommended it, it really provided the smoothest of
13 results. In fact, it has the lowest standard deviation
14 of the other methods that we look at.
15 And so that produces about a 5.8, I
16 believe, percent return for – we're having a lot of fun
17 scrolling through with all these tables here; sorry for
18 wasting everyone's time with this. But let me just –
19 I'm trying to get to that asset disclosures here toward
20 the end. (Inaudible) It's moving so slow, I can't
21 tell if I passed it or not.
22 Well, here, let's dip in here to just the
23 gain/loss, which is really the next thing I'll talk
24 about. Once we get to the assets, then I'll kind of
25 rehash that. But so, again, as I said, we had a fairly

1 significant loss year here. These numbers are not by
2 themselves anything that we would say would be material
3 enough for us to say there's a problem, except for, you
4 know, the salary increase was the one that was, I
5 guess, the largest component of gain/loss this year, so
6 almost a 400-million-dollar loss due to the salary
7 increases that occurred. And we measured that the
8 average pay went up almost eight percent. So the
9 average pay in SERS now is over 90,000 dollars a year.
10 Another source of loss was age and
11 service retirements. Again, sometimes it's not just
12 the number of people who go out. We saw that a lot of
13 this was people who were actually retired late last
14 fiscal year, but showed up in this year's data that
15 were still showing as active last year when we did the
16 valuation. So we kind of picked up some, I guess,
17 folks that were kind of late fiscal year last year,
18 116-million, 117-million-dollar loss due to that.
19 The withdrawal was really one of the few
20 bright spots, withdrawal and post-retirement mortality.
21 Withdrawal was a tiny gain of seven million. Post-
22 retirement mortality has pretty consistently been a
23 gain, never substantial, but, you know, pretty modest
24 gains this year, about 117-million dollars. Cost-of-
25 living adjustments, the average increase was a little

1 bit larger than what we were expecting, 165-million-
2 dollar loss due to the cost of livings.
3 Other is really going to be a couple of
4 things. Some of it is timing of financial, you know,
5 transactions. But also, it's compounding of other
6 assumption changes. So for instance, when we look at
7 salary increases by themselves, we come up with a
8 number. And then when we look at age-of-service
9 retirements by themselves, we come up with a number.
10 But, you know, those two kind of compound on each other
11 in that when people retire both with - you know, had
12 higher pay and their final average pay, retirement
13 provides larger benefits, and then, of course, they
14 retire earlier than we expect, that's kind of a
15 compounded loss there. So the compounding of those
16 items will flow into that other as well.
17 And so the total loss during the year,
18 882 million dollars. We did receive an additional
19 contribution. We carried again the value of that,
20 subsequent to the valuation, a contribution of over a
21 billion dollars. And so that nets out a small gain for
22 the year of 150, pretty close to 150 million.
23 Let me try one more time to get to the
24 asset tab.
25 MR. POULIN: John, I had a question on

1 the last chart.

2 MR. GARRETT: Yes, sir. Yes, sir.

3 MR. POULIN: The pay increases are paid –

4 are based on a—

5 CHAIRMAN ADOMEIT: That's Claude Poulin

6 talking. Go ahead.

7 MR. POULIN: Yeah, this is Claude. The

8 396 million is based on 27 pay periods; isn't it?

9 MR. GARRETT: Twenty-six. Right.

10 MR. POULIN: Oh, 26. So it was adjusted.

11 MR. GARRETT: We did. For all those that

12 John and his folks were able to identify for us, those

13 people who were 26-pay-period folks, we were able to –

14 you know, we removed one extra pay period before we get

15 this. Yeah, but there were just some significant pay

16 increases last year. I think there was, you know, some

17 knowledge of that, before the end of the fiscal year,

18 that was going to happen.

19 But, yeah, before we washed out a lot of

20 the additional pay, this number was over two times

21 larger than what we ended up with here.

22 MR. POULIN: This is apples-to-apples

23 then. This is Claude again.

24 MR. GARRETT: Yes.

25 MR. HERRINGTON: Yeah. So some of the

1 other issues were there was—

2 MR. ADOMEIT: This is John Herrington.

3 MR. HERRINGTON: Yeah. There was

4 pandemic pay. And so that was another large

5 contributor to that, one-time pay that we kind of

6 removed for the projections going forward. But that is

7 going to count historically, as John stated earlier.

8 But this is something that I think, Karen, it would be

9 helpful after this meeting for us to kind of talk

10 about, you know, what's the best way for us to really

11 kind of dive into this issue.

12 I think what makes sense in terms of some

13 of these pay increases is that this is covering the

14 period from July 1st of 2022 to June 30th of 2023. We

15 know that many people retired between January and July

16 of 2022. So that means that, you know, there were lots

17 of vacancies. So a lot of the people that remained

18 were, you know, taking on different jobs. So there

19 were promotions for some of the remaining active

20 employees.

21 So that's one potential explanation for

22 some of that. But it was a very significant increase

23 in salary. And I'm very interested in kind of diving

24 into that and trying to get a sense on where we

25 actually are going with salaries going forward and, you

1 know, questioning whether there may need to be, you
2 know, some adjustment to that assumption going forward.
3 But I would think, Karen, from your
4 perspective, right, there's nothing that you see from
5 OPM's side where you would have expected eight percent
6 salary increases for the state payroll on a whole;
7 correct?
8 MS. NOLEN: It's Karen Nolen speaking.
9 Yes, that's correct. I do know, as you mentioned,
10 there was pandemic pay for active employees that
11 impacted that. Which brings up another point, because
12 that's also going to impact the next valuation, because
13 there is also going to be pandemic pay for managers
14 that's currently taking place this fiscal year, and
15 naturally it does impact some retirees.
16 And I'm not sure how that would impact
17 for the retirees because it's not a COLA increase.
18 It's - but does that impact their pension at all or is
19 it just (inaudible)?
20 MR. HERRINGTON: Right, right, yeah,
21 right, so that's something to confirm with Dave and
22 Dan, but my understanding is that those are one-time
23 payments paid to those who have already retired. We
24 are not taking retirement contributions from those
25 payments, and so we will not be adjusting pensions for

1 that category of pandemic pay.
2 MS. NOLEN: Thank you.
3 MR. GARRETT: So, you know, we also have
4 a new addition to this year's valuation, which is a
5 requirement of the ASOPs. So in Section 8 of the
6 ASOPs, and doggone it, I just had it up here a little
7 (inaudible). It starts here on Page—
8 MR. RYOR: Before you - this is—
9 MR. GARRETT: Yes, sir. I'm sorry.
10 MR. RYOR: Oh, this is Tim, Tim Ryor.
11 Before you move on from the gain/loss, just to recap,
12 and I think you alluded to this, about the retirements,
13 some of that is - because I thought what we've been
14 seeing is now where we had a little bit more - we had
15 the - last year, we had the extra assumption in there
16 and actual retirements were even a little bit above
17 that, so there was the loss last year.
18 But I thought like in the subsequent
19 year, we were seeing much lower than expected, and it
20 could be just a timing thing that that's not working
21 through the numbers yet.
22 MR. GARRETT: I think actually the number
23 of retirements we get fiscal year '23 was close to, I
24 think, what the typical assumption would be producing.
25 MR. RYOR: Okay.

