STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

ACTUARIAL SUBCOMMITTEE

DATE: May 14, 2025

HELD VIA Zoom

CONVENED 3:00 P.M.

Present (Via Zoom):

Trustees Participating:

Claude Poulin
Tim Ryor
Michael Bailey
Karen Nolan

Other Participants:

Peter Adomeit, Chairman Retirement Commission
John Herrington, Director, Retirement Services Division
Larry Langer, Cavanaugh Macdonald Consulting LLC
Ed Koebel, Cavanaugh Macdonald Consulting LLC
Jean Reid, Accounting Specialist, Retirement Services Division
Megan Piwonski, Planning Specialist, Retirement Services Division
Cindy Cieslak, Rose Kallor, General Counsel to the Commission

(Proceedings began at 3:06 p.m.)

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

Cindy, do have the attendance please?

ATTORNEY CIESLAK: Yes. Good afternoon, present this afternoon we have Chairman Peter Adomeit, Trustee Karen Nolan, Trustee Michael Bailey, Actuarial Trustee Claude Poulin, and Actuarial Trustee, Tim Ryor.

From the Retirement Services Division we have John Herrington, Jean Reid, and Megan Piwonski.

From Cavanaugh Macdonald we have Larry Langer and Ed Koebel.

CHAIRMAN ADOMEIT: Okay. One item on the agenda. Connecticut Probate Judges and Employees' Retirement System report of the actuary evaluation prepared on December 31, 2024.

MR. KOEBEL: Well, thank you, Mr. Chairman. This is Ed Koebel with CavMac. You know, CavMac's the gift that keeps on giving throughout the year. So, you know, usually we are presenting all the valuation results in the winter, but you get to see us in the spring as well with the December 31 probate judges report.

It's the only report as of December 31, and we typically provide it now or in June. We're a month earlier than

last year, so it's great news. Kudos to the staff for getting us all the information and everything that we needed to get these results complete.

Larry has won the straw today and is going to be going through the presentation, so I'll run it, but Larry's going to do all the presenting today, so I'll do the color commentary.

MR. LANGER: Beautiful. Thank you. Thank you, Ed. It's good to see everyone. And here's more of the gift for you.

So we have the presentation here. We sent the report sometime last week, and so obviously, if you have deeper questions than what we're giving here in the presentation, please, it's really not good if you just listen to my voice for any period over around 10 minutes.

So on the next slide, we always have to talk about the agenda, so we'll talk a little bit about CavMac. It's not going to be the full thing, 'cause that takes about three hours and requires an orchestra. We don't have an orchestra. We'll talk about the actuarial evaluation process a little bit, the valuation results, and then -- we can discuss any time, but just, you know, at the end, we have a little slide for discussion.

So in the next slide, here's the team. Ed and I are the faces. We're the most beautiful actuaries you're ever going to encounter in your life other than probably, you know, Claude

and Tim, but, you know, but there's a team helping present these, you know, prepare these results. James and Darby and Ryan all contributed significantly to making sure that things go smoothly.

And the next slide we talk a little bit about -- we rebranded about a year ago, and we're still sort of giddy about it, so our apologies. We've got all this communication material that we put forth, the CavMac Chronicle that you can sign up for and we're active on LinkedIn, and also our website is the last one, and we really hope you like teal and orange, because there's a lot of it.

So now, let's get into a little bit about the valuation and valuation process. The math here is easy at a high level. You know, in the end, the fund you have, you know, the basic equation is the money coming into the fund has to equal the money leaving the fund over the long haul. All right? Money in equals money out.

Now, we're trying to predict benefits to be paid far out into the future and to try and estimate contributions going into the plan on an annual basis. Over the short term, we do this annual valuation process. For this plan it's every December 31, and based upon those results, we develop the employer contribution amounts and other metrics like funded ratio and unfunded extra accrued liability.

Over the long haul the plan's going to cost what the

plan is going to cost, and with each valuation, we adjust the results to reflect what actually happened during the past year, you know, what type of returns actually occurred and salary increases and things of that ilk, and that's why you see us every spring presenting these results, 'cause we update them annually and that tends to be the industry standard.

Next slide. Here's terms. I know a couple of you know these terms, but we refer to a few of these a couple of times; valuation date, it's the date that we performed the snapshot. So all the information is as of December 31, 2024. Anything that's happened since then in the markets or with people, it's not in here, right? It's just a snapshot as of there, so, you know, put it on your way back machine and think about December 31, 2024.

Actual accrued liability, value of benefits accrued to date. Sometimes we say that's the amount of money you want to have in the plan eventually.

