

Connecticut Retirement Security Authority
2019 Annual Report

Approved for Submittal on January 17, 2020

Introduction

Public Act 16-29, as amended and codified at Connecticut General Statutes §§31-417 through 31-429 (the “Act”), establishes the Connecticut Retirement Security Authority (the “CRSA”) as a quasi-public state agency tasked with launching a Connecticut Retirement Security Program (the “Program”).

The CRSA is governed by the Connecticut Retirement Security Authority Board of Directors (the “Board”). The Board consists of fifteen individuals, fourteen of which have been appointed and are currently serving. The members are as follows:

1. Shawn T. Wooden, Treasurer
2. Kevin Lembo, Comptroller
3. Melissa McCaw, Secretary of the Office of Policy and Management
4. Jorge Perez, Commissioner, Department of Banking
5. Kurt Westby, Commissioner, Department of Labor
6. Thomas Sennett, appointed by the Speaker of the House of Representatives
7. Keisha Palmer, appointed by the Majority Leader of the House of Representatives
8. Thaddeus Gray, appointed by the Minority Leader of the House of Representatives
9. Alex Knopp, Esq., appointed by the President *Pro Tempore* of the Senate
10. Edward Zelinsky, appointed by the Majority Leader of the Senate
11. John Sayour, appointed by the Minority Leader of the Senate
12. Joseph Fazzino, appointed by the Governor
13. Vincent Grillo, Jr., appointed by the Governor
14. Douglas McIntosh, Jr., appointed by the Governor
15. Vacant, appointment of the Governor

The Act requires the Program to, among other things:

- A. Allow eligible individuals to contribute through payroll deductions to a Roth individual retirement account established by the Program;
- B. Require qualified employers, as defined in the Act, to offer employees the opportunity to contribute to a Program IRA through payroll deductions, unless the employer offers a qualified retirement plan, including but not limited to a plan qualified under section 401(a), section 401(k), section 403(a), section 403(b), section 408(k) or section 408(p) of the Internal Revenue Code;

C. Provide for automatic enrollment of eligible employees and allow such employees to opt out of the Program;

D. Provide for employee contributions to a plan to be deposited directly with the custodian for the IRA and prohibit employer contributions to employee accounts;

E. Require the maintenance of separate records and accounting for each individual retirement account;

F. Provide quarterly statements to participants encompassing, among other things, the account balance, the value of the participant's investment in each investment option selected by the participant, the various investment options available, the amount of fees charged, and a description of the services to which the charges relate, and at the election of the CRSA board of directors, an estimate of the income the account is projected to generate for the participant;

G. Allow for participants to maintain an account regardless of place of employment. Participants are allowed, to the extent permitted by Internal Revenue Code of 1986, to roll over funds into other retirement accounts, or to roll in funds from other retirement accounts to the account maintained by the CRSA;

H. Establish criteria and guidelines to offer qualified investment choices that shall be offered. Invest account contributions into (1) an age-appropriate target date fund with the vendor selected by the participant or (2) such other investment vehicles as made available by the CRSA. If a participant does not affirmatively select a specific vendor or investment option in the Program, such contributions will be invested in an age-appropriate target date fund that most closely matches the participant's normal retirement age, rotationally assigned by the Program;

I. Provide a lifetime income investment option if the CRSA determines the design features illustrated in the Act to be feasible and cost effective;

J. Prepare informational materials for employers, participants and prospective participants as required by the Act;

K. Ensure the State of Connecticut and employers that participate in the Program have no proprietary interest in the contributions or earnings on amounts contributed to accounts established under the Program;

L. Minimize total annual fees associated with the Program. Not less than annually provide each participant with a fee notice illustrating the fees of the Program and information regarding the various investment options. The CRSA is directed to minimize total annual fees associated with the Program and on and after completion of the fourth calendar year following the first date on which the Program becomes effective, total

annual fees associated with the Program must not exceed 75 basis points of the total value of the Program's assets;

M. Allow employers to establish an alternative retirement plan for some or all employees; and

N. Ensure that the Program is not treated as an employee benefit plan under the federal Employee Retirement Income Security Act of 1974 (29 U.S.C. 1001 et seq.)

