STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

ACTUARIAL SUBCOMMITTEE MEETING

MARCH 20, 2024 MEETING
HELD VIA ZOOM
CONVENED AT 3:01 p.m.

Trustees Participating:
Claude Poulin
Tim Ryor
Michael Bailey

Other Participants:
Peter Adomeit, Chairman, Retirement Commission
John Herrington, Director, Retirement Services Division
Ted Wright, Office of the State Treasurer, Ex Officio Member
John Garrett, Cavanaugh Macdonald Consulting LLC
Jean Reid, Accounting Specialist, Retirement Services Division
Robert Helfand, Assistant Director, Retirement Services Division
Cindy Cieslak, Rose Kallor, General Counsel to the Commission

TRANSCRIPTIONIST: Karin A. Empson

(Proceedings commenced at 3:01 p.m.)

CHAIRMAN ADOMEIT: Okay. This is a meeting of the Actuarial Subcommittee of the State Employees Retirement Commission being held remotely using Zoom technology.

Cindy, do you have the attendance, please?

MS. CIESLAK: Good afternoon. This is Cindy Cieslak. Present today, we have Chairman Peter Adomeit; Actuarial Trustee Claude Poulin; Trustee Michael Bailey; Actuarial Trustee Tim Ryor; Ted Wright, Chief Investment Officer, Office of the Treasurer and Ex Officio Member to the Retirement Commission. From the Retirement Services Division, we have John Herrington, Division Director, and Jean Reid and Robert Helfand. We also have John Garrett from Cavanaugh Macdonald, and I am Cindy Cieslak, General Counsel to the Retirement Commission from Rose Kallor.

CHAIRMAN ADOMEIT: Okay. The agenda is GASB 68. Mr. Garrett, take it away.

MR. GARRETT: Thank you, Mr. Chairman. Let me get my screenshare up. And it's a pretty light schedule today. It's the GASB 68 for Connecticut State Employees Retirement System. This is measured as of the last valuation, which was June 30, 2023, and it's to be used in the financial reporting of the State for the reporting period ending June 30, 2024.

So this is, you know, I guess, timely, and some of the component units that report using these numbers, or numbers related to this, are preparing your financial statements for that period of fiscal year '24. In fact, there's one that actually is December 31st, which is kind of why we were in a hurry to get this done, and we appreciate you all having it on the agenda today.

So, you know, as we discussed before, GASB reporting produces numbers that are typically the same as far as liability measures go as what we prepare in the funding valuations, but where we see the source of difference typically is in the determination of the assets.

So for the valuation, you know that we use a smoothing technique that kind of picks up twenty percent of the difference between expected actuarial and the market value at a measurement date. And for GASB purposes, they require the use of what they call the fiduciary net position, which is basically the market value of assets.

And in the last few years, as the State has been transferring, you know, the large amounts, significant amounts, after the end of the fiscal year, but we carry the receivable for that fiscal year, then this market value is going to capture that as well. And we also take that into account really for the market value of assets in the funding valuations too.

So this is the page that really has the basic primary measurements for GASB 68. I mean, these kind of are - the liabilities are first looked at in the GASB 67 report, which we delivered, I believe, in January, maybe February. But so here you can see the headcounts. This is headcounts as of June 30, 2024: retirees and survivors, 57,000; active members, 47,000. There's about 3,500 inactive members, which are those that are deferred receipt of the retirement benefits. They've terminated, but they're not receiving a benefit yet.

We have a discussion in here about the use of a long-term expected rate of return versus blending it with a municipal bond rate. And that's only necessary when there's a forecast insolvency or so we run out of assets at some point in the future. Then under GASB rules, we would be required to use that lower discount rate, the municipal bond index rate as of the measurement date, which you can see here is 3.66 percent.

So we would really discount back liabilities after assets are depleted at 3.66, and then from that point down to the current measurement date, we'd use the 6.9 percent long-term rate. Because there's no insolvency forecasted in our projections, we use the single - I mean, the single equivalent rate is the long-term expected rate of return of 6.9 percent. So therefore the liability measures should be the same and they are of what was determined in the funding valuation.

So what would typically cause a difference there would be because there is a projected insolvency and then have to use a different discount rate for a period. But we don't have that case here in SERS.

The net pension liability is the GASB lingo that really is equivalent to the unfunded actuarially accrued liability in the funding val. The difference, of course, is that here, we're taking the liability, subtracting the market value, the funded net - the fiduciary net position, so we come up with a different measure of the UAL as of June 30, 2023.

So just to compare, the UAL in the funding valuation was 20-billion-one-hundred-thirty-four-million, and here we see it's about 610-million dollars larger, driven primarily by the use of market value instead of the smoothed actuarial value.