Actual value of assets, that's the asset value that we use for purposes of developing contributions and funded ratio, and it's a smoother average value, and we do that so the contributions aren't as volatile.

Unfunded extra accrued liability. It's the difference between the AAL and the AVA. The sibling, which we don't list here, the funded ratio is the AVA over the AAL, that ratio.

Normal cost, cost of benefits occurring during the year, and finally amortization. It's this process of systematically paying down the unfunded extra accrued liability.

Normally Ed will dress in an orange dress to do the presentations. It's at the dry cleaners, so now you're stuck with me in a blue suit.

So we have a little bit about the plan structure here. Just a quick snippet, and I am sure you all have it memorized, but, you know, normal retirement eligibility age 62 and 10 years of service, 70 for mandatory retirement, provided the full term was served.

Member contributions vary if you're covered by Social Security or not covered by Social Security. The benefits of the plan differ by Social Security coverage as well, as noted there.

And then cost of living increases, you know, benefits increase after retirement. It's based on the consumer price index applied every July 1. It's limited to 3%, and our assumption that we use in there over the long hall is two and a quarter percent for purposes of doing our projection, but obviously we update it annually.

Overall the experience -- when we talk about experience, it's like, what happened during the past year. And over the past year -- and this is from the actuary's viewpoint when reviewing these results. I liked 2024, but 2024 was a little less favorable than expected for PJERS.

Asset experience was mixed. We say mixed because the market return was greater than the assumed rate return at 10.35 percent, but when we smooth in the past four years, five years worth of returns, it actually comes in just a little below the 6.9% assumption, and that's predominantly due to the markets of 2022, which were awful for plans uniformly across the country, not just in Connecticut.

And then the liability, the -- you know, the extra accrued liability target that we have? That was less favorable as well, meaning the liabilities came in higher than expected and that was primarily due to higher than expected salary increases, but there are other things in the mix as well that we'll get into later on.

So we show the impact of the events on three main elements right here. And to orient yourself to the charts, the light blue on the left of each chart, that's the actual amount from the prior valuation. The orange bar is what we're expecting based upon that valuation, if all the assumptions were met, and then the teal bar on the right, that is the actual amounts coming in.

And so for the unfunded actual accrued liability, UAL, last year we had assets in excess of the accrued liability of about 1.6 million dollars. And, of course, 'cause actuaries do odd things, we show that as a negative even though it's a positive surplus, it's a negative unfunded.

So it was 1.6 -- we were expecting that to shrink over

the course of the past year. We were expecting it to shrink as we bring in a new year's worth of the returns from 2022, but we still thought we'd have a little bit of a surplus of about $200,000, but the experience we talked about; salary increases and investment returns on a smooth basis not being as expected, we ended up having a small unfunded actual accrued liability of about $800,000. Right?

The funded ratio is the sibling, and you can see where just a little over a 100% funded last year, we still expected to be above a 100% funded, but we came in just a little bit below.

All these numbers, when you look at them, and I mean, that's why up at the top we say, you know, this is a healthy position to be in. A lot of retirement systems would be very jealous of these numbers.

And then finally, the actual determined employer contribution. Last year we were at 3.18 million. We were expecting it to go up to 3.27 million, and the contribution will tend to go up from year to year as salaries increase. That's just the way it's baked into the funding methodology. But we came in a little higher than that at 3.39 million.

Gains and loss. So, when you look at this slide later on, when you're reading it over a cup of coffee -- several cups of coffee, gains and losses is one of these terms we define at the bottom. Gains, what an actuary says, it means events which decrease the unfunded liability more than expected.

Losses increase the unfunded liability more than expected, right? So nothing was lost. We didn't lose money or anything, but these are the terms we put to experience during the year in trying to put a number on it.

Overall, the experience loss, the unfunded actual accrued liability was higher by about 2.4 million, and it was mostly due to salary increases which are higher than expected.

Ed, are you highlighting like that?

MR. KOEBEL: I'm trying to -- my math skills.

MR. LANGER: Now, Ed's highlighting the -- you can see by the bars and the gains are lined up on the right, they're not all that big, but there's a few gains, but the loss is on the left. The big one, the elephant in the room as it were, is the salary increases were higher than expected. Any questions so far?

MR. KOEBEL: And just to give you an idea, the average salary went up by 6 -- over 6% this year. So, you know, we're not expecting, I think we have a salary scale of about three and three quarters for everyone's salary to grow. So, you know, and I spoke with the probate folks, and I know some of them are on this call as well, and they confirmed the payroll increases were larger than expected. So not a surprise here. And, you know, with a benefit that is based on final average pay, you know, when salaries grow, it increases the expectation of those benefit payments years in the future.

