STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

ACTUARIAL SUBCOMMITTEE

DATE: March 17, 2025

HELD VIA Zoom

CONVENED AT 3:00 P.M.

Present (Via Zoom):

Peter Adomeit, Chairman
Michael Bailey, Trustee
Karen Nolen, Trustee
Claude Poulin, Actuarial Trustee
Tim Ryor, Actuarial Trustee
John Herrington, Retirement Services Division Director
Jean Reid, Retirement Services Division
Benjamin Sedrowski, Retirement Services Division
Megan Piwonski, Retirement Services Division
Ed Koebel, CavMac
Larry Langer, CavMac
Cindy Cieslak, Rose Kallor, LLP

(Proceedings commenced at 3:02 p.m.)

CHAIRMAN ADOMEIT: I'm Peter Adomeit. This is the meeting of the State Employee Retirement Commission Actuarial Subcommittee being held remotely using Zoom technology. Cindy, do you have the attendance, please?

ATTORNEY CIESLAK: Good afternoon. This is Cindy Cieslak. Present this afternoon, we have Chairman Peter Adomeit, Trustee Michael Bailey, Trustee Karen Nolen, Actuarial Trustee Claude Poulin, Actuarial Trustee Tim Ryor. From Retirement Services Division we have Ben Sedrowski and Jean Reid. From Cavanaugh Macdonald, Larry Langer and Ed Koebel, and I'm General Counsel from Rose Kallor, Cindy Cieslak.

CHAIRMAN ADOMEIT: Okay, thank you. The item is number one on the agenda, Connecticut Municipal Employees Retirement System GASB. Statement Number 67.

MR. KOEBEL: Thank you, Mr. Chairman. This is Ed Koebel of CavMac. I'm going to go through, the first two items of the agenda -- the GASB Statements 67 and 68 for the Connecticut Judges, Family Support Magistrate's and Compensation Commissioners Retirement System. That's a mouthful.

So these are accounting disclosure reports. Just to remind you all that we do, this is not the valuation results that talks about the funding, but it is the numbers that go into the accounting disclosure statements for the State, and so just I'll go through these quickly.

The basis is basically the same that we do for the valuation funding. There's different terminology, but basically here on page 2 of the report, just a breakdown of the members; there's 541 members of this plan, 208 actives, 330 retirees, and a couple of deferred vested's. Those are folks who are in the plan that have left vested, but they're not yet able to receive their benefits.

So 541 total members. They amount to about 567 million dollars of liability. We call that the Total Pension Liability, which is comparable to the Accrued Liability on the funding side. We compare that liability for accounting purposes to the market value of assets or what accountants call the Fiduciary Net Position of 333 million, for a difference of our net pension liability of 234 million dollars. We take that ratio, just like a funded status ratio, funded ratio, and we come up with about 58, just under 60% funded. This plan has been getting 100% of their contributions into it over the past few years which has been a great thing, so their funded ratio has been increasing.

Here's a little bit of a roll forward from year to year. Last year we were at 557 million dollars liability, and again this year, 567. So about a 10 million dollar increase in liability for this year and a small little gain. It's nice to have some experience gains for the year.

I'll just, for this GASB 67 report, I'll just kinda show you the bottom line of kind of where we have been over the last 10 years. I like to look at this as a 10 year history of the net pension liability. While it has grown from a 175 million here in 2015 to 234 million, though the funded ratio or the ratio of assets to liabilities has grown from 51% to 58%. This is more volatile than we usually see in the funding side of things since we're dealing with the fiduciary net position as of the June 30 date. So it does become a little bit more volatile. But, again, we're seeing a trend in the right direction, so that's what we want to see.

I'm going to go over to the 68 report. Can everybody see the cover page for this report?

CHAIRMAN ADOMEIT: Yep.

MR. KOEBEL: Okay, great. All right, so just let me know if I need to make anything bigger. I think I made it as big as possible.

So the GASB, while the GASB 67 is for the plan, GASB 68 is for the employer. So, again, this is the numbers that will go on the State. So basically everything is very similar to where we have a net pension liability of 234 million dollars and the same ratio is that we include a couple of extra details that have to go onto the State's, again, financial reports, and one of those things is called a Pension Expense, which is comparable to the contribution of the ADEC that we calculate, but on an accounting basis it's done very differently than what we do on a funding side.

So we're not booking this, we're not trying to fund this, but well, we are booking this number, this gets booked again on the financial reports. We're not making this as a contribution, but that pension expense is about 38.2 million dollars.

Just to show you a little bit of again, the inflows and outflows on the asset side of things, I think this is just important to look at, and then I'll kind of end there and ask -- bring it up for questions, but this plan is getting in about 35 million dollars in contributions from the employer from the State. Employees are paying about another 2.3 million dollars.

