STATE OF CONNECTICUT
TEACHERS' RETIREMENT BOARD
21 GRAND STREET   HARTFORD, CT 06106-1500

Minutes of Meeting
March 5, 2008

The regular meeting of the Teachers' Retirement Board was called to order at 2:18 p.m. by Chairperson Barnett on Wednesday, March 5, 2008 at 21 Grand Street, Hartford, Connecticut.

Board Members Present:
Clare H. Barnett, Chairperson, Teacher Member
Astread Ferron-Poole, Representing Commissioner Starkowski, Dept. of Social Services
Deborah Freedman, Public Member
Jonathan Johnson, Public Member
Elaine Lowengard, Public Member
Mary E. Nicholas, Teacher Member
Rosalyn Schoonmaker, Teacher Member

Staff present:
Darlene Perez, Administrator
Lou Laccavole, Fiscal Administrative Supervisor
Jean Ouellette, Administrative Assistant

Others present:
Robyn Kaplan-Cho, CEA
Karen Nolen, OPM
Michael Norman, ARTC
Bonnie Reimann, ARTC
James Stirling, Stirling Benefits

AGENCY REPORT

Darlene Perez, Administrator, introduced and welcomed two new members to the Board. Governor Rell appointed Jonathan Johnson to succeed Martin Lilienthal. The Honorable Starkowski, Commissioner of the Department of Social Services delegated Astread Ferron-Poole as his designee to succeed Maria Taylor.

Each member of the Board introduced themselves to the new members, giving some career background.

At the Governor's request an Orientation is being prepared for the Board members. It should be ready for the next meeting.

The Agency will be moving to a new location sometime between March 31 and April 11. Administrator Perez respectfully requested that the Board cancel the April meeting because of the move.

Administrator Perez attended the Bond Commission meeting on January 25, 2008 and witnessed the approval of the $2 billion bond designed to help close a $6.9 billion long term liability in the Teachers' Retirement Fund.

Legislation requires that the State pay the full actuarially recommended contribution (ARC) for the life of the bond which is expected to be 25 years. Governor Rell has been making the full annual required contributions since she has been in office thus indicating that the budgets for fiscal years ending 2008 and 2009 already provide for a 100% funding. This practice should continue as bond raters will provide the pressure for future Governors to continue.

Administrator Perez also attended the bond kickoff meeting where she learned that the bonds are scheduled to close on April 30.

She noted that an error in the language of the legislation providing for the bond was identified by Louis Laccavole, TRB's Fiscal Administrative Supervisor. A one letter typo changed the meaning of a paragraph. The error appeared to add a new benefit requiring TRB to pay a cost of living increase on all but 1% of the Voluntary Annuity. She alerted the Governor, state auditors, OPM and the Treasurer's Office. The Treasurer's Office will have their legislative representatives make the correction in June or July when technical corrections are done. If Denise Nappier, the State Treasurer, proposes this correction everything should go smoothly.

Leanne Appleton, TRB Assistant Administrator, attended the annual meeting for Legislative Liaisons where guidelines on tracking legislation and obtaining assistance with legislation that already has the Governor's approval was discussed. A mailbox has been assigned to TRB where we can pickup legislative session bulletins and information. We have also signed up for the CT General Assembly email tracking for legislation status.

Brian Murphy, President of our actuarial firm, Gabriel Roeder Smith & Company, (GRS) notified us that Larry Langer was no longer with the firm. Brian Murphy will serve as our actuary until a permanent replacement can be found for Larry Langer. GRS's current contract runs from April 1, 2006 through March 31, 2009. The contract for actuarial services will be going to bid towards the end of the year.

Through many meetings with our new pension and tax attorneys we are trying to get up to speed on the pension and tax laws. There are some Federal minimum distribution rules that apply to the TRB system. Because we are a defined benefit plan we do not administer minimum distributions. One example concerns members who never became vested, left their money in the plan for 25 years and are 70 ½ years of age. To comply with Federal law they will have to move their money to another plan and take the minimum distribution from wherever they moved their money to. We already have members who are 70 ½ and older who need to be notified of their options. The information on our website will require updating once the details are worked out.

Our Legislative Package made it into the form of a Bill.

