Pension Sustainability Commission

MEETING MINUTES

Friday, August 17, 2018

10:00 AM IN ROOM 1E OF THE LOB

I. CONVENE MEETING:

The meeting was called to order at 10:00 AM by Chairman Rep. Steinberg.

The following commission members were present:

Representative Jonathan Steinberg, Robyn Kaplan-Cho, Representative Fred Wilms, Justice C. Ian McLachlan, Ted Murphy, Erin Choquette (for Shane Mallory), Greg Messner, Joseph Rubin, Tara Downes, Treasurer Denise Nappier

Absent were:

Michael Imber, Carmen Roda

One vacancy at time of meeting: Governor

II. OPENING REMARKS:

Chairman Rep. Steinberg opened the meeting by expressing his eagerness to hear from today's presenters given their vast experience and knowledge with the main task this commission is charged with- trying to monetize state-owned assets to generate money for pensions. He went on to point out that he was very excited with portions of the final recommendations put forth by the Commission on Fiscal Stability and Economic Growth and at the same time concerned with others. He thanked the speakers for taking time out of their busy schedules to share their research and experiences as they relate to the charge of this commission.

Commission members then introduced themselves offering a brief background of their careers and areas of expertise as they relate to the charge of the commission.

III. PRESENTATION BY JIM SMITH AND ROBERT PATRICELLI, CO-CHAIRS, COMMISSION ON FISCAL STABILITY AND ECONOMIC GROWTH:

A copy of Mr. Smith and Mr. Patricelli's presentation materials can be found by following the below links:

http://cga.ct.gov/fin/tfs/20180710_Pension%20Sustainability%20Commission/20180817/2018%2008%2017%20Pension%20Sustainability%20Commission%20Speaking%20Notes%20Final.pdf http://cga.ct.gov/fin/tfs/20180710_Pension%20Sustainability%20Commission/20180817/COFSEG%20Refined%20PowerPoint%20Presentation%20Deck%20(August%20Version).pdf

http://cga.ct.gov/fin/tfs/20180710_Pension%20Sustainability%20Commission/20180817/Connecticut%20COFSEG%20Final%20Report%20March%202018%20Appendix%202%20Pgs%2072-83%20RTRS.pdf

http://cga.ct.gov/fin/tfs/20180710_Pension%20Sustainability%20Commission/20180817/Connecticut%20COFSEG%20Final%20Report%20March%202018.pdf

http://cga.ct.gov/fin/tfs/20180710_Pension%20Sustainability%20Commission/20180817/REP%20Testimonry%20to%20the%20TRS%20Commission%20081718.pdf

Both Mr. Smith and Mr. Patricelli were thankful for being invited to the meeting to discuss the Pension Sustainability Commission's charge and to provide their perspective on said charge based on their experience and the recommendations they recently made to the governor and the legislature. Throughout their presentations they stressed their belief that if adopted holistically their commission's recommendations would put Connecticut back on the road to growth and prosperity. Mr. Patricelli specifically urged the group to take a broad view of their purview in hopes that they will study and consider the TRS recommendations that the Fiscal Stability group previously made- the formation of another group to perform such an analysis is not necessary. He also expressed hope that the recommendations made by this group can be used for other types of post retirement plans not just TRS.

Within their presentations Mr. Smith and Mr. Patricelli pointed out that despite achieving a bipartisan budget in 2017, the state faces significant out year deficits much of which is caused by fixed expenditure growth. They explained that CT's unfunded liabilities are growing three times faster than the economy over the last fifteen years and that escalating required pension contributions, especially for TRS, exacerbate the State's fiscal challenges. As this pension group considers making recommendations Mr. Smith expressed support for conditional asset transfers as a good way to address this unfunded liabilities problem provided that they are accompanied by plan restructuring that includes modified benefits and/or higher contributions by covered employees to pension healthcare plans. According to him such transactions will energize dormant assets by recognizing and leveraging their financial value. They also explained that when considering the feasibility of placing state capital assets in a trust, they recommended that the pension commission consider supporting other recommendations, including:

• Move the definition of retirement benefits and funding policies for state and municipal employees from collective bargaining to the legislature and local governing bodies (in 2027 or upon reopening of SEBAC).

• Reform the teachers retirement system by contributing the net lottery proceeds to improve the funded ratio and reduce annual required contributions concurrent with a move to a hybrid-defined benefit/defined contribution plan for new and unvested teachers and implementation of a risk-sharing program on investment returns and higher teacher contributions.

• Require the Comptroller to certify appropriateness of financial and investment return assumptions.