We see a funded ratio of 50.6 percent in the GASB valuation, and the funding val was 52 percent. So, you know, lower measurement of market value drives a lower funded ratio in the measures.

For the year-end 2024, the pension expense we determined is 2.7 billion dollars. This is larger than the actuarially determined employer contributions, but the pension expense is really both a representation of the change in the liability over the year, and then we have a lot of deferred pieces. We have deferrals from changes of assumptions; we have deferrals from actuarial experience, gain and loss; and we have deferrals for the investment income being different than what we expect.

And you can see those deferred outflows, or items that will increase the measure of the net pension liability in the future. Deferred inflows are measures that - or amounts that will decrease the measure of the net pension liability in the future.

So when we have these deferrals, there's also a different recognition than what we have in the funding valuation. So, as you know, we have kind of a 25-year layered amortization approach in the funding valuation where any source of change to the UAL that wasn't expected is spread over a 25-year period of time and amortized with 25-year level payments. Now we've gone to a level dollar approach.

In GASB, those periods are really based on - primarily for assumption changes and for actuarial experience gain/loss, they're spread over this, I guess, modified measure of expected future working lifetime. And for this case, we have that determined – I'm sorry, that's the GASB 67. I think it's disclosed in GASB 67. Let's see if it's shown here although – well, that number is typically between five and six years, or say four-and-a-half to five-and-a-half years.

Here, it's a little over five in this year's measure. And that number – Claude, you picked this up before. This is based on a different headcount of actives and retirees, and that headcount is actually as of the beginning of the year. So that would have been the headcount we determined in the June 30, 2022 valuation, and that's why there's a difference there in how that's determined.

So we're spreading over a very short

period of time these changes to the net pension liability, which means that's going to increase as we're picking up additional deferred outflows, or really sources that will increase the net pension liability. As we're picking those up, we're going to have pension expense larger than really what any type of ADEC might measure, ADEC being actuarily determined employer contribution.

So that's the case now. We see we have a significantly larger amount of deferred outflows coming in. And in these pages, we kind of show a reconciliation of those. So the top table here is the recognition of expected actuarial experience. So these are sources of change to the liability not anticipated in the assumptions, so gains and losses. And you can see we're picking up, or are expected to pick up in the future, roughly 2.2 billion of deferred outflows due to actuarial experience.

The assumption changes really only have a couple more years of that running, actually, one more recognition period beyond this one. So we're picking up 27 million dollars this year and 21 million dollars next year, and then that total change for the last experience study, 48 million dollars will be fully recognized.

The last piece, of course, of the deferred amounts is driven by the investment gain/loss. This is quite variable. You can see it kind of flips back and forth from investment losses to investment gains. GASB allows us to kind of accumulate these and just use the net amount. So you can see that for this source, we contribute a deferred outflow of 395 million dollars there at the bottom. You know, it's actually 1.3 million dollars of gains and 1.7 million dollars of losses.

And again, those amounts are scheduled to flow through - the investment gain/loss is captured over a five-year period of time. And then the other two are recognized over that modified average working lifetime of the active, but it's really affected by the number of retirees you have.

And so it's a very short period of time, much shorter than the amortization period we use in the funding valuation. So, you know, we should expect pension expense to be a lot more variable than the actual funding determined in the valuation.

So I know this is probably about the ninth or tenth year, I think, we've been putting these together. So our tables that we put in the back – of course, the font on this is pretty tiny; let me see if

I can zoom in a little bit. So this is the table that shows changes to the net pension liability over time. It's really pretty good information.

We've got to, you know, always remember that we're looking at assets here measured at the market value, but it does give you a, you know, ten-year look at how things have progressed as far as the liabilities measured in the valuation and the market value of assets.

And now these are complete. So next year, we'll see '14 drop off and we'll add 2024 to the end. And this will just capture a ten-year rolling period of historical information. Same thing with this, which actually kind of ends up showing a funded ratio, the ratio of the net position to the total pension liability.

You know, we can see the progress made over the last ten years. And we kind of bottomed out there in 2016 at just less than 32 percent, and now we're up above 50 again, you know, based on the changes that have occurred to SERS as well as the teachers' plans and, hopefully soon here, MERS plans.

You know, our belief is that these will be some of the fastest improving funded ratios of large plans around the country, just we're not quite seeing it all yet. But, you know, I think the way things are set up, we really hope to start realizing some of those changes that have been made to really make funding a little more conservative and produce a faster improving funded ratio.

So with that, do you have any questions for us?