Conn. Gen. Stat. §31-426(a) requires the Authority to submit an annual report detailing its activities, receipts, expenditures and projected activities to the Governor, the Office of Auditors of Public Accounts, and the joint standing committees of the General Assembly having cognizance of matters relating to labor and finance, revenue and bonding.

Toward these ends, the following report outlines CRSA's accomplishments during the 2019 calendar year, provides an accounting of financial activities, summarizes legislative changes at the state and federal level that impact retirement options for private sector workers, and details the Board's vision for 2020 and beyond to accomplish its mission of delivering retirement savings options to Connecticut employees.

2019 Accomplishments

Hiring of Executive Director

The CRSA made significant progress in 2019, starting with the hiring of its founding Executive Director (ED), Mary Fay of West Hartford, CT. ED Fay has over 25 years of executive experience in the retirement business, including experience selecting and managing retirement investments, leading retirement education and the creation of retirement tools, and product management experience in operations, marketing, and communications. The Board voted to appoint Ms. Fay as ED effective January 18, 2019.

Board Governance

The following policies were approved by the Board in October:

- Hiring and Promotion; Discipline and Termination;
- Equal Employment Opportunity and Affirmative Action;
- Compensation and Benefits;
- Adoption of Annual Budget and Plan of Operations; and
- Resolution to Authorize Executive Director as Authorized Signer (for transactions up to and including \$2,500);
- Disclosure of Third Party Fees by Persons or Entities Providing Investment Services;
- Making Modifications to the Program; and
- Using Surplus Funds.

Plan Administration and Program Management Services

A Request for Proposal (“RFP”) for Plan Administration and Management Services was issued by the CRSA on April 26, 2019. The CRSA sought proposals from qualified professional firms for the purpose of performing third party services for data collection, record keeping, plan administration, education, and investment management services for the Program. Some of the key characteristics that the CRSA was looking for in an organization included organizational strength; depth and experience with individual retirement accounts (IRAs) and defined contribution programs; intent to partner and innovate to help drive success of the Program across a wide range of dimensions, including member satisfaction (employers and employees), percent of eligible employees participating (across demographic cuts), and income replacement in retirement.

The selection of a vendor depended on the vendor’s experience and capabilities to assist the CRSA with the following:

- Establish a new easy way for Connecticut workers without access to an employer retirement program to save for the future;
- Enhance participant retirement outcomes;
- Improve participant education and communication services;
- Provide robust on-line transaction and information capabilities;
- Offer the most appropriate investment menu;
- Provide support for as many administrative functions as deemed appropriate;
- Provide integrated administration and reporting for the Program;
- Analyze the overall cost efficiency and investment performance of the Program;
- Reduce participant and Program expenses; and
- Maintain and strengthen the formal Provider and CRSA working relationship.

The RFP was under review by the Board and ED for several months, and eventually in October the Board contracted with AKF Consulting Group to evaluate the RFP responses. AKF Consulting, a Municipal Advisor registered with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board, is a national expert in the college savings and ABLE industries and in emerging state-run retirement programs. The firm is currently retained as the Program Consultant for the CalSavers Retirement Savings Program and the MarylandSaves Retirement Program. AKF Consulting presented a summary of findings at the November CRSA meeting. The CRSA was planning to set up meetings in January 2020 with the RFP finalist to discuss additional questions. To date no decision has been made with regards to this RFP.

[Investment Consulting Services](#)

An RFP for Investment Consulting Services was issued by the CRSA on August 19, 2019. The CRSA sought proposals from qualified professional firms for the purpose of performing Investment Consulting Services for the Program. The CRSA sought a vendor with organizational strength, depth and experience with individual retirement accounts (IRAs) and defined contribution programs, as well as the intent to partner and innovate to help drive success of the Program.