MR. LANGER: So we've shown all these wonderful --

MR. RYOR: Sorry, Tim Ryor. Just a quick question on that. And I forget if you did an experience study just on this group. I mean, looking back, it looked like we had a gain last year, but not necessarily offsetting, but you go back two years, I think there was a pretty significant loss on salary scale as well. I don't know if, you know, we're thinking maybe the assumption's a little lean for this group or...

MR. KOEBEL: Yeah, 2022 had even a bigger loss. They had an average salary gain -- average salary increase of over 7%. So this year at 6%, yeah, I mean, we didn't do an experience study for this group. We're certainly open to that to review that assumption. But, you know, we're kind of seeing this across the country, you know, this post pandemic or post inflationary impact of growing salaries for public sector employees across the country.

So, something to definitely look at, you know, like we did with MERS, I think we assumed that things would return to normal going forward, after, you know, the recovery from the pandemic and the high inflation period, so -- but definitely, yeah, we could certainly look at that in an experience study if you wanted to.

MR. RYOR: Thank you.

MR. POULIN: This is Claude. I have a question on page 21 at the bottom, you say, we recommend that the surplus management policy be reviewed. Do you have something in mind about that issue?

MR. LANGER: So, a couple of months ago, I think many of you were on when we talked about that for state employees, we had that surplus management. We threw out -- we suggested a few different ways of going about it, you know, and the surplus management policy is a policy that well, what do you do when you fall out of 100% funding? 'Cause the contributions tend to increase a bit more than other periods, other funded statuses for a plan.

And so, you know, one that we suggested, I think, was always fund the plan at -- as if you're 90% funded until you fall below 90% funded. Right now, you have a reasonable one. I mean, this, in terms of contributing the employer normal cost, don't use up the surplus for benefits accruing or just suggesting it might be something to look at where it certainly can provide more recommendations with regard to that. It wouldn't apply until the next time you get into surplus, but you have one in place, it's just a function of do we want to beef it up a little bit.

And Ed's a master at this, so you can see where the surplus management comes into play here. If you look at the 2025 results on the right, you see the total normal cost, the total cost of benefits accruing. Members contribute an amount, and for 2025 it was estimated to be 242,000. And that left the employer portion of the cost of benefits accruing at that 3.176504.

You could, and plans do, amortize the excess that you had as of 2025, and it was amortized over 13 years, and you could have taken a credit of 189,000 dollars, but the ADEC that was actually used is not reflecting of that credit, and it turns out to be the employer normal cost.

So you have something in place that's reasonable. We've seen a little bit of a nudge towards maybe having more than the employer normal cost in there, but you have something. It's certainly better than, you know, we serve plans where they were contributing -- the employer was contributing zero for a few years, and then trying to turn the faucet back on is difficult.

I'm guessing it's something I said? No? Okay, we're back. Good. Did that cover that Claude?

MR. POULIN: Yes, it does, thank you. I have a comment on page 15, too.

You know, it's strange, you know, we read these plans, these reports every year, and then at one point something comes up and this is on page 15 under Normal Retirement Eligibility.

For the judges, there is a mandatory retirement age of 70, and it says, provided the full term is served. So that -- does that mean that if the judge has a 4 year term and then he's

in the second year of his term, that then he would retire at 72 or 73? That's my first question.

The second question is that for the employees, there are no pension credits after age 70. And I recall about 20-25 years ago when the cash balance fund, there was a major controversy at that time, is that benefit accrual, an accrued benefit cannot be reduced on account of age. It can be reduced on account of service, but not age. And I was wondering whether this has been changed with the laws or the regulations, because I know that the 2006 Pension Reform Act has changed a lot of things, because if they -- if they don't accrue something, especially if judges -- some judges are allowed to accrue after age 70, it might create another issue which is that the judges who are highly paid employees would get a better deal than employees who cannot accrue pension credits after age 70.

Is that an issue? It's -- we were aware of this, you know, from the very beginning, but is this an issue for public employee plans?

MR. HERRINGTON: Right. So, I can't speak to the second point, I can speak to the first point.

So, what the first point is in terms of the mandatory retirement would be someone who does not complete a full term prior to turning age 70 would not qualify for a pension.

MR. POULIN: So then the proviso, provided full term served is not likely ever to happen, correct?

MR. HERRINGTON: Well, we have had individuals who have left at age 70 and have not completed a full term and they are not collecting a pension.

MR. POULIN: Thank you, John.

MR. KOEBEL: Yeah. Currently, we don't have any active members over the age of 70 in the plan, so I'm assuming that they -- once they get to 70, they know to retire. Because it's not worth it.

MR. POULIN: This is not a big issue, but it just caught my attention.