MR. RYOR: This is Tim. Excuse me, sorry. I always get confused by this, but - and I'm sure you'll be able to quickly explain it. The cashflows on - excuse me, sorry - on Page—

MR. GARRETT: (Inaudible) right here?

MR. RYOR: Yeah, Page - it's for the - on the investment earnings, on Page 8, sorry.

MR. GARRETT: Yep. So where we determine investment gain/loss?

MR. RYOR: Yeah. So that employer contribution, is that just a receivable, like you go back to the member contribution is tied to the - the - the earlier page—

MR. GARRETT: Right, right.

MR. RYOR: --of 223, but the employer contribution is like a million, roughly, you know, very - rounded a million off.

MR. GARRETT: Right.

MR. RYOR: And was that just a contribution receivable?

MR. GARRETT: It absolutely was.

MR. RYOR: Okay. That's what I thought.

MR. GARRETT: So in this year, the amount receivable was one-billion-forty-six-million. And so that's why we're different there. In the valuation, we discount that to make it one-billion-twenty-eight-million because it came in after the period.

MR. RYOR: Okay.

MR. GARRETT: But here, it's one-billion-forty-six-million. There's also a difference between market value in the valuation just because we were kind of playing with preliminary information when we were doing the valuation.

MR. RYOR: Yeah.

MR. GARRETT: It turned out about seventy-million dollars more of investment earnings than originally reported. We didn't feel that was really significant enough to actually change the valuation, so we kind of stuck with the numbers that eventually are going to show up.

You know, these should match with what's going to go into financial reporting for the State, which we think, for GASB, is pretty important, because whoever is reading these are going to – that's their two sources of information for assets. And, you know, if they fit pretty closely together, then we should have less changes.

So, yeah, and, Tim, that's a great catch. I mean, it's an important point when we're determining the gain/loss because we don't want to have any expected earnings on money that's not even in the plan yet. So we do eliminate those receivables when we determine the gain/loss on the assets.

MR. RYOR: Perfect. The only comment there is, maybe in the future, a footnote on that page saying, you know, doesn't include receivable, just for the uninitiated reader of the statement would be able to reconcile and not think that there is - you know, something's not lining up.

MR. GARRETT: Well, so Item (c) up there talks about the end of the year. It says, end-of-year market value's net of receivables.

MR. RYOR: Oh. Oh, there we go. Okay. Sorry about that. Okay, perfect. Thank you.

MR. GARRETT: No, no. That's fine.

MR. POULIN: This is Claude.

MR. GARRETT: Well, I mean, we could. If you desire, we could note that – because the employer contributions are the cause of that.

MR. RYOR: Right, right.

MR. GARRETT: We could note that the employer contributions do not include the receivables.

MR. RYOR: Yeah.

MR. GARRETT: So - and we can add that to the draft that we'll make for the final for tomorrow's meeting, if that's what you would like. It's easy.

MR. POULIN: This is Claude. On Page 12/38 that you have on here, the investment earnings – this is also on Page 8 of the report – are 477 million. And on Page 9, which is Page 13 of the report, the net difference between the projected and actual earnings on the plan investments is 394 million, 535.

Is the difference between the two numbers attributable to the different inflows and outflows because, for the pension expense, some gains and losses are not recognized?

MR. GARRETT: Yeah. And, Claude, what was the second reference you had? I know it's probably the asset gain/loss (inaudible).

MR. POULIN: It's on Page – it's – I believe it's Page 13 of 38.

MR. GARRETT: Thirteen, yeah.

MR. POULIN: Or Page 9 of the report.

MR. GARRETT: Yeah, so what you'll see is that the end-of-the-year balance in the '23 investment gain/loss, that balance will match what we measured this year, so the 477,059. That's the new piece going in.

MR. POULIN: Yeah.

MR. GARRETT: And so you were - let me get rid of some of this stuff here. And so that end-of-year balance now is actually - we've already - for the end-of-the-year for this, we're saying, we're recognizing one piece right now. So twenty percent of that 477 is getting recognized immediately. So the remaining balance, 424, you know, because they're reporting this in '24, is going to be 477 minus the 95 million we're going to recognize immediately.

So that's the piece that's being deferred is 395.

MR. POULIN: Yeah, okay. Thank you.

MR. GARRETT: That - I'm sorry. There's a lot of other little pieces of deferrals in there as well, so that's not exactly—

MR. POULIN: Yeah, well, there are a number of years, yeah.

MR. GARRETT: So it doesn't work out exactly that way, but there are some other pieces that are getting recognized in that as well.

MR. POULIN: Okay. Thanks.