The selection of a vendor depended on the vendor's experience and capabilities to assist the CRSA with the following:

- Develop and adhere to the standards set forth in the investment policy statement;
- Monitor, review, and evaluate the available universe of investment funds and managers;
- Monitor, review, and evaluate performance of the Program's investment offerings against similar investment offerings by other vendors;
- Provide a formal report of such reviews and evaluations;

- Develop an investment fund menu that would be appropriate for the participants;
- Enhance participant retirement outcomes;
- Analyze the overall cost efficiency and investment performance of the Program;
- Reduce participant and Program expenses; and
- Maintain and strengthen the formal Provider and CRSA working relationships.

After consideration of the proposals submitted, the Board voted in October to award the contract to Segal Marco, pending successful negotiation of a contract. To date no agreement has been negotiated or executed with Segal Marco.

Collaboration with AARP

AARP is an invaluable partner and advocate for retirement security and for the mission of the CRSA. Over the course of the year, AARP hosted videos, Facebook live conversations and paid advertising, providing the public with information on Connecticut's retirement security program. In addition, AARP hosted eight information sessions on the Program and reported at the November Board meeting that they had over one thousand registrants.

AARP also assisted the Board with marketing with the hire of Grossman Solutions to conduct research on small businesses to support the program. Additionally, AARP gave presentations to various organizations around the state to expose them to the Program, such as the CT Gay and Lesbian Chamber of commerce.

These activities will be replicated and continue in 2020. Having identified many supportive businesses of the Program, AARP will put a greater emphasis on utilizing them in order to get greater exposure as well as to encourage other businesses to support and want to enroll in the program.

2019 Connecticut Legislative Changes

The CRSA's founding legislation included a requirement for the Board to contract with multiple vendors for investment services. Program participants were to be provided multiple investment choices upon enrollment, and if they did not select an investment option, be rotationally assigned by the Program to an investment provider. Respondents to the Program Administrator RFI indicated the multiple vendor requirement would be problematic. The CRSA, with help from outside advocates, spearheaded the following legislative changes in 2019:

- Removed of Multiple Vendor Language
- Removed the Internet Website requirement for the Authority to provide participants with information about approved vendors offering IRAs

2019 Federal Legislative Changes

In 2019 there were numerous changes at the federal level impacting retirement programs, including:

[Association Retirement Plan](#)

In July 2019, the U.S. Department of Labor issued the final Association Retirement Plan (ARP). This regulation allows for groups or associations of employers that either are in the same trade, industry, line of business or profession or who are in the same geographic area to establish an ARP. Prior to this change, only employers that were of the same industry could offer an ARP.

[Secure Act](#)

The Secure Act, which features wide-ranging retirement provisions, including ones that make it easier for smaller employers to join open Multiple Employer Plans or MEPs, was passed and signed into law on December 20, 2019. The Secure Act had strong bi-partisan support. In May 2019, the Secure Act passed in the U.S. House of Representatives by 417 to 3. The U.S. Senate approved the federal spending package with the Secure Act attached, by a vote of 71-23.

The Secure Act increases the ability for unrelated (small) employers to band together to create a single retirement plan (i.e. MEP). The change could potentially reduce costs, simplify plan administration for business owners, and limit legal liability. The available tax credit for starting a retirement plan climbs to as much as \$5,000 for the first three years (previously it was \$500). Meanwhile, businesses with as many as 100 employees that include automatic enrollment in

their retirement plan would be eligible for an additional credit of \$500 a year for up to three years. The Secure Act also:

- a. Extends plan participation eligibility to long-term part-time employees who work at least 500 hours in three consecutive 12-month periods,
- b. Provides a longer time period in which an employer may elect to establish a plan, and
- c. Increases the automatic escalation cap of 10% to 15% of pay.

The Secure Act is aimed at encouraging more employers to adopt a 401(k) plan and for enticing more workers to join and contribute to an existing plan. However, the impact of the Secure Act and the ARP change is expected to be minimal with respect to reducing the number of nearly 40 million Americans without access to a workplace retirement program.