Benefit payments going out is about 37 million dollars, so if we add up these two numbers and compare it to the benefit payments, where almost like a pay as you go plan, where the contributions coming in are equaling the benefit payments going out. The great thing is we're investing that 300 million dollars through the State, and so we gained another 34 million dollars in investment earnings. So that's why we grew by the 34 million dollars this year, was that growth in assets.

So the cash flow is really good here for this plan. It's basically zero, a net zero. So any kind of investment earnings are really growing this fund. As the plan matures, it will probably see, you know, less employer contributions would be needed to cover the benefit payments going forward, and we'll use those additional investment earnings to kinda cover it.

So, again, everything from GASB 67 and 68, they're very closely related to each other. There's a lot of accounting numbers to all the accountants in the room, you know, they have to understand these numbers and there we go, but, you know, for the Actuarial Subcommittee and the Commission itself, we kinda tend to just kind of make sure you guys understand the funding reports. But, again, these GASB reports are important to understand.

So, I'm going to stop there and answer any questions for either of those two reports.

I didn't think there would be any. All right. I think I need to get approved, Claude do they usually get approved?

CHAIRMAN ADOMEIT: What we do is we accept -- recommend acceptance, Claude.

MR. POULIN: That's right.

CHAIRMAN ADOMEIT: Yeah, so you can make a motion to that effect, please.

MR. KOEBEL: Claude, you're muted.

CHAIRMAN ADOMEIT: You're muted. There we go.

MR. POULIN: Okay, Mr. Chairman, this is Claude, and I move to accept the Connecticut Judges, Family Support Magistrate and Compensation Commissioners GASB 67 and GASB 68 reports prepared as of June 30, 2024.

MR. BAILEY: Bailey, second.

CHAIRMAN ADOMEIT: Okay, all in favor, say aye or raise your hand. It's unanimous, the ayes have it. It always is. Okay.

MR. KOEBEL: All right. I'm going to -- we've done another --

CHAIRMAN ADOMEIT: (Inaudible) could both the GASB reports, please? Yeah? Okay, good. And then you'll give us a copy without the draft on it?

MR. KOEBEL: Yeah, we'll get you final --

CHAIRMAN ADOMEIT: The usual, yeah.

MR. KOEBEL: -- we'll get you final copies tonight, yes.

CHAIRMAN ADOMEIT: Okay.

MR. KOEBEL: For tomorrow's meeting, yes.

CHAIRMAN ADOMEIT: Okay. SERS Surplus Management Policy.

MR. KOEBEL: Yeah, so this is -- I won't steal much of Larry's thunder here, but just as kind of something we wanted to talk to the Actuarial Subcommittee and just get you on thinking about this. But, you know, Connecticut SERS has had an unfunded accrued liability for many years, but, you know, there's going to be a time where we get to potentially get to a surplus position where we have more assets to cover the accrued liabilities. So, it was kind of asked during a discussion we had with the due diligence group, and they asked, does SERS have a Surplus Management Policy in the funding policy? And the answer was no. But, so, this is something we kind of put together over the last month or so and shared it with John Herrington and kinda wanted to share it with you all and kind of what we're thinking. Again, we've got time for it, but it could be here before we know it, which is a great thing to get to a surplus position. So I'm going to turn it over to Larry. Larry's all dressed nicely today. He's got his bow tie on, so he is ready to go.

MR. LANGER: Thanks, Ed. This is Larry Langer from CavMac. Yes, I thought it was dress up day, and once again, I was deceived. I'm prepared to drive, do you have it up? Because I can drive.

MR. KOEBEL: Yeah, I'll let you drive.

MR. LANGER: Thank you. All right, and we're going to see how this goes. Sure, oh, goodness, all right. There should be a PowerPoint with --

CHAIRMAN ADOMEIT: There is, you did it.

MR. LANGER: These are good days, we should reflect on this for a minute. So, Ed gave a great introduction to this topic, the Surplus Management Policy, and I won't belabor that. Today's topics I've listed out here that we're going to go

through. Questions throughout -- I realize that we're hitting y'all a little cold on this, and on top of that, it's an actuarial topic, and so they're -- but we think it's a -- maybe not an important topic right now, but an important topic at some point in the future.

We're going to talk about background, something called overshooting, which is a term I didn't hear of until about a month and a half ago. Then we're going to get into surplus management policy, a concept called a contribution floors, excess contribution policy which you'll see actually flows in sort of nicely. At the end is our CavMac propaganda. We rebranded, we have it at the back. You can see the team, a little bit about CavMac, but we're not going to go through that, you can cover that at your leisure.