1 MR. GARRETT: But I think that the
2 overage would be, again, those people who actually had
3 a retirement date in ’22 that were kind of late ’22
4 retirees that flipped over and actually showed in ’23
5 data as retirees. They were still showing active in
6 ’22, I believe.
7 MR. RYOR: That might be good - you know,
8 a good follow-up number to see, you know, what did the
9 valuation expect, you know, what, 2,000, 2,500, or
10 whatever the number is.
11 MR. GARRETT: Yeah.
12 MR. RYOR: And then what did you
13 actually—
14 MR. GARRETT: Right.
15 MR. RYOR: I realize that, you know, if
16 the numbers are exactly the same, you still could have
17 a gain or a loss because it’s the high-paid, long-
18 service people that—
19 MR. GARRETT: That’s right.
20 MR. RYOR: --that went, and so it’s not
21 going to align perfectly.
22 MR. GARRETT: That’s right.
23 MR. RYOR: But at least, it gives us a –
24 helps us, you know—
25 MR. GARRETT: Yeah. Well, the cap –

1 you're right. The headcount, at least, you know, is
2 one aspect of the potential cause of the loss. I mean,
3 you could have more retirees than you expect and still
4 have a gain because, you know, the people that retired
5 were those that, you know, you did not suffer losses
6 on. But—
7 MR. RYOR: Yeah.
8 MR. GARRETT: Yeah.
9 MR. RYOR: And then, the other point, I
10 think I may have brought this up in the past, and it
11 could be just the presentation thing and the way I
12 think about it, but really what I would think of as the
13 investment gain or loss is really the addition of two
14 items. It's the 170 plus the million-and-twenty-eight
15 at the bottom.
16 MR. GARRETT: Okay.
17 MR. RYOR: Because, I mean, if you
18 actually take last year's actuarial value of assets,
19 roll it forward at 6.9, adjust it for cashflow, then
20 what you would expect is a number that's about 850,000
21 dollars lower than the actual actuarial value of
22 assets.
23 MR. GARRETT: Yeah. And, you know, I
24 mean, that's certainly a reasonable way to look at it.
25 And we actually would. We go through the exercise of

1 actually pulling out the effect of the receivable to
2 kind of focus in on the gain/loss due to (inaudible).
3 So assume a 6.9-percent rate-of-return assumption, and
4 you're actually right. And the assets are, you know,
5 roughly 1.2 billion dollars larger than we would expect
6 them to be, but, you know, 170 of that is (inaudible).
7 MR. RYOR: Yeah, I guess the thing that
8 always confused me about it is, like a contribution
9 doesn't generate a gain or a loss, you know, because
10 that's netted out of the net, you know, calculation.
11 So it's—
12 MR. GARRETT: Well, but, I mean, in
13 determining that gain/loss though, Tim, you know, we
14 assume that cashflow would occur in the middle of the
15 year. So for that receivable specifically, we have to
16 assume it occurs on the last day of the year, so it has
17 no impact, and—
18 MR. RYOR: Oh, right. But, you know, a
19 billion dollars, that's a big number.
20 MR. GARRETT: It is.
21 MR. RYOR: So there was not a – I mean,
22 tell me if you're looking at it different or if I'm not
23 thinking about it right, but there was not a billion-
24 dollar gain or loss because of that payment.
25 MR. GARRETT: Well, I mean, there—

1 MR. RYOR: There - there—
2 MR. GARRETT: No, no, you're right. We
3 didn't make - there was no investment return on it all
4 because actually, you know, it came in well after June
5 30. But, you know, for all the other cashflow, we
6 assume it all occurs in the middle of the year. So the
7 benefits go out in the middle of the year and the
8 contributions come in in the middle of the year.
9 MR. RYOR: Yeah, I guess the point I'm
10 trying to make is that as far as the explanatory value
11 of, you know, what caused - how did we net to 146
12 million dollars in a net gain or loss? You know,
13 there's all these, you know, 116 negative in
14 retirement, 400,000 in pay.
15 MR. GARRETT: Right.
16 MR. RYOR: The plus column was an 850,000
17 - I'm sorry, yeah, roughly 850—
18 MR. GARRETT: Right.
19 MR. RYOR: --million-dollar gain in the
20 actuarial value of assets, is the way I would look at
21 it.
22 MR. GARRETT: Yeah.
23 MR. RYOR: And I guess that's - and I
24 realize that's not necessarily - there's smoothing in
25 there and, you know, and that, so it's not exactly

1 investment gain or loss.

2 MR. GARRETT: Right, right.

3 MR. RYOR: It's net-impact book-smoothing

4 of the investment gain or loss. So—

5 MR. GARRETT: I would definitely agree.

6 If what we were looking for was how much different were

7 the assets at the end of the year than what we expect

8 them to be from the beginning of the year, I would

9 absolutely agree it was eight-hundred-and, you know,

10 some change difference. It's greater. It's eight-

11 hundred-and-something million dollars larger than what

12 we anticipated.

13 MR. RYOR: Right.

14 MR. GARRETT: Yeah.

15 MR. RYOR: Okay. I just wanted to make

16 sure I was understanding that correctly. And, I mean,

17 I know sometimes there's - you know, if it was like

18 there was an extra payment above and beyond that we

19 weren't expecting, you know, the State put in some

20 extra money—

21 MR. GARRETT: Right.

22 MR. RYOR: --and that was paying down the

23 unfunded, I would agree that that deserves its own line

24 item.

25 MR. GARRETT: Well, that's exactly what

1 that big dollars did though. I mean, it goes in
2 straight against - you know, it comes in, goes straight
3 (inaudible).
4 MR. RYOR: Right.
5 MR. GARRETT: Yeah.
6 MR. RYOR: Right, but that was just part
7 of the ordinary - that wasn't extra; right? That was—
8 MR. GARRETT: No, it was. It was. So
9 they made their required contribution for '23, and in
10 October '23, they added another one-point - you know,
11 one-zero-four-eight.
12 MR. RYOR: Oh, all right. So maybe I was
13 misunderstanding. So is that part of the - you know,
14 if you go back to the asset smoothing, I think it was -
15 total contributions were like 2.4.
16 MR. GARRETT: Yeah, that's the roughly
17 1.8. I think it's right around two billion from the
18 State, and 400 million from the employees.
19 MR. RYOR: Right.
20 MR. GARRETT: And that's the regular
21 actuarially determined employer contribution amounts,
22 yeah.
23 MR. RYOR: So - and - hold on; let me
24 find that page. So that includes—
25 MR. GARRETT: Are you having as much

1 trouble as I am getting to the assets (inaudible)?
2 MR. RYOR: No, no, no. It's just
3 scrolling. But - so you're saying there was an amount
4 above and beyond that?
5 MR. GARRETT: Yeah, yeah. So this is
6 part of that budget reserve fund transfers, and what's
7 the other name for - it's some - it's a surplus
8 account, the budget surplus. And so I think the last
9 four years, I think, at least, has made additional
10 contributions that come in. And, you know, when we
11 first got the first one, we kind of talked with them,
12 did they want us to include it in the current valuation
13 that was for the preceding June 30 as a receivable, or
14 carry it for the next fiscal?
15 And so we started on a path of carrying
16 these things as receivable in the valuations with the -
17 I think the first one was in the 2019 valuation. And
18 so, you know, the last year's was over three billion in
19 additional funding. This year it was just over a
20 billion. Yeah, so—
21 MR. RYOR: But - and it's not - so it's
22 not part of the 2.4?
23 MR. GARRETT: It's not. It's in addition
24 to the 2.4.
25 MR. RYOR: So where does it fit in the

1 cashflow then?