MATTERS FOR BOARD ACTION

Chairman Barnett asked for a motion to delete the April Board meeting because the Agency will be moving and hold the next meeting on May 14, 2008. The motion was made by Mary Nicholas and Seconded by Elaine Lowengard. All members voted in favor and the motion was passed.

Motion to approve the December 12, 2007 meeting minutes was made by Rosalyn Schoonmaker and Seconded by Elaine Lowengard. All members voted in favor and the motion was passed.

For the benefit of the new Board members, Administrator Perez explained the reports that would be voted on. The Retirement Register lists members who are retiring during the month of the report and represent teachers who may have left previously and are now eligible for benefits as well as teachers who are retiring prior to the end of the school year.

The Survivorship Payroll Report indicates survivors of teachers who died before they made it to retirement. As teachers do not participate in Social Security a statutory survivorship program is provided in lieu of Social Security survivorship benefits.

The Medical Review Committee Report is a status report on the disability benefits applied for during the month of the report.

Chairman Barnett explained that these reports are voted on at each meeting. Motion to approve the granting of service retirement and survivorship benefits and the reports and recommendations of the Medical Review Committee for December 2007, January and February, 2008 was made by Rosalyn Schoonmaker and Seconded by Mary Nicholas. All members voted in favor and the motion was passed.

At the December 12, 2007 meeting the effective date for the market rate of interest on Voluntary Accounts was voted on as July 1, 2008. The date should have been June 30, 2008. Motion to correct the date was made by Rosalyn Schoonmaker and Seconded by Mary Nicholas. All members voted in favor and the motion was passed.

Chairman Barnett explained that the legislature passed an act effective in 1992 in which a guaranteed COLA of no less than 3% and no more than 5% was removed for future retirees and replaced with a COLA with a sliding scale based on a complicated formula. It caused approximately 1,500 teachers to retire to prevent their COLA from being altered. Administrator Perez referred to the TRB document explaining how the COLA is determined for both the pre and post 1992 groups and well as the Bureau of Labor Statistics News Service website on December 14, 2007. The disparity between the two groups was pointed out. She also explained that if a member retires November through April the anniversary date is January and if retirement is between May through October the anniversary date is July.

Motion to approve the 4.6% COLA for the pre September 1992 retirees was made by Rosalyn Schoonmaker and Seconded by Mary Nicholas. All members voted in favor and the motion passed.

Administrator Perez stated that the staff realized the need to clarify merit pay and the treatment of merit pay for pension purposes. The TRB system is not an all inclusive salary pension system. An example of what would not be included is an annuity that is being paid out of accounts payable so it is not part of a member's salary. Fringe benefits, i.e., car allowance, paid health insurance, extra duty assignments, can't be converted into salary for the purpose of inflating member pensions. Statutes require the teacher to be certified in their job assignment for member eligibility. Once eligibility is met membership is mandatory. The staff of 27 people provides service to approximately 100,000 lives. The Merit Pay Policy that was presented to the Board is to assist the staff in the proper administration of the teachers' retirement system. Administrator Perez also requested that the Merit Pay Policy heading be changed to Merit Pay Position Paper.

Motion to Approve the Merit Pay Policy to include the change to Merit Pay Position Paper was made by Rosalyn Schoonmaker and Seconded by Mary Nicholas. All members voted in favor and the motion passed.

Administrator Perez stated that she had gone to the Legislature last year to obtain additional staff. The legislature in turn assigned TRB to provide a Strategic Business Plan (SBP). TRB had a Plan under the old Legacy system. We now have Pension Gold to administer the pension system. The new software changes procedures and therefore a new Strategic Business Plan is warranted. OPM stated that they could provide money to assist with the preparation. Unfortunately this was not the full solution because a good plan should include the leaders of the organization. These leaders are faced with many competing priorities. Through attendance at the NCTR conference she was aware of CEM Benchmarking, a company that focuses on pension systems. They compared our agency to all other participants for that year. Because there are so many participants, you are able to compare yourself to a comparable system either by number of members or size of assets. TRB choose to use membership. CEM Benchmarking was contracted in October 2007; a rough report was obtained in February 2008; a series of half day sessions with facilitators to lead us through a strategic plan exercise started December 2007. Staff from TRB Administration, IT, Benefits, and Accounting as well board members attended. When Administrator Perez met with the legislature on February 25, 2008 they expected the draft SBP in a couple of weeks.

