STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

ACTUARIAL SUBCOMMITTEE MEETING

MAY 15, 2024 MEETING
HELD VIA ZOOM
CONVENED AT 3:03 p.m.

Trustees Participating:
Claude Poulin
Tim Ryor
Michael Bailey

Other Participants:
Peter Adomeit, Chairman, Retirement Commission
Ben Sedrowski Retirement Services Division
Ted Wright, Office of the State Treasurer, Ex Officio Member
John Garrett, Ed Koebel, Cavanaugh Macdonald Consulting LLC
Jean Reid.
Cindy Cieslak, Rose Kallor, General Counsel to the Commission

TRANSCRIPTIONIST: Boden Truitt

(Proceedings commenced at 3:03 p.m.)

CHAIRMAN ADOMEIT: Okay. This is the State Employees Retirement Commission Actuarial Subcommittee, meeting remotely using Zoom technology. And Cindy, do you have the attendance, please?

MS. CIESLAK: Sure. Good afternoon. This is Cindy Cieslak. Present today we have Chairman Peter Adomeit, Trustee Michael Bailey, Actuarial Trustee Claude Poulin, and Actuarial Trustee Timothy Ryor. From the Retirement Services Division, we have Ben Sedrowski and Jean Reed. From Cavanaugh Macdonald, we have John Garrett and Ed Koebel. And I'm Cindy Cieslak from Rose Kallor General Counsel.

CHAIRMAN ADOMEIT: Okay. The first item is GASB Number 67.

MS. GARRETT: Thank you, Mr. Chairman. So, Ed and I are here to present a few reports. The first two are for Municipal Employees Retirement System, the GASB 67, and then based on that measurements the GASB 68 will follow. And then Ed is going to go over the probate judge's report.

So, you know, we've seen -- we've seen this for quite a few years now. GASB, of course, is the accounting required disclosures that are going to be presented in financial reporting. Here -- this is a -- what's called an agent -- I'm sorry. A multiple employer cost sharing arrangement. And the cost shares are split among the participation groups, so general employees with Social Security and without Social Security, and police and fire with and without Social Security.

That work of allocating it out to the individual employers within those units is something that gets completed later this year. We target June next month, we should have those allocations out. So, in this report, this is really -- if we combine all those together, this is the entire MERS plan. This is the disclosure information as if it was one plan. And so, we see some of the results. Of course, these measures are all based on the June 30th, 2023, valuation, the latest we've performed.

You can see that the headcounts in the membership roles below that is really the beginning of the summary of the results of these measures. So, total pension liability, again, is similar to what we value in the actuarial valuation reports, but it's called the actuarial accrued liability. So, these are really the same basis, same numbers, same discount rates, same assumptions.

So, that number is the same as what's reported in the valuation. Here the plans fiduciary net position is also just the market value of the assets. And the attempt here is made to match really what's going to be disclosed in the State's consolidate or annual consolidated financial reporting. So, we have, here this year, we -- it was an exact match, 3.2 billion.

The difference between those is called the net pension liability. That would be more similar to what we call the unfunded actuarial accrued liability in the pension world. 1.4 billion, it's a little larger because in the actuarial valuations we're smoothing gains -- I'm sorry. We're smoothing losses, which results in the actuarial value of assets being larger than the market value. So, really this produces a larger net pension liability than what we see as the unfunded actuarial accrued liability in the funding valuation. Funded ratio --

MS. HELFAND: You know, again, if anything comes up, you have my number.

MS. GARRETT: Okay. Well -- so, here, the funded ratio --

MS. CIESLAK: Sorry. This is Cindy. I'll just note that Karen Nolen, trustee, and Robert Helfand from the Retirement Services Division joined us. And I muted you.

MS. HELFAND: Yeah, I'm sorry. I was on the phone with a retiree but I'll be quiet now.