2 MR. GARRETT: Yeah, so we carry it as a

3 receivable. So we determined everything as if that

4 money is not in there, right, and just determine the

5 investment return and everything. And then just to the

6 ending balance is really add those amounts to it. So

7 we're carrying it purely as like a receivable

8 contribution. So it has no impact on determining

9 investment return.

10 MR. RYOR: No, I know, but if you carry -

11 receivable contribution would show in the flow; you

12 would list it in the contributions. So if it was—

13 MR. GARRETT: Yeah, I think it—

14 MR. RYOR: --a receivable contribution,

15 it would be part of the 2.4.

16 MR. GARRETT: Well, but we don't want to

17 show it – well, again, you know, we – there's a couple

18 things here. One is for GASB purposes, you know, we

19 really want to keep that as a receivable contribution.

20 It sometimes flows into the flow. Last year, all that

21 three billion was kind of split between both other and

22 employer contributions.

23 So – but, you know, when we're doing

24 GASB, and certainly the allocations for like a MERS or

25 something like that, we don't want to kick up the

1 contribution amount because then it pushes down
2 everybody's percent of the NPL that they're allocated
3 under GASB for a cost-sharing plan like MERS.
4 MR. RYOR: Right, right.
5 MR. GARRETT: But for SERS, it's a
6 single-employer plan. However, there are units,
7 component units, within state employees that do their -
8 their auditors have requested that they report their
9 numbers as a cost-sharing plan. But besides that, we -
10 you know, to end the flow of the assets - and, you
11 know, let me - can I attempt again to the get to the
12 asset page here? Anybody have a page number for that
13 thing?
14 MR. RYOR: No, I think you - you can move
15 on. I apologize. I'm - I'm - I—
16 MR. GARRETT: No, no, no. (Inaudible)
17 MR. RYOR: Because you - yeah, I think
18 you - I'm having a deja vu moment where you explained
19 this exact same thing last year. Because the extra -
20 it's that same - it's that extra payment and that's why
21 you have it split out.
22 MR. GARRETT: Yeah. It's—
23 MR. RYOR: I mean, it's basically
24 additional contributions that are not part of the
25 normal cost and the regular, you know, ADC.

1 MR. GARRETT: That's right.
2 MR. RYOR: That it - but it's in the
3 asset number and it's appearing out of nowhere and you
4 would have - you don't reconcile in the gain/loss
5 unless you add it as a gain. So—
6 MR. GARRETT: Yes, that's it. That's it.
7 MR. RYOR: Yeah. It's all coming
8 together. It's all good. Thank you.
9 MR. GARRETT: Yeah, and I actually have
10 finally gotten to the actual tab for the assets. But
11 here is where we show the adjusted market value of
12 assets, and we just show it as an adjustment to the
13 ending market value.
14 MR. RYOR: Yep. Yeah, no, no. I went
15 back to that page and saw the footnote and—
16 MR. GARRETT: Yeah. And similarly in the
17 actuarial value too, we just kind of show it with
18 adjustment, without adjustment.
19 MR. RYOR: Yeah, yeah, yeah. Yeah. I
20 think the lack of clarity for me is that it's not in
21 the cashflow part.
22 MR. GARRETT: It's not showing the
23 contribution amount.
24 MR. RYOR: Yeah, yeah.
25 MR. GARRETT: You're right. You're

1 right. You're right.
2 MR. RYOR: Yeah. Okay.
3 MR. GARRETT: And really, you know, I
4 mean, for GASB, we don't want to consider it as a
5 contribution toward the ADEC. It's actually a
6 contribution made to pay down the UAL. It's like a -
7 you know, it's a—
8 MR. RYOR: Yeah.
9 MR. GARRETT: --just a periodic - it has
10 been a lot more consistent than what we ever
11 anticipated or ever thought it would be, and it's
12 fantastic. Because I think it's - in total, it's over
13 five billion dollars, I think, has been used to pay
14 down the UAL. So unfortunately, you know, with asset
15 gain/loss and the other - the COLA gain/loss from last
16 year was huge; the retirement gain/losses for the years
17 have been pretty ugly.
18 So we're losing some of that along the
19 way, but, you know, the good thing is is assets are
20 larger, and, you know, the expected return on those
21 assets are producing larger dollar amounts. So, I
22 mean, it kind of shows more in the funded ratio.
23 MS. NOLEN: Yeah, I had a question. Can
24 you go back to that asset page that you had on the
25 screen?

1 MR. GARRETT: You know, do you remember
2 how long it took me to find it again?
3 CHAIRMAN ADOMEIT: That's Karen Nolen
4 speaking.
5 MS. NOLEN: Oh, sorry, Peter. Yeah.
6 MR. GARRETT: I think - and so—
7 CHAIRMAN ADOMEIT: We get a transcript;
8 that's why. Yeah.
9 MR. GARRETT: So, Karen, and this is
10 John. This is the market value. You want the market
11 value one or the actuarial value?
12 MS. NOLEN: This right here. This - the
13 other category—
14 MR. GARRETT: Oh, sorry. Those were
15 buttons I pushed two minutes ago.
16 MS. NOLEN: Sorry. The other—
17 MR. GARRETT: Yes.
18 MS. NOLEN: --that's listed, the 71.6, is
19 that the overcollection that we had where that actually
20 does go into the calculation of the ADEC?
21 MR. GARRETT: No. So what that is is
22 that's us. We typically would get something from - so
23 this year, we haven't really got any type of
24 preliminary financial reporting. Usually by this time,
25 we're kind of going off of what's going to end up being

1 (inaudible). So this is kind of us putting together
2 from the information the Division of Retirement gives
3 us. So our other here, which we'd have it in there
4 anyway, but there might be other other that is actually
5 going to be in the financial statements.
6 But this other is actually the difference
7 between - it represents the amount we discounted last
8 year's receivable contribution by. So it's really -
9 you know, it's the difference between - you know,
10 because last year, the financial reporting showed - you
11 know, they don't discount the receivable. They put it
12 in there as a dollar amount.
13 So when we discount it back, we're going
14 to have opened up a difference between our ending
15 market last year and what's going to be in the
16 financial statements.
17 MS. NOLEN: Mm-hmm.
18 MR. GARRETT: And so this is just an
19 adjustment to fix the beginning of the year based on us
20 getting that receivable as a discounted value and the
21 auditor showing it as a non-discounted value.
22 MS. NOLEN: Okay. So—
23 MR. GARRETT: So that 71 million - if you
24 look at the difference between what we carried as a
25 receivable last year and the actual amounts of the

1 contributions that were made subsequent to June 30 last
2 year, it's going to be that 71.6 million, is kind of
3 what we were discounting the contributions that were
4 received subsequent to the valuation last year.
5 MS. NOLEN: Okay. So I know for fiscal
6 year '23, there was - because the fringe benefit
7 recovery rate was a little high, we over-collected - we
8 collected more than the ADEC by - it was just under 72
9 million. So I assume that that amount is in the State
10 contribution, the 1.75 billion. Because this was the
11 first year that that—
12 MR. GARRETT: When was that discovered?
13 Was it discovered kind of late in the - was it—
14 MS. NOLEN: Well—
15 MR. GARRETT: Was it adjusted within the
16 year or - because I'm not certain that's actually being
17 included anywhere.
18 MS. NOLEN: Well—
19 MS. REID: Excuse me. This is Jean Reid.
20 I was actually just talking about that change. Because
21 those adjustments are made throughout the year, it was
22 a matter of that wasn't removed from the fund like it
23 normally would have been.
24 MS. NOLEN: So it's still there. It is
25 in that State amount.

