Testimony of State Treasurer Denise L. Nappier

SUBMITTED TO THE APPROPRIATIONS COMMITTEE
MARCH 4, 2016

Senator Bye, Representative Walker, and members of the Appropriations Committee, thank you for the opportunity to offer testimony in support of **Raised Bill 5420, *An Act Concerning Principal Investment Officers***. If enacted, this legislation would bring principal investment officers of the Treasury within the class of personnel approved by the State's independent Investment Advisory Council, as is currently the case for the most senior investment personnel within the Treasury.

At the outset, I should emphasize two points: First, there is no general fund impact associated with passage of this measure. Second, the members of the Investment Advisory Council are appointed by leadership of both chambers of the General Assembly, with the chair and five (5) union members appointed by the Governor.

Enactment of this bill is essential to my ability to fulfill the principal fiduciary responsibilities for the State's pension and trust funds, and to meet the investment objectives and expectations associated with the safeguarding and management of fund assets under my watch. By way of background, the State's $29.7 billion pension and trust funds[1] are overseen by a staff of in-house investment professionals led by a Chief Investment Officer and Deputy Chief Investment Officer, both of whom are appointed by the Treasurer with the advice and consent of the Investment Advisory Council. The salaries for these senior investment professionals fall within a range established by the Treasurer in consultation with the Investment Advisory Council, and are outside the purview of the Department of Administrative Services and the Office of Policy and Management.

Connecticut statute also allows the Treasurer to appoint principal investment officers[2]; however, these positions require approval by both the Department of Administrative Services and the Office of Policy and Management. This separate process for our most senior investment professionals has constrained our ability to recruit and retain top flight seasoned personnel with highly technical investment and securities expertise necessary in the evaluation and monitoring of plan assets.

Connecticut is an outlier when it comes to paying investment professionals – a conclusion confirmed by a 2013 compensation survey conducted by an external consultant that was commissioned by the independent Investment Advisory Council and the Treasury. At the time, the upper limit of the PIO's compensation range established by DAS and OPM was well below the median pay at similar public pension funds, and continues to pale in comparison to what the private sector offers. This has made recruitment and retention especially difficult, as evidenced by the relatively short average tenure of 2.6 years for Principal Investment Officers, as compared with the average tenure of other senior Treasury professionals at more than 20 years. The turnover and long recruitment time for this position are indicative of the challenges faced by the Treasury due to compensation levels that are below market.

As such, I respectfully request this Committee's favorable consideration of Raised Bill 5420.

[1] Market value of assets as of June 30, 2015.
[2] Conn. Gen. Stat. § 3-13a.

I'd also like to offer a brief comment concerning another bill on today's agenda, **Raised Bill 5418, *An Act Concerning Establishing the Anticipated Rate of Return for Investments in State Retirement Plans***. This bill would transfer to the Investment Advisory Council the task of setting the investment return assumption that would apply to each of the State's pension plans.

To be clear, as Treasurer I serve as Secretary of the Investment Advisory Council, and am an *ex officio* member of the governing boards of the State's largest pension plans – the State Employees' Retirement Commission and the Teachers' Retirement Board. I do not represent any of these boards nor am I speaking on their behalf today.

That said, the current process for establishing the investment return assumption involves coordination between SERC, TRB, the plans' actuaries and the Treasury's general investment consultant. Ultimately, the actuaries recommend to these boards an investment return assumption that is based, in part, on the long term capital market forecasts derived by the Treasury's general investment consultant, as well as past investment experience and historical analysis.

In my view, we can only speculate whether changing hats, so to speak, from one board to another, would lead to an incremental improvement over the current process. At the end of the day, if the Legislature's objective is to insulate the process for establishing the investment return assumption from political influence, then the only way to ensure this outcome is to render the State's annual contributions to its pension plans as "deemed appropriated," thereby eliminating any potential for gamesmanship in setting the return.

Thank you for the opportunity to offer comments on these bills. I would be happy to respond to any questions you may have.

Thank you.