MS. GARRETT: No. Please, interrupt as

much as possible, otherwise it's going to be an actuary droning on and on about actuarial measurements. So --

MS. HELFAND: No, it's fascinating, John. It's really mesmerizing. So --

MS. GARRETT: Bert, you need to get out more. Okay. You do. So, we have a measure of a -- of the ratio between the total pension liability and the market value of assets. Here, again, it's going to be a little bit lower because the assets at market are a lot less than the actuarial value used in the funding valuation. So, a little under 70 percent. And then, here's the basis for that.

And you see this, this would match exactly what's in the valuation as far as the use of mortality tables and discount rates and salary increases. All these assumptions match exactly what was used in the June 30th, 2023, valuation. And then, the -- toward the back is actually a little pretty useful information for at least, you know, comparative -- a review of historical GASB reporting. These numbers, you know, since 2019 is when the first year we actually did annual valuation.

So, from '19 through '23, these are, you know, based on annual valuations. 2018 was also a valuation year, but 2017 was a roll forward. So, next year when we're reporting this, we'll actually have, you know, all these numbers will be based on a specific annual valuation, whereas

'17 right now is kind of what would be expected in 2017 based on rolling forward the 2016 valuation.

So, yeah. These graphs or these charts of comparative numbers are really kind of useful to see the trend. Of course, you know, the plan has been dealing with some significant losses over the period. So, we'll hopefully start seeing with the -- with the redesign that occurred in '22. We'll start seeing some stabilizing of these -- this downward trend. So, that's GASB 67.

Again, this is the reporting of the plan for disclosure purposes and financial reporting. This is used, it is -- notes are made in the State's financial records and reports based on this. And then from this we roll into -- and if it's okay, Mr. Chairman, I'll jump into GASB 68, which is -- I would guess is next --

CHAIRMAN ADOMEIT: Please proceed.

MS. GARRETT: So, those GASB 67 numbers are the basis then for determining different measures in GASB 68. So, 67, the plan is reporting, here's our -- here's our liability, here's our assets, here's our net pension liability. Now in GASB 68, further measures are made and primarily the pension expense, so the annual pension expense, which uses those measures but also determines some deferred inflows and outflows.

So, the recognition of gains and losses or unexpected experience, as well as assumption changes and benefit changes over time. So, on the summary page here, we see some added numbers. Again, collective pension expense. Collective, meaning this is the entire plan. It's, you know, ultimately going to be shared out to the employers based on their participation in the groups.

But -- so, the total collective pension expenses just under $140 million. We have deferred outflow. So, this is recognition of really, items that are going to increase the liability in future years. So, we kind of have that headwind of 392 million of deferred losses primarily. But, you know, there was some demographic losses as well as investment losses.

2021 especially, was a bad year all around the country. And then we have some collective deferred inflows, which this is the recognition of gains in the future years beyond the measurement date. You can see up top, the measurement date is as of June 30, 2023, is for the purpose of reporting for the fiscal year we're currently in. So again, that's why, you know, having these measures ready even before the beginning of the fiscal year, then the employers themselves are not really looking around for, oh, where's the numbers? I need to report pension expense.

So, you know, there's really nothing new in here. Again, the same basis for the measurements. We have a measure of the gain/loss that -- where we determined this year's piece of gain/loss. And you can see, you know, as we've discussed, the investment return loss was 50 million. Again, that's on a market basis. That's not exactly what's used for the pension valuations, but still --

MS. KOEBEL: It's a gain, John.

MS. GARRETT: I'm sorry, it's a gain for '22 -- for '23.

MS. KOEBEL: '23. Yeah.

MS. GARRETT: Yeah. And -- but we're still kind of struggling with -- if we look on down there, the deferred pieces, we can kind of see, we had a gain for '23 and '21. '21 was a fabulous year. We had an excellent return in between there, the sandwich in between, there was a loss for '22. So, the portion that's deferred still, is we have roughly 109 -- $110 million of losses that are yet to be recognized.