1 MS. REID: Yes.

2 MS. NOLEN: Because I know at the end of
3 the year, we used to transfer it out and count it as
4 revenue.

5 MS. REID: Yes.

6 MS. NOLEN: But you're saying it's –
7 okay. I just wanted to confirm that. Thank you.
8 Thank you, Jean.

9 MR. GARRETT: So, Jean, are you saying—

10 MS. REID: Yes.

11 MR. GARRETT: --it was used to offset the
12 subsequent contribution?

13 MS. REID: Well, it's simply money goes
14 in and out with any adjustments that need to be made.

15 MR. GARRETT: Okay.

16 MS. REID: And then if at the end of the
17 year, they ended up making more than the ADEC, because
18 of that, they would take it out in an adjustment.

19 MR. GARRETT: Okay. Okay.

20 MS. REID: But now, they're not taking it
21 out.

22 MR. GARRETT: Oh, okay. Well, nice.

23 MR. POULIN: This is Claude. I have a
24 follow-up question, John.

25 MR. GARRETT: Okay.

1 MR. POULIN: The ADEC for this year, next
2 fiscal year, subsequent fiscal year, is roughly around
3 two billion dollars.
4 MR. GARRETT: Yes, sir.
5 MR. POULIN: The contributions made by
6 the employer for the year, fiscal year ending 2023, was
7 around two billion dollars.
8 MR. GARRETT: Yes.
9 MR. POULIN: And was there - and then
10 they reduced this additional billion that was - it was
11 outside of the fiscal year and it was paid in October.
12 Was there an equivalent amount in the previous year so
13 that they would cancel out?
14 MR. GARRETT: No. No. So these
15 additional contributions that are from the budget
16 reserve transfers and the budget surplus - I forget the
17 names of the two items.
18 John or Karen, can you all help me with
19 that?
20 MR. HERRINGTON: So, right, right. So
21 there's money that goes into the budget reserve bond
22 ratio. There's the volatility cap, and, right, and
23 whatever the cushion is for the revenue gap that -
24 yeah.
25 MR. GARRETT: Yeah, so we're notified

1 about how much - you know, there kind of is a
2 measurement of what they project that amount to be. So
3 we kind of know that there will be one at the end of
4 the fiscal year. So we wait and hopefully, you know,
5 get some refining information. And then John was able
6 to give us what the actual dollar amount that was going
7 to be deposited. I think the deposits were in late
8 September or early October; I can't remember.
9 But, yeah, so it's periodic; it's unknown
10 for how much it is. And we carry it as an additional
11 inflow to the plan as revenue to the plan, but we don't
12 count it as contributions.
13 MR. POULIN: Now this is Claude again.
14 If this amount that was contributed in October, about
15 one billion dollars, if it had been paid by the State
16 on June 29, 2023, would it have a much different impact
17 on the results?
18 MR. GARRETT: If it was paid prior to the
19 end of that fiscal year, we wouldn't have discounted it
20 by that 71 - or, well, this year - I'm sorry - it was
21 only about 18 million dollars because the amount was
22 smaller. So we discounted it from - I think the actual
23 amount of the deposit was one-billion-forty-six-
24 million, and we carried it as one-billion-twenty-eight-
25 million. So we discounted it by roughly 18 million.

1 And then next year, we'll show in other
2 for that difference; that 18 million will be included
3 in the other for us to kind of true up to the beginning
4 year - you know, I guess, the beginning-of-the-year
5 market between us and what the auditors are going to
6 show in the financial reporting.
7 MR. POULIN: Thank you.
8 MR. GARRETT: So I think I was trying to
9 find - here we go. So this risk assessment is
10 something we've added due to the Actuarial Standards of
11 Practice, Number 51, requires that the valuation's kind
12 of been disclosed to the actuaries' view on sources of
13 risk to the pension plan. And, of course, this really
14 hasn't changed. It starts here on Page 15. But this
15 year, we've added to it what's a new requirement under
16 the new ASOP 4, and it's called the low-default risk
17 obligation measure.
18 So LDROM is what we're throwing around in
19 a lot of actuarial discussions between, I guess, the
20 preparers of this and the Actuarial Standards Board.
21 And obviously, the preparers, well, most of us, who
22 were kind of against this type of measurement in a
23 valuation, it's information, but it's not necessarily
24 information pertinent to a valuation, in our opinion.
25 We're required to disclose this now under the ASOP 4,

1 the new, revised ASOP 4. And it's for those
2 measurements that occur after February 2023. So this
3 valuation is the first year we have to disclose it.
4 I want to point everybody to a statement
5 we make in here, which is the last sentence of that
6 first paragraph, where we say, actuaries - let's see
7 (inaudible). It's definitely in that paragraph. But
8 what it really says is that, you know, these measures
9 are not really appropriate for determining the health
10 of the plan or the funding progress. I'm sorry, it's
11 not - it's the second sentence to that. So this
12 information - it says, the informational disclosure as
13 described below would not be appropriate for assessing
14 the funding progress or the health of the plan.
15 So, again, this is a measure that I think
16 we talked about it. We kind of gave you all a briefing
17 on what was going to be required. It's more of what we
18 would consider like a plan termination basis
19 measurement. So it kind of determines an accumulated
20 benefit obligation, which is a liability measure that
21 doesn't account for future increases in salary or
22 future accruals of the active membership. So it's as
23 if we could shut the plan off on June 30 of 2023.
24 And then it uses - in determining
25 liability, it uses these very, you know, much shorter-

1 term type of rates of return that produce a much higher
2 liability. Even though we're really not measuring the
3 full liability of the actives that's going to be
4 accrued in the future because we're using a lower
5 discount rate, and a majority of the liability of SERS
6 is really driven by retirees, so, you know, they don't
7 contribute anything to the future accruals of the plan.
8 So in this case, under this required
9 measure, the LDROM, we calculate that the liability is
10 just under 50 billion, 49.5. So it's about eight
11 billion higher than what we valued in this year's
12 valuation. We want to point that out to you that, you
13 can see here, the accrued liability on the 6.9 percent
14 discount rate is roughly 42. So, I'm sorry, it's about
15 seven billion higher than what we measured for the
16 valuation.
17 MR. RYOR: All right. And can you just—
18 MR. HERRINGTON: John - go ahead.
19 MR. RYOR: This is Tim Ryor. Just is
20 there somewhere in the report - I didn't see it - but
21 like you talked about you using the fluency curve, but
22 - as of June 30, but what did the effective rate - and
23 maybe I'm not seeing it and it's here somewhere.
24 MR. GARRETT: You know, I don't think we
25 - I think it was - if I remember right, it was in the

