

Pension Sustainability Commission

MEETING MINUTES

Friday, November 16, 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, Justice C. Ian McLachlan, Michael Imber, Ted Murphy, Erin Choquette (for Shane Mallory), Greg Messner, Joseph Rubin, Tara Downes, Treasurer Denise Nappier

Absent were:

Salvatore Luciano

Two vacancies at time of meeting: Governor's appointment, Minority Leader of the House of Representatives appointment

II. OPENING REMARKS:

Rep. Steinberg made very brief opening remarks thanking the Treasurer and her staff for presenting before the commission today and offering a plan for sustainable funding of the Teachers' Retirement Fund.

III. PRESENTATION BY DENISE L. NAPPIER, TREASURER, STATE OF CONNECTICUT:

A copy of Treasurer Nappier's presentation can be found by following the below link:

http://cga.ct.gov/fin/tfs/20180710_Pension%20Sustainability%20Commission/20181116/Treasurer%20Nappier%20Presentation.pdf

The Treasurer and her staff's presentation focused on offering a plan for sustainable funding of the Teachers' Retirement Fund. Within their presentation a background was offered on the payment of teachers' retirement benefits and the deterioration of the Teachers' Retirement Fund (TRF). Also discussed was the investment performance of the TRF from 2000-2018, the intervention in 2008 which involved issuing pension obligation bonds, and where the TRF currently stands.

Treasurer Nappier also offered a plan for sustainable funding of the TRF as detailed below:

- Monetize lottery revenues, transfer assets
- In FY 2026, pay off Pension Obligation Bonds (POBs)
- After POBs are paid off, re-amortize

Within her presentation the Treasurer also touched upon other options going forward, and threshold considerations involving fundamental principles for preserving the health of the TRF.

Following the presentation a question/answer and discussion period took place amongst Treasurer Nappier, her staff and commission members- a summary is below:

Rep. Steinberg and Treasurer Nappier discussed the importance of building in constraints and reasonable assumptions to any plan going forward so that in the future the state would not be left in a similar problem as they are now. Ms. Kaplan-Cho also commented in support of the Treasurer's urging of the state to adopt legislation to continue the funding discipline that the bond covenant established in 2008.

Mr. Imber questioned the performance of lottery based revenue bonds that other states such as Oregon, Florida, and West Virginia have issued. Chris Martin of the Treasurer's office answered that such bonds have been very effective as they provide a dedicated source of revenue for the pension fund and can even act as a cash payment to the fund.

Mr. Imber and Catherine Lemar (counsel to the Treasurer) discussed the idea that the LOT could potentially jeopardize the tax exemption status that the state of Connecticut has with respect to the investments of these assets. They also touched upon the importance of the Treasurer to be able to understand and approve the exit strategy of any approach involving the LOT concept that this commission may recommend.

The Treasurer commented on the portion of her plan to monetize lottery revenues and transfer other state assets to the TRF in order to mitigate the impact of moving to a more realistic investment return assumption of 7.5% (from 8%). Assets would be invested consistent with the Investment Policy Statement, including asset allocations, approved by the Investment Advisory Council, and the requirements of pension fund governance.

Mr. Imber also suggested that it may be worthwhile for the commission to seek the opinions of private sector real estate developers in order to determine what they recommend this group do with the assets that Mr. Hinsch and OPM has presented to this group for consideration- "do they see any gems in the spreadsheet?" Rep. Steinberg warned members that he is fearful of having experts preform such an exercise as it could lead to headlines involving the state's plan to sell a certain property which of course would be out of context.

Several commission members engaged in a conversation with the Treasurer and her staff regarding TRF funding policy options for FY2020-FY2025 (p.32 of PowerPoint presentation).

Ms. Choquette commented that while this presentation is specific to Teacher's Retirement plans the concepts and principles also apply to both TRB and SERS. Larry Wilson from the Treasurer's office interjected that this is correct except that SERS has already made some of the actuarial changes.

Justice McLachlan questioned how the state is going to be in a position to pay off Pension Obligation Bonds (POB's) in 2025- where is the money going to come from? Treasurer Nappier answered that the money will be made available from the ARC and also simply because the bonds will become callable at that point.

Ms. Downes asked in addition to private letter rulings from the IRS, what other due diligence would this group have to do to address all of the concerns that the Treasurer has raised-outlined on p.31 of her presentation? Ms. Lamarr answered that this would be something the new treasurer should be tasked with as the fiduciary of the state.

Mr. Rubin commented on the bond covenant- pointing out that while many praise the covenants for tying the hands of the legislature, they also have other effects that can be negative. For example, one of the reasons the state is not re-amortizing is because of the bond covenants.

IV. BRIEF UPDATE FROM WORKING GROUPS:

There were no updates from the working groups.

V. CLOSING REMARKS:

Rep. Steinberg ended the meeting by discussing next steps that the commission needs to consider going forward. He elaborated that the group should be working towards establishing a framework for their final recommendations, as well as identifying any obstacles the group may face and possible remedies to such issues. He also pointed out that the commission may not fulfill all of their duties as mandated yet indicating items that need further examination and consideration going forward should be helpful to those reviewing this group's final work.

The meeting was adjourned at 12:49 P.M. by Chairman Rep. Steinberg.

Tom P. Spinella

Administrator