MR. GARRETT: Oh, you know, Claude, I messed that up completely; didn’t I? It’s a great question, but really, the 394 is the sum of the end-of-year balances for all the sources, the all five years prior of the sources of gains and losses. So it’s really, the 394 is the sum of the 121.9 million end-of-year balance from the 2020 investment loss, the 957-million-dollar gain remaining balance from the ’21 investment gain, the one-point-six-million-dollar – billion dollars of the remaining loss from 2022 to be recognized, and now this new piece of 477,059, which is the balance as of June 30, 2023.

It’s the sum of those four years’ worth, and it’s 394 million.

MR. POULIN: Yeah, and that’s on Page 11; right? Well, 15 of 38.

MR. GARRETT: That’s correct.

MR. POULIN: Yeah. Thanks.

MR. GARRETT: So, you know, there’s one last thing there, Claude, just so that, you know, as one of your checks, as you all are looking at that, the amount that we’re capturing in that table that we were discussing with Tim, the investment gain/loss, that

477,059, the bold Item (i), that and the recognition piece, that's really the new pieces for '23 in that table of the history, the five-year history of investment gain/loss. So—

MR. RYOR: And, John, this is Tim again. No need to change anything because I – the thing I was looking at, the footnote on Page 6 was cut off. So I didn't see that you had – that the million-oh-forty-six – or the – I'm sorry, the billion-oh-forty-six was there.

MR. GARRETT: Okay.

MR. RYOR: So I didn't see that footnote. So now it's all perfectly clear to me now.

MR. GARRETT: All right. Okay, all right, very good. Thank you.

MR. POULIN: One other – this is Claude. One other question. On Page 8 of the report, or Page 12 of 38, the Lines (g) and (h), Line (g), I understand; 1.277 billion is based on the 6.9 percent. Whereas the net investment income of one-billion-seven-hundred-and-fifty-five-million, if we extrapolate directly (inaudible) extrapolation, does that mean that the net investment return, would that have been 9.5 percent?

MR. GARRETT: You know, we calculate in

our spreadsheets. I believe it was just over nine percent, Claude, yeah. Yeah, just because, I mean, it is a compound - well, I mean, it's not compound, but, you know, we use that approximation of, you know, that all cashflow occurs in the middle of the year. So it's really two times the investment earnings divided by—

MR. POULIN: Oh, yeah. Yeah.

MR. GARRETT: --A plus B minus I. So—

MR. POULIN: Yeah.

MR. GARRETT: And so I think it works out to be just over - I think it was like 9.2 in our calculation. What the Treasurer's website shows is really, you know, the money-weighted - or, I'm sorry, I think it's time-weighted return for the fund. And I think for SERS it was like 9.04. It's just over nine percent, which would be the most accurate measure of what the return was.

MR. POULIN: Okay.

MR. GARRETT: And so if there's no comments, and if this is acceptable to the Subcommittee, we'll remove draft and send it off to John for him to have for the Commission meeting in the morning because I don't think we have any necessary changes to the draft.

CHAIRMAN ADOMEIT: And, Claude, we'll

have you make the motion to amend the agenda tomorrow.

MR. POULIN: Thank you, Mr. Chairman. I move to accept the SERS GASB 68 Report prepared as of June 30, 2023 measured-on date for June 30, 2024 reporting date.

CHAIRMAN ADOMEIT: Okay. All in favor, say aye or raise your hand.

MS. CIESLAK: Mr. Chairman, this is Cindy Cieslak.

CHAIRMAN ADOMEIT: Yeah.

MS. CIESLAK: I did not hear a second for the motion.

CHAIRMAN ADOMEIT: Ah.

MR. BAILEY: Bailey, second.

CHAIRMAN ADOMEIT: Bailey. Thank you, Michael. Now can I take the vote again?

All in favor, say aye or raise your hand. Unanimous; the ayes have it.

Okay. John, thank you very much.

MR. GARRETT: Thank you, Mr. Chairman, members of the Subcommittee.

MR. POULIN: Thank you, John.

MR. RYOR: Thank you, John.

CHAIRMAN ADOMEIT: We'll see you tomorrow.

MR. RYOR: See you in the morning.

MR. GARRETT: All right. Bye.

CHAIRMAN ADOMEIT: Are we good, Cindy?

MS. CIESLAK: Yes. Looks like we lost our quorum. So we are adjourned.

CHAIRMAN ADOMEIT: Okay.

(Adjourned at 3:25 p.m.)

I, Karin A. Empson, do hereby certify that the preceding pages are an accurate transcription of the Connecticut State Employees Retirement Commission, Actuarial Subcommittee Board meeting held electronically via Zoom, conducted at 3:01 p.m. on March 20, 2024.

Karin A. Empson

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04/04/2024

Date