1 5.3-ish range, something like that, if I'm remembering.
2 MR. RYOR: Okay. Not a huge thing, but
3 that might be a good add to put a parenthetical or
4 something just so we have—
5 MR. GARRETT: Right.
6 MR. RYOR: --for future reference going
7 forward, if all of a sudden, that rate is going - you
8 know, going up or down, and we're seeing this number in
9 this disclosure, you know, moving—
10 MR. GARRETT: Right.
11 MR. RYOR: --in particular directions,
12 then at least we have, you know, a point of reference
13 to know that, all right, last year, we were doing it at
14 effectively 5.2; this year, we're doing it at 4.2 or
15 6.2 or—
16 MR. GARRETT: Right. You know, that
17 might be a good idea to really - because I think
18 there's some room in here that we could add a small
19 table of, you know, I guess, the average rate, the
20 average of that fluency curve that was used in the
21 determination last year and this year, you know?
22 MR. RYOR: Perfect. Thank you.
23 MR. GARRETT: Of course, we - you know,
24 Tim, this is one of those disclosures that we felt we
25 wanted to minimize any part of it because, you know,

1 what's going to happen now is there's that organization
2 up there, whether the Yankee Institute or—
3 MR. RYOR: Yeah.
4 MR. GARRETT: --something that, you know,
5 they take the GASB numbers and, you know, they'll take
6 it at 5.9 percent and say, ah-ha, here's the real UAL.
7 Now they're going to take this number and say, ah-ha—
8 MR. RYOR: Yeah.
9 MR. GARRETT: --this produces a twenty-
10 nine (inaudible) UAL.
11 MR. RYOR: Yeah. But all—
12 MR. GARRETT: And that's (inaudible) the
13 actuaries are measuring the true liability of the plan.
14 You know, so—
15 MR. RYOR: Yeah. The bond raiders were
16 already doing that, so—
17 MR. GARRETT: Yeah, yeah, you're right.
18 And, of course, they were just pulling a number out;
19 we'll call it five percent. You know, that's - you
20 know, but, you know, at least this is some market-
21 related. But the idea that, you know, the pension
22 plan, again, it doesn't make sense to us because, A,
23 either - you didn't turn off the benefits as of June
24 30, so we still have future accruals for actives. And,
25 I think, constitutionally in Connecticut, you can't.

1 And then, of course, the second thing is
2 we're not invested in any type of cashflow matching
3 bonds. So it's – to us, this is just – it's
4 information. If you want to know that, you know – if
5 you're planning on funding a terminated plan, you would
6 need assets of forty-nine-and-a-half billion instead of
7 keeping an open-funded plan, you'd need, you know –
8 you'd need 42.
9 So it's one of those things. But again,
10 our issue is going to be there's going to be – you
11 know, there's groups out there like the Reason
12 Foundation and items like that. They publish
13 informational pieces about public plans and, you know,
14 what we're going to see is somewhere they're going to
15 take this number, forty-nine-and-a-half, they're going
16 to add up the teachers' number and any other numbers
17 that they have information on that's under the State of
18 Connecticut, and they're going to say, ah-ha, the State
19 of Connecticut's true liability is, you know, much,
20 much greater.
21 And that's just, you know – that's why we
22 wanted to add that piece, that sentence in there that
23 says, you know, that's not what the intention of this
24 number is. And I think even the ASOPs and the
25 discussions that surrounded the adding of this to the

1 ASOP, you know, I think everybody agreed that this is
2 not - this is not a number to fund.
3 MR. POULIN: Oh, John, this is Claude
4 again. This new ASOP Number 4 equally applies to pro
5 rata pension plans and public employee pension plans;
6 correct?
7 MR. GARRETT: It absolutely does, yes.
8 MR. POULIN: But it seems that the
9 requirement doesn't really apply, or should not apply
10 to public employee plans because private pension plans
11 terminate every day, but public employee plans, it's
12 rare in the case of a public employee pension plan. It
13 does happen, but it's very unusual. I think - it seems
14 that this new ASOP requirement—
15 MR. GARRETT: Yeah.
16 MR. POULIN: --was drafted with the
17 private pension plans in mind; isn't it?
18 MR. GARRETT: Yeah, absolutely. In fact,
19 you know, I mean, rare - I've been doing this 30 years
20 and I think I know of two that have actually closed
21 down a plan and gone through the termination process,
22 and they were small plans, not statewide plans.
23 So, you know, this again is the idea -
24 well, we've got to realize that, you know, as pension
25 actuaries in America, we're a pretty small segment of

1 the societies that we're in, the organizations that
2 we're part of. And, you know, the Society of Actuaries
3 and the American Academy of Actuaries, which kind of
4 joined and put together this ASB, the Actuary Standards
5 Board, you know, pension actuaries are a very, very
6 small part of those groups. And so we're kind of
7 dealing with primarily insurance actuaries. And, of
8 course, insurance actuaries, they live and die by
9 cashflow matching. So, you know, I guess what makes
10 sense to them might not always make sense to us.
11 But your point, more specific, is that
12 private sector plans can terminate and can decide to
13 terminate the plan and have - you know, there's plenty
14 of instances of terminated private sector plans where
15 this type of information would be more pertinent. But
16 I think in that discussion that occurred when they did
17 the exposure graph and after the new ASOP 4 was they
18 didn't feel like it was necessary to segment public
19 sector methods and requirements from private sector.
20 So it's just, you know, pension obligations in total
21 regardless of the nature of them.
22 MR. HERRINGTON: This is John Herrington
23 and I have a question. I'm not as familiar with this
24 discount curve, but how volatile are those rates, and
25 could it be so it was somewhere in the neighborhood of

1 five percent this year? Could it be, you know, two
2 percent next year, three percent the following years?
3 Is there that much fluctuation where this liability
4 would fluctuate, you know, from year to year
5 considerably?
6 MR. GARRETT: Right. I'll be honest with
7 you, I haven't even - I think we are going to see it,
8 but the volitivity is driven more by probably the
9 central bank, you know, policies.
10 MR. HERRINGTON: Mm-hmm.
11 MR. GARRETT: So not necessarily - well,
12 I mean, there is a market component to it as well, but,
13 you know, I think, in moving these rates, the shorter-
14 term rates are, I think, going to be dramatically
15 changed by the central bank policy. But, you know, the
16 way that you - when you cashflow-match for a pension
17 plan, you know, 60 percent of the liability measurement
18 is retirees, and they have a much shorter duration. So
19 it's going to be picking up more of the - more - you
20 know, it's going to be impacted more by shorter-term
21 rates in measuring the liabilities, whereas actives who
22 you just hired yesterday might not have actual cashflow
23 until after the 30-year period of time, which, from
24 that point forward, we're just using the spot rate for
25 30-year T bills.

1 But, yeah, so—
2 MR. RYOR: This is—
3 MR. GARRETT: Yeah, go ahead, Tim.
4 MR. RYOR: Oh, this - yeah, this is Tim.
5 I don't know if - did you calculate it as of 2022? I
6 mean, to your point earlier about disclosing the rate,
7 that might be helpful for John so he could see. My
8 guess is, you know, at 2022, it was something in the
9 low-four's, high-three's.
10 MR. GARRETT: Right.
11 MR. RYOR: And you saw, you know, a
12 hundred-and - at least a-hundred-basis-points, maybe
13 150-basis-points increase from 2022 to 2023.
14 MR. GARRETT: Right.
15 MR. RYOR: So kind of more to John's
16 question going forward, I mean, I think we've seen
17 things come up, but more normalized. You know, a year
18 ago, they were probably historically low. We're
19 probably seeing things - so, you know, I wouldn't
20 expect - and I don't know your opinion, John or Claude,
21 you know - you know, maybe they leveled back down a
22 little bit, but I don't think you're - we're going to
23 see, you know, hundred-basis-point shifts.
24 So maybe next year, I don't know. If you
25 were five-and-a-quarter this year, maybe it's 4.75 next

1 year or five percent.

