



STATE OF CONNECTICUT
TEACHERS' RETIREMENT BOARD
765 ASYLUM AVENUE HARTFORD, CT 06105

Minutes of Meeting
May 14, 2008

The regular meeting of the Teachers' Retirement Board was called to order at 2:10 p.m. by Chairperson Barnett on Wednesday, May 14, 2008 at 765 Asylum Avenue, Hartford, Connecticut.

Board Members Present:

Clare H. Barnett, Chairperson, Teacher Member
Astread Ferron-Poole, representing Commissioner Starkowski, Dept. of Social Services
Marion Jewell, Teacher Member
Jonathan Johnson, Public Member
Eric Judge, Public Member
Brian Mahoney, representing Commissioner McQuillan, State Board of Education
William Murray, Teacher Member
Mary E. Nicholas, Teacher Member
Rosalyn Schoonmaker, Teacher Member

Staff present:

Darlene Perez, Administrator
Leanne Appleton, Assistant Administrator
Lou Laccavole, Fiscal Administrative Supervisor
Jean Ouellette, Administrative Assistant

Others present:

Edythe Bloom, AFT
Barbara Jiantonio, TRB Benefits Division Supervisor
Robyn Kaplan-Cho, CEA
Karen Nolen, OPM
James Stirling, Stirling Benefits
Wayne Woodtke, ARTC

AGENCY REPORT

Administrator Perez introduced Eric Judge who was appointed by Governor Rell to succeed Deborah Freedman. Each member of the Board introduced themselves to the new member giving some career background.

A letter was received from Linda Garber, a retired teacher, expressing gratitude and thanks for all the work put into increasing the subsidy for retired teachers who purchase their health insurance from their last employing board of education.

Governor Rell requested that Board members receive a handbook regarding their responsibilities. The handbooks were distributed and reviewed. The composition of the Board was explained. There are five teacher members elected by their peers: three teachers are active and two are retired. There are two ex-officio members: the State Board of Education Commissioner and the Department of Social Services Commissioner. Then there are five members appointed by the Governor. Responsibilities of the Appeals, Legislation and Vendor Committees were explained.

Administrator Perez stated that there are currently 27 staff members and 3 vacant positions. We have permission from the Office of Policy and Management (OPM) to fill the vacant positions. Interviewing will begin the week of May 19th. The functions of the Agency Divisions were described. Currently 27 staff members are processing 1700 retirements per year. Fifteen to twenty years ago 36 staff members were processing approximately 800 retirements per year. A minimum of 30 staff members are needed to keep our backlogs to within a year instead of letting them grow indefinitely. It is hoped that the Strategic Business Plan will assist in increasing the number of staff beyond 30.

A benchmarking company for pension systems was hired and confirmed the State of Connecticut is spending the least amount of money on the teacher pension system compared to most of its peers. It offers the fewest services and has the fewest staff member ratio. However, it also confirmed that we pay accurate and timely benefits to beneficiaries. We also support a very good health insurance program as a supplement to Medicare.

A list of the current vendors and their contract dates is included in the handbook. The Fiduciary Principles section was read. Also included in the handbook are the Chapter 167a of the Connecticut General Statutes which governs the Teachers' Retirement Board; Expense Reimbursement and Travel Policy; State Office of Ethics Guide; and various TRB policies regarding staff.

Administrator Perez stated that all agency heads received a directive from Governor Rell banning any out of state travel expenditures including registration, transportation and

lodging. Therefore she has pulled requests for reimbursement for future attendance until the ban is lifted.

Information on the National Council on Teacher Retirement (NCTR) July Trustee Workshop in California was made available noting that costs can't be reimbursed by state funds at this time. Board members may go if they can find other funding sources.

Administrator Perez stated that the package on the Internal Revenue Service changes that was submitted to the legislature passed. This legislative package dealt with after tax contribution limits, salary limits and benefit limits. Governmental pension systems are undergoing IRS audits with more frequency.