[Howard Jarvis Taxpayers Association v. The California Secure Choice Retirement Savings Program](#)

In *Howard Jarvis Taxpayers Association v. The California Secure Choice Retirement Savings Program*, Judge Morrison C. England, Jr. of the U.S. District Court for the Eastern District of California dismissed a challenge to CalSavers mounted under the Employee Retirement Income Security Act of 1974 (ERISA).

The Plaintiffs in the case argued that the California Secure Choice Retirement Savings Trust Act “violates the Supremacy Clause of the United States Constitution because it is expressly preempted by the Employee Retirement Income Security Act of 1974...” Without this preemption, the suit claims that “...such non-governmental employees’ funds will have none of the ERISA protections intended for them by the federal government since 1974.” Consequently, the plaintiffs assert that CalSavers is “ultra vires” (beyond the powers), and sought a declaration that CalSavers is “void.”

In upholding the California retirement savings program against an ERISA-based challenge, the district court indicated that the Department of Labor’s (DOL) regulatory safe harbor for individual retirement account (IRA) payroll deposit arrangements does not protect CalSavers from classification as an employee benefit plan for ERISA purposes. The district court also held that ERISA does not preempt the California Secure Choice Retirement Savings Trust Act (“the Act”), the California statute which creates CalSavers.

While dismissing the claims, and granting the defendants’ motion to dismiss the claims, Judge England provided the plaintiffs with “one final leave to amend.” He concluded his decision by noting that he was “...very aware of the importance of this case and considered granting this motion without leave to amend. However, notwithstanding the Court’s concern, allowing one final opportunity to amend may be in the parties’ best interest.”

Plaintiffs filed an amended complaint On April 11, 2019. On May 28, 2019, CalSavers again filed a motion to dismiss the suit. The new motion challenges the amended complaint as not presenting any new arguments.

On September 13, 2019, the U.S. Department of Justice (DOJ) filed a Statement of Interest in *Jarvis Taxpayers Association et al. v. CA Secure Choice Retirement Savings Program*, asserting that California’s mandatory payroll deduction retirement program (CalSavers) is preempted by ERISA. The submission follows a DOJ request to the California district court to delay ruling on a pending dismissal motion. According to the DOJ, the purpose of the filing was to advance a correct and consistent interpretation of the scope of ERISA preemption and to promote the voluntary establishment of employer-sponsored retirement plans.

It is not yet known to what extent the DOJ’s opinion will influence the district court’s ruling on the pending dismissal motion. The Program to be implemented by the CRSA is not directly affected by the immediate ruling, CRSA is monitoring the development of this case.

Accounting of 2019 Financial Activities

As of December 24, 2019, the financial activities of the authority were suspended by unanimous board vote. This action was taken in light of diminishing CRSA funds and in recognition of the various legislative changes at the federal level and a better understanding of asset accumulation trends in states ahead of Connecticut in retirement security programs. Suspending all financial operations led to the Executive Director being separated from service to the Board effective January 16, 2020.

Following is a summary of CRSA expenditures in 2019:

Summary Accounting of Financial Activities (submitted on a calendar year basis)

Beginning Balance (Funds remaining from the dissolved Connecticut Retirement Security Board)	\$381,405.94
Paid to Executive Director (salary, travel, medical, and taxes)	\$230,721.65
Paid for Legal Services (Pullman and Comley) through November 2019	<u>\$145,194.43</u>
Funds projected to be available as of December 31, 2019	\$ 5,489.86

Following is a detailed accounting of CRSA expenditures in 2019 through January 31, 2020:

CRSA Summary as of 01/16/20								
Beginning Balance								381,405.94
Transfer additional deposit from CRSB								<u>4,622.00</u>
Total Funds available								386,027.94
Total Expended:								
Month	Salaries and Wages	Travel/Mileage	Medical Insurance	FICA	Medicare	Legal Services	Total	
Fiscal Year 2019	March-19	26,819.92		1,662.84	388.89		28,871.65	
	April-19	13,409.96		831.41	194.44		14,435.81	
	May-19	13,409.96		831.42	194.45		14,435.83	
	June-19	13,409.96		831.42	194.44	41,792.29	65,760.86	
Fiscal Year 2020	July-19	13,409.96		831.42	194.45		14,435.83	
	August-19	20,114.94		5,320.63	1,247.12		26,974.35	
	September-19	13,409.96	461.47	860.03	201.14		14,932.60	
	October-19	13,409.96	1,540.48	831.42	194.44		15,976.30	
	November-19	13,409.96		312.72	194.45		13,917.13	
	December-19	13,409.96		10,298.52	-	93,881.42	117,784.34	
	January-20	13,409.96		831.42	194.44		14,435.82	
Total Paid		167,624.50	2,001.95	25,151.90	9,071.22	2,437.24	135,673.71	341,960.52
Available balance as of 1/16/20								44,067.42
Invoices to be paid:	Legal Services - November 2019					9,588.00		
	Legal Invoice December 2019					12,210.00		
	Legal bill					861.44		
	AKF Consulting Group					10,536.67		
	Cigna					2,403.78		
	Oxford					170.85		
	Total invoices to be paid					<u>35,770.74</u>		
Balance								8,296.68
<u>Payroll projected:</u>								
01/31/20 pay date	6,704.98			415.71	97.22		7,217.91	
Balance after 1/31/20 pay date								1,078.77

CRSA's Future Direction

The purpose of the CRSA program is to ensure that retirement savings opportunities are more readily attainable for the 600,000 private-sector workers who lack access to a retirement savings plan through the workplace and who deserve financial security after a lifetime of work.

According to Connecticut-specific data from the Schwartz Center for Economic Policy Analysis at The New School, between 2000 and 2010, employers offering a retirement plan declined from 66 percent to 59 percent. In other words, four out of 10 workers residing in Connecticut do not have access to a retirement plan at work.

In Connecticut's market analysis conducted by Boston College, we found that these uncovered workers were more likely to earn lower income and are largely unserved by the financial sector, so their needs are often different from other 401(k) participants. It is important to protect against a transfer of wealth from the bottom to the top because high fees on low dollar accounts are a huge obstacle to retirement savings, particularly for lower income workers.

There is an entire generation of employees, many of them lifelong hard-working middle class people, who are headed to retirement financially unequipped, in part due to lack of access to a workplace-based retirement savings option. This is a problem, not only for those individuals and families who are financially forced to delay retirement indefinitely, but for our entire state and economy. In many cases, these individuals may be forced to turn to the state for assistance with health care, nursing care, food, housing, energy or other costly services.

The goal is not to compete or replace the private market, but to fulfill a significant unmet need in the market that must be answered for the sake of those families and our entire state economy. The market is currently failing to reach nearly half of our workforce even though the demand is there. According to an AARP 2015 survey, 64% of small businesses in Connecticut that were not offering a retirement plan stated that they would take advantage of a state plan if it were offered.

The CRSA started running low on funds just as the federal changes, including the Secure Act and regulatory changes for ARP, were finalized. In addition, data on asset accumulation became available from other states ahead of Connecticut in implementing retirement security programs. Taking all of these factors into consideration, the CRSA voted on December 24, 2019 to suspend all financial operations. A consequence of suspending all financial operations led to the Executive Director being separated from service to the Board effective January 16, 2020.

Going forward, the Board, as well as key stakeholders within the government, will be looking at ways in which to expeditiously move forward with the implementation of the Program. To date, the state has been focused on creating an individualized program for the citizens of Connecticut. However, the state is looking to explore other models based on a multi-state or regional approach that would enable participating states to provide even better services to its

citizens. These type of multi-state arrangements offer opportunities for possible economies of scale by spreading both startup and ongoing costs over wider populations that would enable states to make savings opportunities available to their citizens as a lower cost.