2 MR. GARRETT: Right.

3 MR. RYOR: Or it's - you know, hopefully

4 not going to be these huge swings. But, you know, it's

5 market-driven so—

6 MR. GARRETT: Yeah.

7 MR. RYOR: --anything could happen.

8 MR. GARRETT: Yeah, no, no. I absolutely

9 agree. You know, and I do agree that it would probably

10 end more - you know, if we looked at long-term, you

11 know, averages of the rates or in this yield curve,

12 that, you know, is probably more typical of the rates

13 we're looking at. But I think what's going to happen -

14 we're inverted right now, and we're inverted, I

15 believe, in June as well, that, you know, whatever the

16 Fed does in the short-term, you know, we're going to

17 see some balancing on the longer term, so, you know, I

18 mean, theoretically, I guess. God knows what anybody

19 is going to do.

20 MR. POULIN: This is Claude again. Now,

21 there are indications that the Fed may reduce the rates

22 into 2024. Now the question is will it happen before

23 June 30th or after June 30th. You know, nobody knows

24 that. But if it's before June 30th, then the rate might

25 very well be close to the rate that we had on June 30th,

1 2023.
2 MR. GARRETT: Yeah, well, and you know
3 they're saying that, you know, the market has kind of
4 reacted to this idea the Fed's going to start cutting
5 in March, and the Fed actually, you know, - I guess
6 three or four of the folks have said that that was
7 never the intention of the information that their own
8 pal put out.
9 So, you know, there again, you know,
10 we're not allowed to ask to see behind the curtain.
11 Keeping us guessing seems to be working out for
12 everybody; I don't know. So, you know, if the Fed does
13 start cutting again - you know, because right now,
14 short-term rates, two-year treasuries have a yield
15 higher than a 30-year, I believe. So, you know, at
16 some point, that should normalize as well, in that
17 short-term rates typically are going to come down while
18 longer-term rates go up, so, to get some slope back in
19 the yield curve.
20 Anyhow, yeah, so how it turns out, the
21 changes, I think that was an interesting idea you had,
22 Tim, is look back on what the rate would be last year.
23 I don't believe we implemented this for anybody early.
24 So again, this is the first period it's required for,
25 and nobody would certainly want us to pay for providing

1 this information early, and I wouldn't recommend that
2 we charge anybody to provide the information early.
3 So, you know, we just kind of include it in the
4 valuations where it was required.
5 I'll look to see if anybody had that
6 measure anywhere else to see what the - that rate was
7 used because I think it would be - and I would agree, I
8 would think it would be, you know, roughly a percent
9 lower if done at 6/30/2022.
10 So with that, are there any further
11 questions or anything else you all would like to
12 discuss about the State Employees Retirement System's
13 June 30, 2023 valuation?
14 MS. NOLEN: This is Karen. Do you have
15 the - what you're currently estimating for fiscal year
16 '26 ADEC?
17 MR. GARRETT: No. So the next step is
18 projections. Actually, I think, don't we put a - we
19 put our best guess - yeah, it's right here.
20 MS. NOLEN: Okay.
21 MR. GARRETT: Page 11. We do kind of
22 look forward one year because we know that you guys
23 still kind of consider everything on a biannual basis,
24 so we are looking ahead. This is a pretty rough just
25 roll-forward. And so when we do the projections, which

1 will probably be, I would say, within the next two or
2 three weeks, we'll have the 30-year projections of SERS
3 done and out to you all.
4 MS. NOLEN: Thank you.
5 MR. GARRETT: And I think that's probably
6 the better indicator of, you know, where things are
7 going. It actually - it's not a roll-forward. It's
8 actually we have a valuation that will go, you know -
9 it redetermines the population in all future years for
10 the 30-year period. It redetermines it with, you know,
11 mythical people, people that we assume are going to be
12 there, but it's probably the better indicator of what
13 next year's costs are going to be out of that
14 projection.
15 All right. So with that, if there are no
16 further questions, I'll jump over to the Judges'
17 report. And so this is the report for June 30, 2023 of
18 the Judges, Family Support Magistrates, and
19 Compensation Commissioners. It's a mouthful. I'm way
20 in support of changing the name of this one if anybody
21 is interested.
22 And this, you know, again had similar
23 results. We had here about an 8.35, I think, was the
24 market return here, a little bit lower than what we saw
25 at SERS. Produced an actuarial rate of return in the

1 5.5, somewhere around there, percent, and resulted in a
2 loss on the asset side. But here in particular it was
3 - you know, what drove a lot of this change to the UAL,
4 and we see the UAL goes up from 205 million to 244
5 million, was the - we had a programming change.
6 So a lot of the judges actually get paid
7 on a biannual (sic) basis. And in our systems, we were
8 assuming we were getting a monthly benefit amount. So
9 we had it - for about 43 of the retirees, we had to
10 double it. So what was being reported was their
11 biannual amount and we had to make that a pensionable
12 amount. So that was like a 37-million-dollar increase.
13 It was pretty significant.
14 The other aspect here was, again, we did
15 see a pay increase that was much higher than expected.
16 Here we have really pretty much across-the-board four
17 percent increase. And here you can see at the bottom,
18 the average increase for active members was 4.7. A
19 little bit of loss there, driven by payroll growth, or
20 salary increases. On the retired side, we had both
21 that correction to the data that we were actually
22 receiving biannual amounts - bimonthly amount, not the
23 monthly amount. But also, we had cost-of-living
24 adjustments that were higher than what was anticipated
25 too here.

1 And so why don't we get over to the
2 gain/loss tab here, and we can kind of see the pieces
3 that we determined for the gain/losses. Finally. So
4 here we had - you can see that we do a two-year
5 comparison here still, which, you know, I know that
6 we're doing annual valuations now; I think we're going
7 to drop that, or if you prefer this way, then we'll
8 keep it.
9 But we had a loss on the retirements this
10 year again. Last year, there was a significant gain
11 due to retirements. So I think, you know, some of that
12 again is driven a little bit by data. We see that the
13 pay increase, two years in a row. So last year, the
14 average increase was over seven percent, or closer to
15 eight percent. This year, it's closer to five percent,
16 but you see that still drives that 1.9-million-dollar
17 loss. Again, these numbers are millions not billions.
18 New members are not actually a loss, in
19 my opinion. It's just that when we did the valuation
20 as of June 30, 2022, people come into the plan, and
21 when they show up and we do the valuation on June 30,
22 2023, they have a partial year of service. So this is
23 the value of that partial year of service that flows
24 into the accrued liability for people who are not
25 really valued in the prior year. So it shows as an

