

Pension Sustainability Commission

MEETING MINUTES

Wednesday, October 31, 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, Salvatore Luciano, Justice C. Ian McLachlan, Ted Murphy, Erin Choquette (for Shane Mallory), Paul Potamianos (for Greg Messner), Joseph Rubin, Tara Downes, Treasurer Denise Nappier

Absent were:

Representative Fred Wilms, Michael Imber

One vacancy at time of meeting: Governor's appointment

II. OPENING REMARKS:

Chairman Rep. Steinberg opened the meeting by expressing his pleasure with all the progress the commission has made thus far. He also noted that Treasurer Nappier will be presenting to the group on November 16, 2018 which will mark the last of the presenters to come before the commission. He explained that the rest of the commission's time will be spent on deliberating and framing their recommendations based on all the information they have gathered from the various presenters as well as from other sources.

III. PRESENTATION BY JOHN GARRETT, PRINCIPAL AND CONSULTING ACTUARY, CAVANAUGH MACDONALD CONSULTING, LLC, DISCUSSING THE REPORT OF THE VIABILITY COMMISSION AND UPDATING ACTUARIAL MODELING THAT WAS PERFORMED SUBSEQUENT TO THE REPORT:

A copy of Mr. Garrett's presentation as well as other documents he provided to the commission can be found by following the below links:

http://cga.ct.gov/fin/tfs/20180710_Pension%20Sustainability%20Commission/20181031/John%20Garrett%20Presentation.pdf

http://cga.ct.gov/fin/tfs/20180710_Pension%20Sustainability%20Commission/20181031/CT%20TRS%20Viability%20Commission%20Report.pdf

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

Rep. Steinberg explained that the information provided by Mr. Garrett is very important for members to understand as they deliberate and prepare their final recommendations. According to Rep. Steinberg, the status of teacher's pensions may be even more important and problematic than state worker's pensions. Understanding how teacher's pensions project outwards is key to understanding the overall status of the state's pensions. Rep. Steinberg and Mr. Garrett then engaged in a discussion concerning the implications of failing to fund TRS by 2032.

Rep. Steinberg further questioned what impact postponing payments to pension funds or utilizing rainy day funds would have on our obligations going forward. Mr. Garrett pointed out that whatever the state does not pay today will cost more in the future as interest accumulates. Similar to mortgage payments the state should always try and meet their obligations as they are due. As far as utilizing rainy day funds, Mr. Garrett noted that using such funds towards the principal would decrease interest rate which would be helpful to the state's current position.

Mr. Rubin and Mr. Garrett discussed how The State Employees Retirement System (SERS) differs from the Teacher's Retirement System (TRS) as a result of the bond covenants and the most recent SEBAC agreement.

Mr. Murphy questioned how TRS would be affected if the state paid off bonds now. Mr. Garrett answered that while it would cost us assets now it would lead to a more stable/viable retirement system by closing the gap on obligations as soon as possible.

Ms. Kaplan-Cho commented on how any reduction to TRS would negatively affect the already modest benefits that retired teachers currently receive. She further noted that the majority of what the state pays into TRS goes towards the unfunded liability portion and not the actual costs of the benefits.

Mr. Luciano commented on the direct relationship between the assumed discount rate and the unfunded liability and questioned reducing the SERS discount rate to 6.9% given the recent increases by the fed.

Justice McLachlan and Mr. Garrett discussed the fact that Connecticut's teachers 7% contribution rate is lower than the national average of 8%.