A Mission Statement and Vision Statement are part of the SBP. The previous Mission and Vision Statements were done approximately 15 years ago. Therefore she felt the new statements should be presented to the Board for their approval before they are included in the SBP.

Chairman Barnett compared the original Mission and Vision Statements to the new ones that are being presented to the Board. She suggested that the SBP be made available to the Board members for their review and emphasized its importance in obtaining things from the State.

Motion to Approve the Mission Statement and Vision Statement was made by Rosalyn Schoonmaker and Seconded by Mary Nicholas. All members voted in favor and the motion passed.

Administrator Perez stated that the health plan administrator contract ends on June 30, 2008. Five companies responded to the bid process: Aetna, Insurance Programmers, Inc., Stirling Benefits, Inc., United Healthcare, and VSP. A sub-committee reviewed and scored the bids. Two finalists, Insurance Programmers, Inc. and Stirling Benefits, Inc., gave oral presentations. Both were smaller companies who are good at dealing with the needs of their customers. Stirling Benefits has more service members on their team and have been doing our third party administration for a number of years. Through questions asked the finalists it was determined that Stirling had a much broader understanding of the Medicare program which is an advantage to Stirling because the only people we have in our group are on Medicare. The recommendation of the sub-committee was to award the contract to Stirling Benefits, Inc. for the contract period July 1, 2008 through June 30, 2011.

Motion to Approve the awarding of the health plan administrator contract to Stirling Benefits, Inc. was made by Rosalyn Schoonmaker and Seconded by Mary Nicholas. All members voted in favor and the motion passed.

Chairman Barnett introduced Joseph A. Fields, PhD., Principal Corporate Benefit Consultants LLC, consultant for health insurance in Florida, New York and Connecticut. When he started with TRB over seven years ago he determined that the health plan was headed towards insolvency. A model was developed to look at where we were and where we were going, what the sources of funds were and the uses of the funds. At the time the Office of Policy and Management hired Buck Consultants to do a study which revealed that by 2006 TRB would have a $400 million deficit. Fortunately no deficit has ever been realized. The model has been extended to 2017 and the expected surplus is $250 million. The amount of the fund is increasing by a relatively slight rate. Teacher contributions, school district payrolls, benefit plans, etc. are looked at in terms of what expected growth rates are going to be. Trend rates are about 60% of what they were three years ago. The model has been very accurate over the past few years. Page 6 of his report indicates that the fund balance is expected to increase to $248.3 million by 2017. The model is redone every year and is used for operational purposes. All of the estimations that the Board puts forth to the legislature come as a result of changing the assumptions in this model to put into effect what any kind of stipend change would produce with regard to who has to contribute what amount of money and what the impact would be on this fund.

Visitor, Bonnie Reimann questioned how Dr. Fields came up with the projected cost of living over the course of these years. He explained that a range goes into the model that trails what happened in the market. He gave an example of drug trends.

Another visitor, Michael Norman, stated that in 1996 the state paid each individual $110 and was about 80% of the cost of insurance. Today the teacher is paying 80% of the cost of insurance and the state is only paying 20%. Insurance for those under 65 or those who do not have Social Security Medicare are really suffering. What can be done to turn this around? Increasing the stipend and maintaining the stipend so that some kind of medical COLA is attached to it was not discussed. The board should be an advocate of this.

Dr. Fields stated that his presentation is not about this issue however; he has been working on the modeling for this issue over the last six months.

Chairman Barnett stated that the Board has long recognized, made, supported and testified on numerous proposals regarding this issue. There are numerous proposals out there with the support of retired teachers, active members, unions, and the Board itself. When a proposal is made Legislators ask what we want to give up in order to fund this. The Board understands the hardships and is committed to pursuing a solution.

Jonathan Johnson asked what is the probability of these numbers being achieved trying to project 10 years out. Dr. Fields stated that there is a 25% - 75% probability. The variance for 10 years out equates to plus or minus $75 to $100 million. The model is checked by using different scenarios for each variable to see what stability the model has. It is more problematic the further out the projection. More assumptions have to be made with regard to teacher salary increases, what the active teacher population will be, and the longevity of the 65+ group. Actuarial reports show that retired teachers consistently live longer than projected. With a ten year projection there is a significant variability. A natural conservatism is built into the model.