1 additional liability, and it is, but actually, in my
2 opinion, it's not a loss because we're not – you know,
3 they've actually contributed during that period of time
4 too, and that's not being reflected.
5 We can see the investment loss. The
6 investment rate of return was a little bit lower last
7 year. We had a 5.4-million-dollar loss last year due
8 to investment return; this year, 3.8. We would assume
9 that, you know, with the performance that we're seeing,
10 that this is going to start continuing to decline as
11 far as a loss, and flip over to a gain at some point
12 here, the way the markets are doing so well.
13 The – here, which, you know, a lot of
14 this is getting flow - flowing through to – well, you
15 can see the post-retirement, so death after retirement
16 is actually the experience of those that are, you know,
17 in pay status; it includes beneficiaries, retirees, and
18 disabled retirees; had an 8.4-million-dollar gain due
19 to that. And really, for a plan this small, that's not
20 necessarily a huge amount of people that require that,
21 especially in that these are pretty well-paid folks.
22 You know, they have pretty significantly large benefits
23 on average. So they are a little bit more impactful
24 for each member who might die earlier than expected.
25 Again, a large other. That other is

1 going to be driven by both the combination of service
2 retirements, pay increases, and also financial timing,
3 data adjustments. So part of that is going to be
4 reflected by that compounding effects of the correction
5 to programming. We show that down here, that 36, 35.4-
6 million-dollar increase; we call it really a change due
7 to programming. It's really a correction in that there
8 is a segment of judges that get paid bimonthly that one
9 of our sharp analysts picked up on this year, finally.
10 But anyway, so the net is roughly a 50-
11 million-dollar increase to the UAL. The problem is
12 that drives really a lot of contribution increase here
13 because - back up to the front here. So this is a plan
14 that has an eight-year amortization period. It was
15 nine last year, so it's a closed period of time. I
16 think we closed it roughly at 15 years. Now it's run
17 down to eight.
18 And, you know, this was one of the things
19 that we were looking at when we recommended the change
20 to SERS and MERS and all of them, was that, as these
21 amortization periods tick down, any significant gain or
22 loss due to experience or programming changes or
23 changes in assumptions, you know, it's going to get
24 progressively more and more expensive.
25 So, you know, if this is problematic,

1 which, again, this is such a small segment of the
2 pension expense for the State, but if this is an issue,
3 you know, certainly we can alleviate some of this
4 increase by considering, or, you know, for the
5 retirement commission to consider, maybe putting in a
6 layered approach effective June 30, 2023 that would
7 capture this - well, what we know is that 50-million-
8 dollar increase in the UAL, and spread it over maybe a
9 little bit longer period of time than eight years,
10 which, you know, again, when we do this valuation next
11 year at seven, and, you know, if you have a large asset
12 gain or loss, it’s going to have a significant impact.
13 And of course, the shorter period of time
14 we’re amortizing, whatever that change is to the UAL,
15 whether it's positive or negative, it has a much more
16 amplified impact on the actuarially determined employer
17 contribution rates and amounts. So—
18 MR. POULIN: This is Claude. I had a
19 question on Page 1, this page. The ADEC at the present
20 time is 114 percent of payroll.
21 MR. GARRETT: Yes.
22 MR. POULIN: And the lion’s share of it
23 is the accrued liability.
24 MR. GARRETT: It is.
25 MR. POULIN: So wouldn’t that - because

1 we have only an eight-year amortization period, does
2 that mean that nine years from now, the ADEC will be
3 reduced to roughly 25 million?
4 MR. GARRETT: Yes, it would, but that
5 opens – I mean, it would. What we'd expect the ADEC to
6 be would be what the normal cost rate is; right?
7 MR. POULIN: Yeah.
8 MR. GARRETT: But the problem is that
9 just because we have a zero-year funding period on the
10 amortization of the UAL doesn't mean we don't have
11 gains and losses that would have otherwise gone to the
12 UAL. It's just that the requirement is going to be now
13 that it's paid off with the next contribution.
14 So, for instance, if we roll forward
15 eight years from this valuation, so we're doing the
16 2031 valuation, and in that year, the market lost, for
17 this plan, let's say it lost 15 million dollars or 40
18 million, then that next valuation, you're going to have
19 a normal cost component. And since we're not
20 amortizing that gain/loss, I mean, theoretically, then
21 all the 40 million would have to be paid with that next
22 ADEC. The alternative would be to switch methods, but
23 those other methods are not always, I guess, approved
24 for governmental accounting standards board purposes
25 and (inaudible).

1 So what we would say is that why don't we
2 just use a frozen initial liability method for funding,
3 which, you know, spreads that loss over the average
4 working lifetime of the active members. It still would
5 be very expensive. And I would say, because this is
6 the judges' plan and they can retire with, you know,
7 full - well, they can retire really with five years.
8 But if they retire with ten years, and
9 they've, you know, kind of accrued all of their
10 benefit, but - so it has a very short, you know,
11 period. I would say that the average working lifetime
12 for this plan is going to be pretty small. It's going
13 to be shorter than eight years, I'll tell you that.
14 MR. POULIN: Claude again. If there were
15 a gain in the ninth year, it would be the other way
16 around.
17 MR. GARRETT: It would; it would. So, I
18 mean - and I think we have approval too, and I think
19 that's something we talked about long ago when we were
20 looking at this in the Actuarial Subcommittee. Because
21 we had recommended we add a layered approach to this.
22 We didn't recommend it, but we showed you that, you
23 know, what (inaudible).
24 MR. RYOR: Yes.
25 MR. GARRETT: And you all said, no, let's

1 get this thing funded; it's a small plan; you know,
2 it's not hurting anybody; let's go ahead and get this
3 thing funded. And so, you know, we were kind of on
4 that track to be fully funded in roughly eight more
5 years, so - which is, you know, it's very desirable.
6 But, you know, we've got to realize that that's going
7 to - could have some rough, rough, you know, ups and
8 downs in those next eight years, driven primarily by
9 whatever really, you know, we would expect in most all
10 cases.
11 The asset performance is going to be the
12 largest segment of gain/loss. And so, depending on the
13 markets, it's going to drive, you know, whatever - you
14 know, how volatile, I guess, those future eight years
15 are going to be.
16 MR. RYOR: Yeah.
17 MR. GARRETT: And then of course, our
18 recommendation, we'd probably go to FIL for funding.
19 We'd still use the entry-age normal for the GASB
20 reporting. But we'd probably want to use something
21 like FIL, or just reestablish an amortization period,
22 leave it open at 10 years or something.
23 MR. RYOR: This is Tim. So would it - I
24 mean, with the layered amortization approach, say you
25 just started, you know, new gains and losses, or, you

1 know, a new base at either 10 or 15, whatever you pick.
2 MR. GARRETT: Right. Right.
3 MR. RYOR: I mean, based on your comment
4 that the future working lifetime is shorter, maybe 10
5 is better than 15. But if you did that, why would you
6 need - would there still be a need to change the
7 funding method?
8 MR. GARRETT: No, no, there wouldn't.
9 MR. RYOR: Okay.
10 MR. GARRETT: But we would need to - you
11 know, we would actually have to adopt that. So we
12 don't have anything. I mean, there's no - right, all
13 we have right now is a closed period that's going to be
14 fully amortized in eight years.
15 MR. RYOR: Yeah.
16 MR. GARRETT: So but if we're going to do
17 that change, or if there's going to be a change
18 discussed, then, yeah, I mean, we're fine with 15, ten;
19 ten, I agree with you—
20 MR. RYOR: Yeah.
21 MR. GARRETT: --a little more
22 conservative. But - and actually, I think for this
23 plan, probably ten years is going to be sufficient
24 enough to make - whatever the volatility is in the
25 future, it's not going to make it something that's, you

1 know, completely—

2 MR. RYOR: Yes. I could - yes. I agree.

3 I could - this is Tim again - you know, go either way,

4 ten - because 15 is where we were; right? We reset it

5 seven years ago, and had been running that down. But I

6 agree. And as Claude pointed out, it can go both ways.