So, the background was just -- this is a question that came from the Due Diligence Committee that was funneled along to us and, you know, the thing is, you know, hey, with the contributions going in and it's excess funding, does this result in us over shooting? And when I say overshoot, think overshooting, I think Yosemite Sam. I don't think that's the context. Overshooting means we go into a surplus position; that is we get to over a 100% funded. And we're going to talk a bit about this.

We responded with a letter, a first draft of a letter, and from that, John Herrington said, well, why don't you write

something up a little bit more and talk a bit about this surplus management.

So the first topic; overshooting. And in response to this question, yes, you know, SERS is currently projected to overshoot a 100% funding in just over 20 years. It may happen earlier, which would be happy. It may happen a little later in 20 years, it all depends upon the experience of the future. And we have a little chart later on, but under the current funding policy, the State contribution would fall below the employer normal cost. Normal cost is the cost of benefits occurring during the year. The employer portion of it is when you subtract out member contributions. So it'll fall to the employer normal cost and maybe even go to zero, and, you know, we encourage some sort of development and implementation of a surplus management policy, which talks to what happens when you get into surplus, and we've outlined this policy here today.

And surplus management policy, you know, it's the elements of your funding policy when you exceed a 100% funding, and we call this a surplus management policy. There's a paper out there, a research paper out there, put on by the Public Plans Committee of the Conference of Consulting Actuaries that is Actuarial Funding Policies and Practices for Public Plans.

The original was from 2014, and the update was just issued last August. There's a few CavMacians that have worked on that, and that paper suggests that you really shouldn't let the contribution go to zero, and it talks about surplus.

Now the reality, you know, even with that paper out there, very few systems have adopted a surplus management policy, primarily because, you know, just like SERS, we're not going to see surplus until many years into the future. And so -- but it's nice to get ahead of this, if, you know, but it's not urgent. Please don't stay up today researching this and getting your hair all adrift thinking about this, but it is something to put on the back burner for a little bit. And we'll continue the discussions at future Actuarial Committee Meetings.

So we're going to illustrate and discuss the current surplus management policy and then this concept of contribution floors and other actuarial terms and then excess contribution policy. But first, we're going to comment a little bit about illustrations, and why these may be a little different than formal actuarial projections.

We've not projected out the service valuation to illustrate these policy elements. I mean, there's a couple of reasons for that. One, we have this concept called layered amortization or the amortization schedule, and when you project out in the future it sort of clouds some of these other elements. So we wanted to scrape that aside and then, quite frankly, we find it easier to think about all these items in today's dollars. You know, in the future, the dollars potentially will be bigger and it's hard to wrap my head around it, and I have a large head, so we're going to illustrate all these elements based upon the June 30, 2024 actuarial valuation, which is the basis of the fiscal year ending 2026 date contribution, which we discussed earlier this year.

We're going to show results over a broad range of funded ratios, even though right now you're not in this range of funded ratios, it helps to illustrate and hopefully this makes reviewing these policies easier. And, again, if you have questions, pause me, because I get winded if I talk too long.

So the current funding policy is here. And what we have here is what happens under SERS, what the contribution amounts, as we're entering into surplus, and then leaving surplus.

So right now, until we achieve a 100% funding, most of that contribution to SERS, which is around 1.98 billion dollars for fiscal year 2026, 1.734 of that is to pay off that unfunded actual accrued liability. And most of that payment was established back in 2016. It was amortized over a 30 year period as of that point, and back in 2016, SERS was about 36% funded, so it's a large portion of it.

So under the current policy, as we're approaching surplus, the contribution is going to stay high at that 1.8 billion amount, but then when we get to 100% funded, you can see -- I don't know if you all can see my arrow, maybe-maybe not, I see it, but down here at some point when you get to 100%

funded, you see the contribution in the dark indica drops off precipitously. This amount right here 100% funded is the employer normal cost, and we have the amount as of this latest valuation, and that's about a quarter of a billion dollars. And then as we use the excess and we take the excess, we amortize it over the 25 year period in place for future changes in unfunded liability, you can see the contribution declines until when you hit 107% funded, the State contribution reduces to zero, that is there a sufficient surplus that even if you spread over 25 years, it reduces the contribution to zero. All right?

Now, when we're leaving surplus, these are the teal bars that are next to it, and you can sort of see them coming here. You're leaving surplus when you're a 100% funded, you're at the quarter of a billion dollar employer normal cost contribution, and as you work your way to lower and lower funded ratios, you can see by the time we get to 80% funded, the contribution is shy of a billion dollars. That amount is the employer normal cost plus a 25 year amortization of the unfunded liability. Is that concept reasonably clear? This is the current policy.

