STATE EMPLOYEES
RETIREMENT COMMISSION

MEDICAL EXAMINING BOARD
for DISABILITY RETIREMENT

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WRITTEN TESTIMONY
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Chair and Neutral Trustee of the Connecticut State Employees Retirement Commission

March 4, 2016

Concerning
H.B. 5418 AAC Establishing the Anticipated Rate of Return for Investments in State Retirement Plans

Good afternoon Senator Beth Bye, Representative Toni Walker, Senator Rob Kane, Representative Melissa Ziobron, and distinguished members of the Appropriations Committee:

My name is Peter Adomeit. I am the Chair and Neutral Trustee of the Connecticut State Employees Retirement Commission (the Commission).

I come today on behalf of the Trustees of the Commission to speak in opposition to House Bill 5418, *An Act Concerning Establishing the Anticipated Rate of Return for Investments in State Retirement Plans.*

The Commission has the primary, fiduciary responsibility for the operation and oversight of the State Employees Retirement System, covering all state employee participants, working and retired, and their survivors. We have similar duties with the Municipal Employees Retirement System (MERS). A separate system covers public school teachers, which is the Teachers Retirement System. House Bill 5418 impacts all these pension systems.

House Bill 5418 is a profound and unwise change in the structure of the operation of these retirement systems. It is a step backwards to the time when the political process was destabilizing the pension system. The current system, created in 1982 and subsequent years through collective bargaining with state employee unions, has brought stability and open processes, with reliance on actuarial estimates of future rate of return. It was carefully constructed to have checks and balances.

House Bill 5418 takes the fiduciary responsibility for establishing an anticipated rate of return for investments from the trustees of the State Employees Retirement

Commissions who by law are fiduciaries, and gives it to the Investment Advisory Council, who are not fiduciaries, and have a different task: advising and reviewing investment decisions of the State Treasurer.

What the proposed bill does is mistakenly equate the estimates of investment advisors with the technical actuarial analysis of multiple factors, which include the anticipated inflation rate and future wage increases. That is why pension plans all use trained actuaries, not stock and bond experts. Each has their place.

The power to set the anticipated rate of return contains within it the power to drive the whole pension system into disarray. If the anticipated future rate of return is set too high, it would create the false assumption that no money needs to flow in. If the rate is set too low, it would create the false assumption that more money is needed than necessary to meet obligations. By selecting an unreasonably low figure, the pension system would require more funding, threatening the budgets of the state, schools and municipalities. If the rate is too high, less money flows in and the system becomes starved for funds.

House Bill 5418 violates the collective bargaining agreements between the coalition of state employee unions and the state. These agreements, which date back to 1982, govern the pension system and require the estimated rate of return to be determined by the best estimates of the actuaries. The statutes that House Bill 5418 seeks to change are imbedded in and are part of those collective bargaining agreements. They cannot be changed unilaterally without collective bargaining.

The current system requires prudent and responsible decisions from the Trustees. There are checks and balances built into the current system that this bill seeks to replace. Currently, labor and management each appoint six trustees. They nominate the Neutral Chairman, who is appointed by the Governor. Labor and management each appoint their own actuaries, and the Commission employs a third actuarial firm with extensive experience in representing public pension funds. It is a system with over 30 years of experience, governed by law, relying on the best estimates of three professional actuaries.

In conclusion, House Bill 5418 would divide responsibility over the state, municipal and teacher's pension systems and give a significant part of it over the anticipated rate of return to an Investment Advisory Council that was never intended to serve in that role. It eliminates the current checks and balances, subjects the retirement plans to the political processes and instabilities, and violates the collective bargaining agreements. By law, setting the anticipated rate of return must be done by actuaries, not investment advisors.

The Trustees of the Connecticut Employee State Retirement Commission urge you to reject House Bill 5418.

Thank you for your consideration.