Then the other sources of deferrals is actual experience. So, that's the difference between what we expected to occur and what actually occurred. And here we had one gain year, 2020, and then we had four loss years spread throughout there. And the recognition amount is roughly a net of $131 million of losses due to experience being different than what we assumed.

Then the last source is assumption changes. The -- of course, the last experience study was just recently performed. And it did increase the liability, 171 million. And we're still going to -- we're deferring the recognition of roughly 140 million of that.

You know, the rest of this, again, the purpose of this is for the disclosure, for the State, because the individual employers will refer to this report, but they'll have their own specific measures for each individual employer participating in MERS. That's done by us. We help really, the auditors get to those numbers. There's a reconciliation between us and the auditors, and then the auditors ultimately put the report together, typically, I think in July or August.

So, with that, this is the MERS GASB reporting for June 30th, 2023. It's to be used in preparing those allocations for the individual employers reporting information as of June 30, 2024. Any questions that the Subcommittee may have? Now, I'm -- I feel pretty good that there were no questions despite the fact we gave you all multiple days to look at it.

So, usually I'm worried that there's no questions because you got it last night, but this time we actually hit a -- we hit the delivery day, you know, where things were kind of as expected. You get the reports roughly a week prior to the meeting. That's our goal and I apologize for every time it hasn't occurred yet. So --

MS. KOEBEL: All right. If there's no

question on the GASB we'll kind of move into the probate judges, if that's okay, Mr. Chairman.

CHAIRMAN ADOMEIT: Please proceed.

MS. KOEBEL: Okay. All right. So, one of the valuations that we do -- one of the funding valuations we're going to get rid of -- get out of accounting now and go into funding. But one of the funding valuations that we do for Connecticut is the probate judges. And they have a different valuation date than the other systems.

So, they're on a calendar year basis. So, we do the valuation as of December 31st every year. So, we're typically doing it now in the springtime, and we usually present these results around May or June to the Actuarial Subcommittee. So, and -- unlike the other plans, this one is a hundred -- over a hundred percent funded. So, this is our principle -- summary of principle results for the last two years, both '23 and '22.

We use the 6.9 percent discount rate for the -- for this plan as well. There are 317 active members with about $21.7 million in payroll. Really didn't -- payroll didn't move much at all this year. I think they got some payroll increases last year. But for this calendar year the judges didn't get any -- or the members of this plan didn't get any payroll increases.

There were a good number of retirees. The retirement -- retiree count jumped about 22 people this year, paying about 7.3 million in benefit payments to those members. The market was good for this plan, we'll go over that, but basically jumped from 124 million to 135, almost 136. And we do that same smoothing that we do on all the other plans and the smoothing actuarial value a little bit higher for this plan.

So, like I said, the the funded ratio down here is over a hundred percent funded. We actually improved our funded ratio from last year's valuation, and the unfunded actuarial accrued liability actually got more negative. So, it actually, you know, decreased, if you will and got more negative. So, it's actually a surplus, we call it a surplus. More assets to cover the accrued liability, which again, many plans in the country don't have. So, it's nice to see one that does.

And when we do calculate what is required to be put in, we calculate, similar to -- what we do for each of the other plans is we calculate a normal cost, so the accruing benefits for active members. So, all those active members are accruing additional benefits. That normal cost comes out to about $3.17 million. A little bit increase from last year.

And then the accrued liability, if we were to amortize this $1.6 million surplus over 13 years, we'd get a credit of $189,000. However, due to the funding policy of this plan that we set a couple years back, once this plan got over a hundred percent funded, we said, well, we don't want to take that surplus. A lot of plans did this back in the 90s and got into funding trouble where they were taking contribution holidays, if you will. So, we set the -- kind of the minimum to be put in as the normal cost. So, you see that where our actuarially determined contribution is actually equal to the normal cost of the $3.17 million, and it was like that last year.