So under the current policy, as you know, we talked about it as the funded ratio declines, you know, the State contribution quadruples effectively from a quarter of a billion to almost a billion dollars. When plans leave surplus, the resulting employer contribution increases are often difficult to budget.

I will tell you most of my actuarial angst in my career has come from plans that went from over funding and had no contribution to all of a sudden the contribution came due, and which is a good reason to consider a surplus policy so that that transition from over funding is smoother.

So we're going to talk a little bit about contribution floor as it seemed like the steam roller illustration was appropriate. Well, what's a contribution floor? A contribution floor is a threshold under which the employer contribution does not fall. All right? So we're going to keep the contribution -- the employer contribution set at some threshold. So we've proposed three of them. There's no magic to this. It was just -- it seemed appropriate to illustrate them.

An 80% floor for SERS is set at the level of normal cost plus a 25 year unfunded liability contribution as if the plan -- as if SERS was 80% funded. And what that does is it keeps the employer contribution from not only declining below zero, but declining below a bigger amount than zero.

Ninety percent is the same as an 80% floor, except for we amortize based upon the system being 90% funded. And then the employer normal cost floor is set at the level of employer normal cost, which this policy here seems to be one that a lot of systems gravitate towards at the moment. I think things will change and they'll look for higher floors.

So when we get into this contribution floor illustrations here, down here in the teal, you see the contributions for various funded ratios ranging from 80% up to a 120%. Ed asked me why we went to a 120% on these, and primarily it was so that the legend could show up. There's nothing magical about that, but you can see without the floor, here's the contributions, and you can see they increase rather precipitously over the course of time, you know, going from a 100% to 99%, just that small 1% increase increases the contribution by about 14% in terms of dollars.

Here's the floors illustrated and the orange dots is the employer normal cost floor. So, while you're over a 100% funded, instead of contributing amounts in the teal bars, you contribute here, you know, the quarter of a billion dollar amount, so as you're over 100% funded, you know, the contribution stays level.

Under this 90% floor in the dark indigo dashes, we set the contribution, which is somewhere around 600 million dollars. We set it at a level as if you're 90% funded. So theoretically while you're about 90% funded, you contribute 600 million dollars and there's no contribution fluctuations.

And then finally we have this 80% floor, which is as if the plan were 80% funded, and it's a little shy of a billion dollars. So while you're under 80% funded, the contribution stays level.

MR. KOEBEL: So Larry, so just so people understand, so -- if and when we get to a 100% funded within the next 20 years, hopefully, if this Subcommittee and the Commission were to adopt the 80% floor, just so everybody knows that the contribution -- we're still anticipating, still paying the nearly 2 billion dollars off. Up until that point, but then once the plan got to a 100% funded, you don't have to drop -- we wouldn't drop all the way to 200 million or a quarter of a billion -- you can go back to that other slide.

MR. LANGER: All right.

MR. KOEBEL: You'd just drop down to about a billion dollars if you did the 80% floor, so that would be kind of where we would be headed, because then if we were to have a global financial crisis after that and the fund goes from a 101% funded -- the year we get to a 100%, then it goes back to 80%, we're not talking going back to 2 billion dollars, then we would be right there, right along that same floor.

So it's a very complex thing and we're not even close to being there, but it's, again, just something to think about not dropping precipitously all the way down to basically nothing, and it's harder -- we always say, once you get back down to something, it's harder to get it back up. They've been paying 2 billion dollars. We're going to tell them to go down to a quarter of a billion. You come out of full funding and say, well, now we need a billion dollars, and they're going to be like, the State's going to be like, all over the place.

So this is kind of -- these are all illustrations. We don't know when and where this will take place, but just kind of give you an idea of the volatility or the asking for the State for more money after we reach the surplus is going to be harder.

MR. LANGER: Thank you, Ed. That allowed me to catch my breath. I was getting winded. No, I appreciate it.

So, was there another question?

MR. HERRINGTON: Yeah, I think, you know, once you're done, I have a question -- so.

MR. LANGER: Okay.

CHAIRMAN ADOMEIT: I have a question, John.

MR. HERRINGTON: Okay.

CHAIRMAN ADOMEIT: So he may -- you may answer my question before I make it. Go ahead.

MR. LANGER: Okay, so we've got a projection of this to illustrate what Ed was talking about, and, you know, we talk about variation and funded ratios. And what we're going to show on the next page seems implausible, but, quite frankly, we've seen this type of pattern and, you know, the range and follow the range and funded ratios back with the global financial crisis.