Administrator Perez stated that she attended "Due Diligence" meetings with lawyers for the State Treasurer's office. They make sure full disclosure is written up so that whoever will buy the bond knows the risk associated with the purchase. A concern is that agencies do not have plans in place to pay down their accrued liability on their health insurance programs. There is a $2 billion liability in our health program that budget people are concerned about when legislation is in place to increase the liability without funding in place. This is another piece of the pie that needs to be looked at in addition to the benefit increases.

Motion to Accept Dr. Field's State of the Medical Fund report was made by Mary Nicholas and Seconded by Rosalyn Schoonmaker. All members voted in favor and the motion passed.

Administrator Perez stated that there are two programs to help retirees pay for their health coverage. There is a state statute that requires the teacher's last employing board of education to allow a retiree to continue paying for health insurance at that town's active population health group rate. TRB pays a subsidy to the town to help defray the cost. The average premium in Connecticut is about $500 per month. This subsidy has been frozen since 1996.

Stirling Benefits administers the other program designed for people who are participating in Medicare A. A few years ago required participation in Medicare B for doctor coverage was added. TRB is a supplemental plan and does not pay the entire doctor cost.

TRB now participates in a federal drug program that provides a subsidy with some parameters based on drug usage. If an employer continues a prescription program for a retiree group they can apply and receive a subsidy from the federal government and we are doing so. About 19% of our budget comes from this program. However, a retiree can't participate in two prescription plans that receive this subsidy. Therefore, Dr. Fields has drafted a policy which explains the choice a retiree must make to participate in the TRB prescription plan.

Motion to Approve the TRB Policy on Coordination of Benefits and Multiple Coverages was made by Rosalyn Schoonmaker and Seconded by Mary Nicholas. All members voted in favor and the motion passed.

Jaime Stirling, Stirling Benefits, was asked to give a brief overview of the out of country coverage. The original health plan did not envision retired teachers having residence both overseas and the United States thus receiving health care in both locations. The plan requires that they be covered by Medicare Parts A and B. The TRB does not pay primary in any situation. Medicare does not extend beyond the United States and Puerto Rico. Therefore some language is needed in the plan document to address this.

Dr. Fields stated that the idea behind the out of country coverage that exists in the Blue Cross language that this is following is simply to provide a stabilization to not leave the person uncovered during a short period of time, i.e. cruise or short vacation; not to provide this as a basic medical coverage but an emergency coverage for the individual until they can return to the United States.

Although this does not affect a large number of our members now it could increase. A mechanism to provide coverage for members while on vacation in a foreign country is needed without becoming a primary coverage. This will be discussed at the Board meeting in May.

Motion to Approve Leanne Appleton, Assistant Administrator, attending the NCTR Deputy Director & Communication Specialist Workshop in San Diego, California, May 7, 8, and 9, 2008 was made by Mary Nicholas and Seconded by Rosalyn Schoonmaker. All members voted in favor and the motion passed.

Chairman Barnett noted that the reports on Retirement Statistics for December, January and February, included in the Board's packet, are for their review. Administrator Perez pointed out that other than July, the mid school year months show a higher number of retirees.

Michael Norman, President, Association of Retired Teachers of Connecticut, complimented the performance of the Board.

Bonnie Reimann, Membership Chair, Association of Retired Teachers of Connecticut, questioned the payment of state income tax. Chairman Barnett explained that payment of state income tax is made to the state in which a retiree lives for a least six months and a day. Some states do not require retirees to pay any income tax. If you move out of state you must submit a change of address form, bank change form, as well as a tax change form indicating zero Connecticut tax withholding. If a retiree moves to a state with an income tax the retiree must make their own provisions for payment to that state. TRB does not have the capability for collecting and forwarding taxes to another state.

Jamie Stirling, Stirling Benefits, thanked that Board for their continued confidence in Stirling's abilities and pledged to meet and exceed the expectations of TRB.

Chairman Barnett welcomed the new members and commented that there was a lot of information for the new Board members to absorb. TRB will be moving to 765 Asylum Avenue across the street from the Hartford Insurance Company in April.

Motion to adjourn the meeting at 4:00 p.m. was made by Rosalyn Schoonmaker and Seconded by Mary Nicholas. All members voted in favor and the motion passed.

Respectfully submitted,

	March 11, 2008
Jean Ouellette, Administrative Assistant	Date

Attest:

	May 14, 2008
Darlene Perez, Administrator	Date Approved