Beyond highlighting the comprehensive testimony regarding the recommendations that their group made for suggested changes to the TRS, Mr. Patricelli urged this pension group to go beyond their proposal for a reformed TRS to bring teacher contributions more in line with comparable states. He also pointed out their recommendations did not address the state's current practice of funding one-third of teacher OPEB, at a cost of $40 million at the current time. According to Mr. Patricelli one funding possibility might be for the teachers to be enrolled in Medicare. To be eligible to participate in Medicare requires having participated in paying the Medicare payroll tax for 10 years. He urged this commission to consider whether the state might participate in funding catch-up payments where needed to enable current teachers to be eligible for Medicare.

Following their presentations a question/answer and discussion period took place amongst the presenters and commission members- a summary is below:

Rep. Wilms expressed the need for the commission to take a broad view of the state's fiscal issues while of course focusing on the idea of asset transfers as a good way to address the unfunded liabilities problem. He also commented on the fact that many of the financial issues that are being discussed on the state level were previously dealt with throughout many municipalities across the state and reform did happen through strong leadership and increased contributions from labor.

Ms. Kaplan-Cho agreed that placing a state asset, such as the Connecticut lottery, into the Teachers' Retirement Fund would dramatically reduce the state's unfunded liability. This would allow the state to reduce its yearly payment into the fund since there would be less unfunded liability to pay off. She went onto explain that while a transfer of state assets to the pension system, if done properly, would serve the state well, we must be careful to avoid problematic proposals such as increased retirement contributions for teachers, cuts to benefits, and other problematic proposals.

Rep. Steinberg, Treasurer Nappier, Mr. Smith and Mr. Patricelli all noted that any plan to involving changes to benefit plans are only as good as the state's ability and discipline to make the required contributions.

Many commission members discussed the idea that much of the state's fiscal issues do not involve simply closing the budget gap but also restoring confidence in the business community that the state has truly created fiscal stability and structural changes. Several members also discussed the need to create a system to prevent future legislatures from underfunding the state's obligations so that this problem does not occur again.

IV. PRESENTATION BY JIM MILLSTEIN, MILLSTEIN & CO.

A copy of Mr. Millstein's presentation can be found by following the below link:

http://cga.ct.gov/fin/tfs/20180710_Pension%20Sustainability%20Commission/20180817/2018-08-16%20-%20CT%20Asset%20Presentation%20vShare.pdf

Mr. Millstein began his presentation by offering an executive summary (found below) of his presentation:

Connecticut and its municipalities have capital and other assets of significant value that could be unlocked and used more efficiently to shore up its underfunded pensions and mitigate persistent budget imbalances

- The State has significant capital assets on its balance sheet, including large infrastructure assets such as roads, bridges, railways, buildings, and even the lottery system

- In addition, there are many municipal-owned water utilities that could have significant value

- We have developed a set of transactions that could be pursued individually or collectively to unlock value that could be used to relieve pressure on state and local budgets

Following his presentation a question/answer and discussion period took place amongst Mr. Millstein and commission members- a summary is below:

Rep. Steinberg, Treasurer Nappier, and Mr. Millstein all engaged in a discussion regarding what lessons can be learned from New Jersey's recent transaction involving their lottery. Mr. Millstein explained that in July 2017, New Jersey transferred its lottery enterprise, including its net proceeds, to three of its retirement systems for a 30-year term. The contribution was effectuated by the Lottery Enterprise Contribution Act (the "Act") passed by the legislature and a Memorandum of Lottery Contribution ("MOLC"). He explained that the contribution represented the strongest commitment to pension funding the State could possibly make without a constitutional amendment.

Treasurer Nappier questioned how following the New Jersey plan would affect Connecticut's credit rating and also the state's bond covenant. Rep. Wilms and Mr. Millstein both agreed that whatever decisions the state makes that it be consistent with the bond covenant.

Several commissioners questioned how such asset transactions would affect the state's general fund. Many members feared that it would simply leave a hole in the general fund equal to the amount involved in the contribution. Mr. Millstein explained that such a practice would not leave a hole in the general fund as it would simply cover the amount the state is scheduled to contribute to the pensions.

V. DISCUSSION OF MEETING SCHEDULE AND PROSPECTIVE SPEAKERS:

Updated meeting schedule:

Friday, September 7	In-Kind Contribution Concept
Friday, September 21	Economic Development Implications/Opportunities
Thursday, October 4	Structure & Asset Selection Criteria
Wednesday, October 17	Asset Management Governance
Wednesday, October 31	Valuation & Accounting Treatment
Wednesday, November 14	Deliberations on Criteria, Process, Recommendations
Wednesday, November 28	Discussion on Recommendations
Wednesday, December 12	Discussion on Report Draft

VI. CLOSING REMARKS:

The meeting was adjourned at 12:27 P.M. by Chairman Rep. Steinberg.

Tom Spinella

Administrator

Dawn Marzik

Clerk