Now this is modeled based upon the prior illustrations. The dark indigo right here, the bars, are the current policy, and we model the current policy, you know, year one the plan's 98% funded, we still haven't quite reached surplus. Year two, we get to a 105%. And then years three, four and five, the wheels fall off. We go to 95% then 85% then 75%, all right? So this is what the current funding policy contribution would be going from 1.9 billion, then we drop to not even the level of the employer normal cost, somewhere, you know, under 100 million dollars, and then it quadruples to over 400 million dollars, then close to 800 million dollars in the next year, then we get to, like, 1.1 billion dollars in year 5 under the current policy.

So, you can see, not necessarily fluctuation, but dramatic increases after the State is used to paying 1.9 billion, so it would seem like we'd want to keep it elevated, and that's what these floors do. So the orange dots are the employer normal cost floor, so we don't let it fall below that quarter of a billion dollar amount. Well, when we get to a 105% funded, it drops to a quarter of a billion, but then the floor is basically not impacting it. We go back to the current funding policy, and you have the same contributions hanging out there, right? So for 1 year, you get a little bit of stability, but not a ton. We increase this to the 90% floor, which is in this dashed royal blue line. You see while you're above 90% funded in year two and year three coming out of surplus, and the contribution for those two years is around 600 million dollars, so you don't take the contribution all the way down, you reduce it by about 1.4 billion, but then when you get into 85% funded and 75% funded, the contribution increases, just not quite as much. You know, we go from 600 million, and two years later we're at 1.1 billion. It doubles, but it's not quite as volatile as the current policy.

And then finally, the teal here, we keep the contribution, it basically cuts in half and then stays there until you fall below 80%, which is in year five in this illustration.

So these floors help promote a little bit of contribution stability. You know, the reality is your contributions, you know, the basic contribution probably would fluctuate from year to year and stay below these lines until they pop out, but -- does that illustrate any thumbs up there? Yeah? Folks understand it? Yeah?

MR. HERRINGTON: I believe I understand the concept. I think my question is, you know, a combination both for you, Larry and Ed, but also Karen, as well. So to me there is a statutory obligation for the State to pay the ADEC and the plan's actuaries are free to establish the ADEC based on, you know, the prevailing kind of methods within the industry, and I would wonder whether this falls into that, or, Karen, would you be comfortable voting on this as a Trustee and then going to the Secretary of OPM and saying that we've built in this factor because we think it's a better practice, or is this something that -- so, I mean, essentially what my question is is this; Is this something that the Commission can adopt or whether this is something that should go to OPM to weigh in on?

MS. NOLEN: I definitely feel that this needs to be kicked up at OPM for this, because I must admit, when I saw this on the agenda, I was like, oh, aren't being a bit premature? We're only at 55% funding. I mean, great -- I love that we're thinking it's going to get to a 100% quickly, but, and, aren't the Probate Judges -- use the normal cost as the floor?

MR. LANGER: I think Ed is saying yes.

MR. KOEBEL: Yes, they do, sorry, I was muted. Yes, they do use that -- the floor, the normal cost floor, yes.

MR. POULIN: This is Claude. I think, well, first of all, I think that we're here because the State in the last several years contributions that were much in excess of the employer required contribution. Because, like Karen, I never thought that we would have such a meeting this year, especially after the debacle in the stock market the last several days, several weeks, and I believe that the reason also that we're here is that -- is explained in the first paragraph of your memorandum on surplus management -- the history. This is due to the fact that in the late nineties, early 2000's, there was some -- an employer holiday, in the municipal plan. We had agreed at that time that even not to pay the normal cost, you know, we collectively forgot that in the bible it says that if

you have 5 to 7 years of fat cows, it would be followed by seven years of starving cows. And we forget that, and then we had 2008, and all the cows starved, and that's where we are now. But is it because of the excess contribution? This was my question, or do we expect that in the near future -- near future being the next 10 or 15 years, that if there are no excess state contribution, we will be close to 100 percent when we are closer to 50-60% at the present time?

MS. NOLEN: So that's the question I had too, because we have been able to make excess contributions, but that's not going to continue for a few -- I mean, right now, I think for this year we might be able to make an extra contribution at the end of this fiscal year, but things are so much up in the air and we don't expect those excess contributions to continue for very long into the future. We've been fortunate, but...

MR. LANGER: So absent the excess contributions, we anticipate getting the full funding, you know, in the early in the 20-40's, it's like 21 or 22 years off. So mid 20-40's. Absent those, I think if they were to continue at some level, it certainly could be earlier, so you are talking a little over 20 years. That being said, yeah, the last 7 days have been hard, but if you get a run up in the market, we could surpass 100% funded earlier or maybe we never get to 100% funded in our lives, even if we live like Methuselah. I like Bible references. I wish I was a starving cow.

So it could happen, you know, it could be years off. Extra contributions can certainly move it forward. The funding status is a nice chunk higher as a result of those extra contributions, but it could be a while off. Did that answer, do you think?