7 So, you know, on the one hand, you could, all of a

8 sudden, have an ADEC that doubles, but you could also

9 have an ADEC that goes to zero, and you don't want -

10 you know, you don't want that result either.

11 MR. GARRETT: Well, but, you know, Tim,

12 and that's one - and I didn't finish my thought, and

13 it's my fault not anybody else's. But so when we had

14 discussed that amortization period taken down to zero,

15 what we had recommended too is that in no case does the

16 normal cost—

17 MR. RYOR: Oh, right, yeah.

18 MR. GARRETT: --less than the normal cost

19 be the contribution.

20 MR. RYOR: Sure.

21 MR. GARRETT: So even if that gain that

22 you have, you know, offsets completely the employer's

23 normal cost share, that we would still say the employer

24 always contributes at least at a minimum their normal

25 cost.

1 MR. RYOR: That makes sense.
2 MR. HERRINGTON: This is—
3 MR. POULIN: This is Claude.
4 MR. HERRINGTON: Go ahead, Claude.
5 MR. POULIN: So is this one subject to
6 the requirement that the normal cost - at least we pay
7 the minimum requirement would be the normal cost, or
8 that the normal cost, the employer contribution, cannot
9 be less than the normal cost? I thought it was just
10 the municipal plan. It's all the plans? All the
11 plans?
12 MR. GARRETT: I believe it's municipal.
13 I think that we also adopted that for the probate
14 judges, and I believe we discussed it when we were
15 talking about changing the amortization method here, is
16 that, you know, we were saying that it's going to get
17 short enough that you have a large gain, and it's going
18 to start offsetting the normal cost amount, you know,
19 if it actually flips. The unfunded is going to take,
20 you know, more than one gain now, but—
21 MR. HERRINGTON: And this is John
22 Herrington, and this is a question for Karen Nolen.
23 Karen, so I haven't really heard anything from judicial
24 regarding the amount of the ADEC. Is that something
25 that you're aware of, that there's a concern in paying

1 that rate for the ADEC?
2 MS. NOLEN: Are you talking about the
3 ADEC now or what we finished—
4 MR. HERRINGTON: Correct, right.
5 MS. NOLEN: --the 44? Well, it is higher
6 than we originally projected. But it sounds like it
7 was mostly attributable to that correction that you
8 made.
9 MR. GARRETT: That is correct. So of the
10 50-million-dollar increase to the UAL, 36 million of it
11 was that.
12 MS. NOLEN: Oh, yeah, that's – I know
13 that there are some issues concerning next year's
14 budget. That's something I need to discuss with the
15 Secretary.
16 MR. GARRETT: Well, and I'll be honest
17 with you, that if in this – so what if you told us
18 that, you know what, let's go ahead and adopt a ten-
19 year layered approach for amortizing starting June 30,
20 2023, because it's only adding, you know, from eight to
21 ten years for the amortization period, I just – I – you
22 know, it's going to have a reduction to the accrued
23 liability cost, but it – you know, it's not going to be
24 – it's not going to remove the nine-million-dollar
25 increase. It's going to—

1 So it’s only going to, you know - I would
2 say you’re probably going to knock off - eight million,
3 so maybe a million dollars off of that accrued
4 liability cost, the 35.9 million at the bottom of the
5 page there for ’29 - I’m sorry, for ’25. It would
6 maybe knock of a million.
7 MR. RYOR: This is Tim. That’s if you go
8 to ten.
9 MR. GARRETT: That’s if you go to ten.
10 And 15 would probably get you another million, maybe
11 even more, because it kind of—
12 So, for that - purposes, maybe, Tim,
13 that’s, you know, just - if that’s what we’re trying to
14 do with this valuation, really, I have zero problem
15 with a State of Connecticut plan having an amortization
16 period beyond, you know, ten, 15 - I’m good really for
17 a long period of time. Twenty-five years is kind of
18 what we settled at for the layered amortization
19 approaches in the other plans.
20 But because - I kind of agree with one of
21 the points you made earlier, Tim, is this is a pretty
22 aged, pretty mature plan. It’s significantly weighted
23 towards retirees, and, you know, that’s maybe reason to
24 keep the inflow of contributions and - a little bit
25 higher to cover cashflow needs than having to kind of

1 reduce or sell assets in order to cover the cash
2 outflow.
3 So, you know, 15 years would probably be
4 great, probably carve off a couple million, maybe three
5 million of that increase, but probably not three
6 million, but probably over two though.
7 CHAIRMAN ADOMEIT: Any further questions?
8 What we normally do at this point is ask for John to
9 submit these and remove the draft insignia. And then
10 we'll have Claude Poulin make a motion at the
11 commission meeting to accept these two documents. Does
12 that sound like a gameplan?
13 MR. POULIN: Yeah. Now, do we need a
14 motion today in addition to tomorrow? Would you like
15 me to accept the—
16 CHAIRMAN ADOMEIT: Yes. Yeah. Why don't
17 you make the motion?
18 MR. POULIN: I move to accept the
19 Connecticut Judges, Family Support Magistrates, and
20 Compensation Commissioners Retirement System's
21 Actuarial Valuation Report Prepared as of June 30th,
22 2023.
23 MR. BAILEY: Bailey, second.
24 CHAIRMAN ADOMEIT: Is there any further
25 discussion? Hearing none, all in favor, say aye or

1 raise your hand. Opposed, nay or raise your hand.
2 It's unanimous; the ayes have it.
3 I believe we're at the end.
4 MR. POULIN: And then there's another
5 one.
6 CHAIRMAN ADOMEIT: Yeah, I'm sorry. Go
7 ahead.
8 MR. POULIN: I move to accept the
9 Connecticut State Employees Retirement System's
10 Actuarial Valuation Report Prepared as of June 30th,
11 2023.
12 MR. BAILEY: Bailey, second.
13 CHAIRMAN ADOMEIT: All in favor, say aye
14 - is there a second? Yeah, Bailey. All in favor, say
15 aye or raise your hand.
16 MR. BAILEY: Aye.
17 CHAIRMAN ADOMEIT: Opposed, nay or raise
18 your hand. The ayes have it.
19 MR. GARRETT: And, Mr. Chairman, we'll
20 have those final versions of those reports out this
21 evening to John Herrington.
22 CHAIRMAN ADOMEIT: All right. I guess we
23 now need a motion to adjourn.
24 MR. BAILEY: Bailey, so moved.
25 MR. RYOR: Second, Tim Ryor.

1 CHAIRMAN ADOMEIT: All in favor, say aye
2 or raise your hand. Opposed, nay or raise your hand.
3 It's unanimous; the ayes have it.
4 Well, thank you all very much. We'll see
5 you tomorrow.
6 MR. GARRETT: Happy holidays. Take care.
7 MR. RYOR: Good night, everyone.
8 MS. NOLEN: Thank you.
9 (Adjourned at 4:18 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, Actuary Subcommittee meeting held electronically via Zoom, conducted at 3:04 p.m. on December 20, 2023.

Karin A. Empson

Karin A. Empson

01/11/2024

Date