MR. KOEBEL: Yeah.

MR. POULIN: I don't recall, you know, seeing it before. Of course, you know, I've seen it, but it didn't -- it didn't strike me.

MR. KOEBEL: Yeah. Interesting. All right. Larry, you want to finish up?

MR. LANGER: Yep, yep. So here we've talked a lot about these results earlier, particularly the items on the bottom, the funded ratio and the actuarial value of assets. The, you know, these valuations are based upon census information and assets and benefit provisions. We put summaries of that information in the report so that you have an understanding of what the basis of the valuation is. We appreciate staff's ability to get this stuff in a super-fast manner so that we're here in mid May and you can see that, you know, the number of actives stays pretty stable, you'd expect that. Retired members and beneficiaries, there tends to be an uptick in that number from year to year. We anticipate an uptick in our valuation process. Deferred vested members, there's not a lot of liability there, but we map them out as well.

Down at the bottom is something to make note of when we look at the assets, you know, we talked about the actuarial value of assets, the smooth value and the market value of assets, which we don't base the contributions on directly. And you can see for 2024, those numbers are awfully close. And that's a good thing that they're close because there's not going to be any headwinds to future contribution -- bigger future contribution increases.

Like, the past year was sort of a big increase, and you can see that we had a bigger gap of about five million dollars last year, and now we've shrunk it down to a little over half or 844, no, half a million this year.

So we've recognized more of that 2022 market. Funded ratio based upon AVA, you can see we talked about the slight reduction in funded ratio. Still a healthy fund ratio. We show that market value of assets, and that actually was a little bit of an improvement from the prior valuation.

As part of the branding, we got all sorts of cool illustrations. And this is the first time I ever felt obligated to use the car riding up a jagged hill towards money that will probably never get used again. I missed it. Ed didn't remember to erase that I suspect, they wanted to. Now we have the puzzle man.

Here's a summary of the actual determined employer contribution amounts for fiscal years ended June 30, 2026 and last year's valuation results, 2025. And here it's just the composition of the contributions. Yep. It increased a bit, a little bit more than we typically expect. We talked about why that is, and then we show the discount rate, which is unchanged.

The amortization period, how many years you amortize the unfunded liability over, or in this instance, last year it was a credit, this year it's unfunded accrued liability. We went from 13 years down to 12 years. That's something we monitor when we do an experience study, make recommendations on how long that should be. It's a nice place to be where you're at right now at around a dozen years. And those payments to the unfunded liability don't increase, which is nice. It helps front load the funding of the unfunded liability a little bit.

So we have the highlights. So, you know, when someone asks you, so you saw the actuary the other day, what'd they have to say? You pull this out of your pocket or your backpack or whatever it is, or it's hanging on your fridge, that's where mine are.

So, higher than expected salary increases and investment returns drove the valuation results, primarily higher than expected salary increases. Results were less favorable, not by a whole lot, but they were less and it resulted in a higher employer contributions and unfunded liability and a lower funded ratio than expected.

And then finally, let's look at the surplus management policy. And I think as Tim mentioned, it might be a nice idea to at some point soon also look at the experience of the plan.

MR. KOEBEL: Yeah, I just -- I looked at that, Tim, and the last one we did was with the SERS experience study, which was done in 2020 after the 2020 val, so we should be coming up on another experience study. We're doing them every four to five years. We should be coming up on the next one for SERS, which we would do probate judges as well within the next year.

So there's our credentials and other actuarial statements. Any other questions? We appreciate the questions during the course of this, but is there anything that you've been dying to ask?

All right, now we get to see -- this is the slide we've been waiting to see for a long time. Like right from the beginning of me talking. Thank you. CavMac wants to thank you. We love working with you all, and I'm sure we'll see you in a couple of months, maybe longer than that.

CHAIRMAN ADOMEIT: Hey Claude, do we make a motion to accept the report?

MR. POULIN: Yes, Mr. Chairman. This is Claude, I move to accept the Connecticut Probate Judges and Employees' Retirement System actuarial evaluation report as of December 31, 2024.

MS. NOLAN: Nolan, second.

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

MS. NOLAN: Aye.

CHAIRMAN ADOMEIT: It's always unanimous, the ayes have it. Okay, thank you very much. And then Claude, we'll have you amend the agenda for SERC as well. Okay, motion to adjourn.

MR. POULIN: I move to adjourn.

MR. RYOR: Ryor, second.

CHAIRMAN ADOMEIT: All in favor, say aye. It's always unanimous. Thank you very much.

(Meeting adjourned 3:36 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 May 15, 2025 to the best of my ability.

Wendy Malitsky

Wendy Malitsky

My Commission Expires

March 31, 2030