MR. RYOR: Can I ask a follow up question for that? I mean, it looks like, you know, we keep talking about getting to a 100, but some, I mean, like, the 80% floor, that kicks in as soon as you're over 80%, right?

MR. LANGER: The 80% floor kicks in when you leave surplus. We could keep it there because the reality is, you know, under the current funding policy, 'cause we have that large 30 year amortization when the plan was 35% funded, it's up at close to the 2 billion dollar range, so the floor really wouldn't be operable, but that would a reason to put it in now and just say, hey, we're approaching 80% funded, it'd be good to have this floor. I like where your head's at.

MR. KOEBEL: But, yeah, Tim it wouldn't -- this excess surplus policy wouldn't go into effect until the plan reached a 100% funding.

MR. RYOR: Okay, yeah, that was really the question. I was just looking at these on the graph here.

MR. KOEBEL: Right, then whatever happens there going forward, again, this illustration just says we get to a 100% funded and then we go back under. That would be -- that would kick in one of these floor options.

MR. RYOR: Gotcha.

MR. KOEBEL: Because, yeah, we've gotta pay off the unfunded, and right now it costs 2 billion dollars to pay it off over 20 years.

MS. NOLEN: This slide is very telling. It -- budgetarily it's hard to justify going, for example, to the 80% floor because, you know, after we reach the 100% funding and we're going to be spending less on pension costs under, for example, your 80% floor here, oh, instead of, you know, paying only what was it, like less than 200 million? We'd still be paying close to a billion for the pension. It's hard -- this particular slide is hard to justify from a budget standpoint. That's the point that I would like to make. Because then, you know, some of the legislators and the governor and whoever it is at that time and even OPM people at that time, it'd be like that's money we could spend elsewhere on the budget.

MR. POULIN: This is Claude. I have a question for Karen. Would the 90% floor be more acceptable?

MS. NOLEN: It would be more acceptable, but whether it would be accepted, I don't know. I think the normal cost floor is the easiest to justify because that's currently in place with another pension plan, even though it's not one that we -- that's nowhere near as large as this, but, yeah, this is something, to be honest, I would not be comfortable voting on anything today on this. I need to kinda digest this a bit more.

CHAIRMAN ADOMEIT: I have a question for John Herrington.

MR. HERRINGTON: Yes?

CHAIRMAN ADOMEIT: It's jurisdictional.

MR. HERRINGTON: Right. Okay, I think I have the same question and I don't have a clear answer.

CHAIRMAN ADOMEIT: Okay.

MR. POULIN: This is Claude. Would the normal cost only be acceptable? I think that for me it would be the bare minimum that we shouldn't be in a situation like we were in MERS 15 years ago where we used the surplus to pay the employer normal costs, and that for several years, the employer contribution was zero and then boom - 9/11 and 2008 and then we've been suffering ever since.

MS. NOLEN: John, do you know exactly what the statute says?

MR. HERRINGTON: Yeah, no, no. I wanted to look at that, and I mean, I have some questions for Larry and Ed after this where I think it's possible that we are, that some people are contemplating, you know, switching the time period that we would be fully paid off, you know, and extending that out, you know, I know that those are our thoughts at this point, so I think it's actually the opposite of what we might have thought, you know, when we saw this e-mail. But I do think that there's -- people are at least asking the questions on, you know, what are our options to re-amortize.

MS. NOLEN: That's a good point, John, because we're currently negotiating some changes with CBAC, so these projections could be -- I don't know, they might not change, they could change drastically, it depends on what's negotiated.

MR. KOEBEL: Yeah, and again, this is Ed Koebel. This was, you know, a question that came up during the due diligence process that kind of even threw us, I'm sure it threw John Herrington for a little bit of a, oh, okay, we're, you know, yeah, we're nowhere close to this, but okay, let's talk about surplus.

So, yeah, we're in the same boat. It's good to talk about this, you know, on an early basis, but it's -- but, yeah, I don't think it's anything that has to be passed today or adopted today. Just, I think, just putting this in front of the Actuarial Subcommittee is good to have informational meetings like this to kind of get the idea of where folks stand and we can certainly study it more after CBAC whatever -- 2026 or 2025, whatever it is.

MR. RYOR: Sure -- have there been any -- sorry, didn't mean interrupt there.

MR. KOEBEL: No, go ahead.

MR. RYOR: Just a question. I mean, are there any, like, open group forecasts that have been done to kinda I mean, 'cause that, to me, that would be helpful to just, you know, with normal costs for later tiers going down and, you know, there's all kinds of things that play into this of, what do we even expect things to look like 20 years, again, if all assumptions are exactly realized, and then maybe even, you know, an open group with some stochastic would be good to kinda have, you know, what are the -- what's the probability the contribution goes to 4 billion versus zero, you know, and those kinds of things to kinda have a sense of -- cause, you know, just looking at this slide, it's hard to kind of put it in a context of what the -- you know, what are the odds of any one of these pass would be to have some insight into that, I think would be helpful down the line.