Just to give you a little bit of a breakdown, of those 317 active members, there are 54 judges and 263 other employees, you know, DAs, those kinds of folks in the court system, in the probate system, clerks and stuff like that that are in this plan as well. There was a good number of turnover in the judges. We have 14 new judges in this plan. So, that's pretty big turnover. So, you're going to see some movement in the gain/loss analysis, you know, in retirements and that kind of stuff. But, you know, typical of what -- you know, what was kind of shown the year prior in -- as far as headcounts as of December 31st.

I'll skip down a little bit here, to here. Here's our schedule of funding progress. This just gives the last six years. The funded ratio here in this column, you can see back in '18 we're 87 percent, we increased to 2019. The probate judges group, they threw in a bunch of extra money during good funding times, that they thought they wanted to get this plan over a hundred percent funded, which they did in '20 -- in 2020. And have kind of maintained that level over the last four years now.

And they -- again, just like the other plans, they've been putting in a hundred percent of their A deck. And in fact, you know, like I said, a couple years, they put in more. Overall, the plan did have a gain of the system, about $617,000 gain, which isn't really much when you think about it, when we compare it to the actuarial liability from last year, it's only about 0.5 percent of a gain.

And I'm going to kind of skip down to the last page of the report and just kind of show you the breakdown of those gains and losses. So, retirements actually had a gain. There were -- I shouldn't say there were -- there was a lot of movement but there weren't a lot of retirements. There were a lot of folks that left from withdrawal. So, retirements actually did see a gain. But a lot of people left before they reached retirement status, so we even saw a bigger gain in the withdrawal group here.

And then, like I said, the payroll didn't really move this year, and we always assume it -- we always have a basis for what we think payroll will increase by, and when it doesn't, we get a significant gain there as well there.

So, we saw almost about a $1.5 million gain there, and those gains were kind of offset a little bit by some new members coming in with some service and the investment loss.

And then we saw a pretty significant loss due to deaths after retirements. So again, when folks live longer which, you know, judges do, you know, in some years they do, but we've seen -- we're seeing the trend back to after COVID experience where we're seeing a little -- the plans have -- are seeing a little bit more loss due to folks living longer than assumed. So, we saw some gains there during the COVID years where there were more deaths than we had expected.

So, that's kind of just a breakdown of what we saw in the data of where -- what people are doing, and what -- you know, where they're going and when they're retiring. So --

MS. GARRETT: You know, if I could just throw a couple cents -- two cents in on that death after retirement. This is a really small group really to -- you know, but as Ed's talking, he's talking more of the larger groups we do around the country. But we're doing a -- you know, the new SERC experience study would be done I think in '25 would be the new one.

And, you know, what we might look at is perhaps maybe we need to add some little margin for judges' small plans mortality. You know, we'll look -- we'll look at the experience, we'll look at, you know, what kind of gain/loss history we've had. And we might -- instead of just adopting the SERC general employee non-hazardous type of assumption. We might want to add a little margin in there for the -- for the judges plans if it's consistently showing that assumption for general employees isn't really capturing the experience that the judges are in.

And this is not judges, this is really, you know, there's five times more non judges in this, but yet this is all really white-collar type folks. So, you know, sometimes we might want to add a little bit of a margin just specific -- to this specific group. It's going to be hard to say it's credible to do that, but yet it might -- it might be the wise thing to do longer term. Just to make sure this plan stays at a surplus, because they went through a pretty good struggle to get it to an overfunded plan.

So -- and, you know, as part of that, you know, the decision the Subcommittee and the Retirement Commission made years ago to adopt that policy of requiring a minimum of the normal cost, instead of offsetting the contribution due to normal cost by surplus of the amortization of the unfunded liability, by setting that as a minimum normal cost then, you know, that's a pretty wise policy. One thing about that is we might want to look at -- you know, as that funding period is dropped, it's now 13 years. 13 years is a pretty short period of time to spread anything over.