IV. PAUL HINSCH, OFFICE OF POLICY AND MANAGEMENT, DISCUSSION ON STATE PROPERTY INVENTORY AND SELECTION PROCESS:

A copy of Mr. Hinsch's presentation as well as other documents he provided to the commission can be found by following the below links:

http://cga.ct.gov/fin/tfs/20180710_Pension%20Sustainability%20Commission/20181031/Paul%20Hinsch%20Presentation.pdf

In order to access Excel documents provided by Mr. Hinsch please use the below link and then click on the October 31, 2018 meeting tab:

http://cga.ct.gov/fin/taskforce.asp?TF=20180710_Pension%20Sustainability%20Commission

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

Rep. Steinberg thanked Mr. Hinsch and other staff at OPM for sharing and building the property inventory list that was presented to the commission today. This database is important to the commission's work and making it flexible and expanding it to make it fit the commission's criteria is key going forward.

Mr. Hinsch pointed out that discussing specific assets at this point is completely hypothetical it will however help commission members understand the process when considering inventory of state property for this group's purposes.

Rep. Steinberg commented that each property offers its own challenges and opportunities for the state to potentially utilize. As an example he cited PILOT properties and how such properties could benefit towns and the state if they became privately owned and could thus be taxed.

Rep. Steinberg and Mr. Hinsch then discussed the positives/negatives related to leasing vs. owning property as it relates to state usage.

Mr. Hinsch pointed out that while there may not be that many ideal or attractive pieces of property for this group to consider this is in fact a good sign for the citizens of the state because it means we are doing a good job using and selling most of the state's property.

Ms. Downes, Ms. Choquette and Mr. Hinsch all discussed the current process the state and OPM utilizes once a property is deemed to have no value left- how is it marketed and potentially used for new economic development projects? Ms. Choquette described an extensive process in which many state agencies work together in a collaborative fashion to make sure the state gets the most out of such properties.

Mr. Murphy pointed out there is a discrepancy between assessed values compared to real actual value of property. Mr. Hinsch followed up that PILOT is based on such assessed values but that there is a cap which prevents values from being too far off from real values. The two then discussed UConn's recent sale of property on some of their branch campuses. Mr. Hinsch explained that UConn does have their own special method for selling their property where they do not have to go through OPM but he assured members that the university does keep OPM staff in the loop when such sales are being considered.

Treasurer Nappier questioned the percentage of state property that is cash yielding compared to undeveloped. Mr. Hinsch answered that garages, cell towers, etc. can all be considered cash yielding but they represent a small percentage of property the state possesses.

Mr. Hinsch then offered a demonstration of how to utilize the inventory database that OPM has as the commission looks to analyze the cost/benefit of utilizing specific pieces of state property to complete its charge.

V. BRIEF UPDATE FROM WORKING GROUPS:

Capital Asset Selection Working Group

Mr. Murphy explained that the working group met on Friday, October 26th, 2018 in Room 2600 of the LOB at 2:00pm. He explained that there was productive discussion amongst those in attendance as the group had a general dialogue concerning narrowing the capital assets from the groups criteria from the first meeting. Also discussed was the viability of the trust as the group determined that there is approximately \$1 billion worth of property to be considered- yet there are some roadblocks with utilizing certain assets that the commission will have to consider going forward.

Legal Working Group

Mr. Rubin explained that the working group met at 55 Elm Street, Hartford, CT 06106 on Thursday, October 25th, 2018 at 2:00pm.

For a copy of the minutes and topics of discussion please click on the below links:

http://cga.ct.gov/fin/tfs/20180710_Pension%20Sustainability%20Commission/20181025/Minutes.pdf

http://cga.ct.gov/fin/tfs/20180710_Pension%20Sustainability%20Commission/20181025/Topics%20of%20discussion.pdf

VI. CLOSING REMARKS:

Chairman Rep. Steinberg closed the meeting by discussing a flyer recently released by the Association of Retired Teachers of Connecticut (ARTC) which highlights the important work that this commission is doing. The ARTC believes that the work being discussed by this group is very important heading into the 2018 elections.

A link to this document can be found below:

http://cga.ct.gov/fin/tfs/20180710_Pension%20Sustainability%20Commission/20181031/ARTC%20Document.pdf

The meeting was adjourned at 12:04 P.M. by Chairman Rep. Steinberg.

Tom Spinella

Administrator