MR. KOEBEL: Yeah.

MR. RYOR: I think it's -- all of this is definitely probably premature, but...

MR. KOEBEL: Yeah, great question. This is Ed Koebel. A great question. Yeah, we've run 30 year projections, open group projections, on a deterministic basis for Karen and for the due diligence group for them to see this. So maybe that's why this came about. But in our 30 year or actually 25 year projection that we showed them in January, we did reach the full funding around 2045. So like Larry said, it's in 21 years from now or 20 years from now, we anticipate if contributions continue at the 2 million mark or 2 billion mark, you know, that they could -- that we could be at this plan in 20 years. So I think that's probably kind of where they saw, oh, okay, there's a 100%. It actually could happen. What's the plan for when we get there? So, that's probably where this all came about, but we could share those with you, Tim.

MR. RYOR: Oh, perfect. You answered my next question; was if those were shareable, so that would be awesome. Thank you.

MR. KOEBEL: I think as long as Mr. Herrington is fine with that.

MR. HERRINGTON: Oh, yeah.

MR. RYOR: Who doesn't love to look at an open group projection?

MR. KOEBEL: This is an actuarial subcommittee, of course. I think the next part of the presentation, Larry, was to kinda go over an excess contribution policy, but I don't know if we -- I mean -- you can do it, but we -- you know, if they're going to stop, like Karen said, we're not going to see them in the next few years, but, you know, that's something as well that we could also discuss is what it -- what we do with any potential future excess contributions. So go ahead, Larry, why don't you go on with the next slide.

MR. LANGER: Yeah, I'm going to use my fast voice.

So we talked about floors and the impact and -- but, you know, when you talk about these floors, there's certainly excess contributions. The question is, you know, should we be accounting for those differently on an actuarial basis?

We explore this a little bit in the next section, and the reality is over the past four years, the state has made excess contributions, about 5.6 billion, and those amounts have used -- reduced the unfunded, increased the funded ratio and also reduced state contributions in the future. We used the excess contributions when we developed the contributions for the plan. So at one point that 1.98 billion dollar number for 2026, we folded back in these excess contributions. That might not have been the intention of the State. We haven't asked, so maybe this is the ask, but, you know, under this concept of an excess contribution policy, excess contributions we put in a reserve, and it increases with, you know, any future excess contributions and accumulated with interest, and at the future being a reserve or a rainy day fund, you know, it might be access to fulfill future ADEC requirements and provide some flexibility, sort of swirling aside those excess amounts. And so, you know, if we were to apply that with this, and I know there's a lot of ifs in this thing, but, you know, to maintain that excess contribution reserve, we'd have to develop the state contribution without the reserve, sort of ignore it. And what that would do for the fiscal year 2026 contribution would increase from 1.98 billion by about 519 billion to just under 2.5 billion. So it's about 500 or half a billion dollar increase, and if you contributed the full 2.5 billion, I know all that stuff is in budget, the reserve would continue to increase. These reserve amounts here are higher than the 5.6 billion 'cause we've accumulated with interest. Also those floor policies, to the extent anything's done over the current policy, any floor contributions could be put aside. And, you know, yeah, we illustrated on the next slide that projection that we had earlier and what would those excess contribution reserves be, if anything, above the current funding policy were contributed to this excess contribution reserve. And you can see the smallest amount would be the, you know, if you had an employer normal cost floor, that amount was not quite 200 million dollars higher in that second year of the projection, and then it would just grow with interest under the 90% floor. You know, we've got a couple of contributions or excess contributions that would be credited, then going forward, and then finally and the 80% floor continues until year 5 when you get the 75% funded.

So that reserve, you know, could be made available to make up contribution, you know, to the extent that budgets don't allow for the contributions, it allows, you know, you to tap into this fund, as it were. I know that brings up -- you know, actuarially all this stuff makes sense, but there's all sorts of other leads that need to be considered, right? You know, budgetary, legislatively, my favorite, Bruce Lee, I mean, there's lots of considerations to be made when you look at an excess contribution reserve like this. So this -- it's another piece to consider. And it came about we actually didn't anticipate exploring this until we got to the point of, well, what do we do with this extra amount, and have we been doing, quote unquote, the right thing with the past -- should we have been ignoring that? 'Cause you put in extra contributions, then you usually immediately use them in the developing the contribution that's sort of -- I mean, it's more than treading water, but it sort of defeats the purpose, it seems like.