So, you know, we might want to kind of normalize that at, maybe go back to a 15 year or maybe set that to normalize once we get to 10 years, so that we don't let that spread period of that surplus get to be, you know, too short because it's going to make it look like, at some point, hey, we don't have to put a contribution in if we just change this policy. So, you know, I know that's not going to come from the Subcommittee, but that could come from the probate judges.

So, something I might, you know, recommend for consideration is setting a minimum amortization period in here so we don't let this surplus spread over too short a period of time, and then therefore appear to be a larger offset of the normal cost, and what it really would be if we spread it over a longer period of time.

MS. KOEBEL: All right. We're happy to entertain any questions.

MS. RYOR: This is Tim. Just to follow up on that, I mean, but based on the relationship between market and actuarial value, I mean, yes, there's a surplus in this value, but if you -- if you rolled forward, you know, realizing all your assumptions we're going to trend to some under -- slight underfunding.

MS. KOEBEL: Yeah, exactly. Yeah. We do a one-year projection here for next year using -- you know, kind of valuing what we're going to see on a -- if we get a 6.9 percent return for this calendar year on a market value basis. And we still are saying we intend to stay over a hundred percent.

Right now we're estimated to, for the December 31, 2024, valuation. But obviously demographic experience, investment experience can alter this trend for sure. But for now, for the next year, we kind of anticipate staying over a hundred percent funded, but maybe two, three, four years from now, yeah, we might not be in that position.

MS. RYOR: Okay.

MS. GARRETT: Although this fiscal year is looking pretty good for most places. So, maybe we -- you know, if this works out, we -- the market kind of recover some ground and, you know, this surplus lasts longer, but --

MS. KOEBEL: Yeah. And I don't know if John Herrington has joined us, but -- yeah, he has. But I know the folks at probate judges, you know, they always contact me. They know this report comes out around this time of year. So, they always contact me and, you know, just want to make sure that they're maintaining over a hundred percent funded.

So, I think, you know, if we were to tell them they weren't going to be a hundred percent funded, I think they'd throw some money into the plan again, more than what we're telling them to put in to maintain this over a hundred percent funded. So --

CHAIRMAN ADOMEIT: Claude, we will meet in motion tomorrow.

MS. POULIN: Yeah.

CHAIRMAN ADOMEIT: To amend the agenda.

MS. POULIN: Thank you, Mr. Chairman. This is Claude. I move to accept the CMERS GASB 67 report, prepared as of June 30th, 2023. The CMERS GASB 68 report, prepare as of June 30th, 2023, and the Probate Judges and Employees Retirement System Actuarial Valuation report, prepared as of December 31, 2023.

CHAIRMAN ADOMEIT: Is there a second?

MS. BAILEY: Bailey. Second.

CHAIRMAN ADOMEIT: Okay. Something made my room shake just now -- just now. All in favor? Say, aye or raise your hand. Opposed? Say, nay or raise your hand. The ayes have it, unanimous. Okay. Thank you, Claude. And then, John, you'll send us a document as you do always, but without the word, draft, on it, please.

MS. GARRETT: Yes, sir. We'll have that out this evening.

CHAIRMAN ADOMEIT: Okay. I guess we now need a motion to adjourn.

MS. BAILEY: So moved.

CHAIRMAN ADOMEIT: Bailey?

MS. BAILEY: Bailey.

MS. RYOR: Tim Ryor. Second.

CHAIRMAN ADOMEIT: Okay. All in favor? Say, aye or raise your hand. It's clearly unanimous. The ayes have it. Thank you all very much.

(Adjourned at 3:30 p.m.)

A Plus Reporting, LLC

55 Whiting Street, Suite 1A

Plainville, CT 06062

203-269-9976

scheduling@aplusreportingservice.com

I certify that this document is a true and accurate description of the proceedings obtained from the recorded conversations contained in the listed audio file.

Boden Truitt

Boden Truitt,

Transcriber