MR. POULIN: This is Claude, and I have a question regarding the excess contribution reserve. Do you intend this reserve, Larry and Ed, to be part of the pension fund of the SERS service retirement fund or it would be a reserve somewhere else? Because if it's somewhere else, as some people have done, then it might be easy for a future administration to use this money for other purposes, whereas if it stays in the fund, just it has a special name or then it would be used, you know for future benefits, there would be a greater probability that it will be used for future benefits.

MR. LANGER: That's a great question, Claude. So, we'd anticipate that excess contributions are in the fund -- are in the pension fund. The 5.6 billion that's been contributed so far, they're sitting in the fund. So they'd be used to, you know, determine the unfunded liability amount and the funded ratio. We just wouldn't use them for purposes of determining the contribution amount. That being said, you bring up a great point on benefits policy. People see excess contribution reserve and, you know, folks think of a pot of money that can be used for various purposes that are contrary to actuarial funding. And, you know, this is a simplified thing, you know, I'm aware of some funds that have said we don't even -- this may not fly in Connecticut, but I'm aware of some funds that say we're not going to look at any benefit improvements until we get to a certain percent funded. You know, in that, you know, one fund that we serve, it's a 120% funded before they think about improvements. Again, you know, actuarially that's easy to say, but, you know, in other conversations it's probable.

MR. KOEBEL: Yeah, I mean, again, like Larry said, we don't know what the intent of the excess contributions were to do or to lower the state's responsibilities for it. We're just saying if they weren't used, then our -- our ADEC that we would've had would've been 2.5 billion, and so now you're getting that in more contributions in early, you know, throughout this time period that you could potentially reach a 100% funded even faster, you know, but by using them to reduce future contributions, and that could have been the purpose of it.

MS. NOLEN: That was the purpose.

MR. KOEBEL: Yeah. I was waiting for you to say that

Karen.

MS. NOLEN: I was waiting to jump in.

MR. KOEBEL: I know, but, yeah, we figured that, but, you know, we're just trying to say if they weren't and we have plans out there that, you know, that all of a sudden, yeah, we've got an extra 100 million, let's throw it into the pension plan, you know, we'll certainly take it, but we don't want to lower the ADEC. You know, we don't want to use that money, so we keep it as a reserve. But it's still in the trust fund. It's still in the trust fund, we just, we count it as assets, but we just keep track of it and we don't use it when we come up with our actuarially determined contribution for ADEC.

MR. POULIN: And this is Claude again. It seems to me that we just -- you just answered a question, Karen. This was the purpose and that by having an excess contribution reserve that is ignored for funding purposes, then it would achieve your objectives, isn't it?

MS. NOLEN: Well, they're saying you, Larry, you did say this excess contribution reserve would not be included in the calculation of the ADEC so the ADEC would be higher, correct?

MR. LANGER: Correct. Yeah.

MS. NOLEN: And the whole point of making these excess contributions was to bring the ADEC down?

MR. LANGER: Yeah.

MR. KOEBEL: So opposite of what we're showing you?
MR. RYOR: Yeah, exactly. So if I'm hearing what Karen said, is what you guys did is what the state wanted, which is we would have had a 2.5 but we have a 1.9 and that was the goal.
MR. KOEBEL: That's right.
MS. NOLEN: Yes. Exactly.
MR. LANGER: I feel happy about that.
MR. KOEBEL: Now, if for some reason they want to, you know, they like -- if the State is good with the 1.98 - 2 billion going forward, but has an extra 5 billion to share with the SERS, then we could certainly revisit this and say, do we want to use it. So, but, we'll certainly ask the question ahead of time instead of assuming.
I think that's it, Larry, right? You just have --
MR. LANGER: Some takeaways, they're summarized here with the people running up the staircases to the orange trophy, I love our illustrations.
MR. KOEBEL: We made it.
MR. LANGER: We made it to the end, right? This talks about evaluation results, and then this is the slide people have been wanting to see for about an hour.
CHAIRMAN ADOMEIT: Well, it was not on the agenda but we have to adjourn. Are we all done?
MR. LANGER: Yes.

CHAIRMAN ADOMEIT: Okay. Move to adjourn anybody?

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

CHAIRMAN ADOMEIT: All in favor, say aye or raise your hand. It's unanimous, the ayes have it. Thank you all very much.

(Meeting adjourned at 3:37 p.m.)

CERTIFICATE

I certify that this document is a true and accurate description of the proceedings obtained from the recorded meeting of the State of Connecticut State Employees Retirement Commission Actuarial Subcommittee on, March 17, 2025 to the best of my ability.

Wendy Malitsky

Wendy Malitsky

My Commission Expires

March 31, 2030