Another bill that looks like it will be approved doubles the health insurance subsidy for a retiree, spouse of a retiree or surviving spouse of a retiree if 1) they purchase health insurance through their last employing board of education, and 2) they are at least 65 years of age, and 3) they are not eligible for Medicare A without cost, and 4) they are paying a minimum of \$220.00 per month for their own health insurance premium. A survey conducted by our health plan consultant, Dr. Joe Fields, concluded that there should be no more than 500 people that meet all four criteria.

Chairperson Barnett clarified that Connecticut is one of fourteen states where teachers do not pay any Social Security. This limits the teacher's access to a variety of benefits that most people in the public and private sector have. Work to find resources that will provide access to affordable health care for this vulnerable group is ongoing.

Administrator Perez stated that the last printing of the Health Summary Plan Description was in 2002. The document is published on our website. An update of this document has been worked on with the assistance of James Stirling from Stirling Benefits and Dr. Fields. It is currently at the printers and will be mailed to everyone who is currently enrolled in the Stirling Benefits plan within three to four weeks. There are approximately 13,000 people enrolled in the plan including spouses; therefore, approximately 10,000 copies will be mailed. There will be extra copies for future use.

Lou Laccavole, Fiscal Administrative Supervisor for the Accounting Division, explained a new procedure relating to new Internal Revenue Service requirements for incoming rollovers of funds from 403(b) and Government 457 plans to purchase service. This will ensure our compliance with IRS regulations and to prevent any taxation to a member. This policy has been developed with advice from our attorneys Robinson and Cole. It is similar to the policies of several other state teachers' retirement systems.

The change relates to transfers received in an amount that is different than the cost of the service. Example: The invoice to purchase service is \$10,000 and the amount of transfer

received is \$8,000. Currently the receipt of \$8,000 is put into the member's Voluntary Account and we wait for the remaining \$2,000 which could be a personal payment from the member or another transfer from one of the member's other retirement accounts. We might receive this additional \$2,000 by the due date, late or we might never receive it. Our acceptance of the \$8,000, without immediately using it for the purchase of service doesn't comply with IRS regulations regarding acceptance of transfers. On the day of receipt it is supposed to be used for the purchase of service. The member is now in a position where they have withdrawn funds from their 403(b) account but haven't used them for the purchase of service creating the risk that this will be treated as a taxable event to the member.

The new policy states that these transfers must be either a.) the exact amount of the bill or b.) the remaining unpaid balance of the bill in the event the member has already given us other funds i.e., personal payment, for part of the bill. Example: We will accept a transfer of exactly \$10,000 and no more. Or we will accept less than \$10,000 only if the member has already made a personal payment for the remainder.

If a transfer or rollover check is received that doesn't meet this criteria, it will be immediately returned, uncashed, to the member with an explanation, even though it was issued by the plan custodian or the trustee. The member will then have 60 days to complete this transaction or the transfer amount will become taxable.

We also receive checks through our bank lockbox which cashes all checks without any screening. We will record these checks in our system in a holding or suspense category that will not receive interest, will not be reflected on the annual statement, will not be used in benefit estimates and will basically be invisible. A refund will be issued when we find out about the check which is about a week or so after it would have been received at the lockbox because there is a lag of information coming from them to us. This receipt will be treated as ineligible funds and will be reported as taxable on IRS form 1099R; 20% will be withheld for federal income taxes. In neither case will we pay or credit interest. Murphy's Law being what it is, if receipt of the balance due is received, the personal payment will be deposited into the member's Voluntary Account, which is subject to many limitations on voluntary account contributions. The member will be sent a receipt. A refund of the payment will be made upon the member's request if the intended service purchase doesn't happen. The withdrawal of this deposit to the voluntary account will be considered an exception to our policy which becomes effective July 1, 2008 prohibiting partial withdrawals from the voluntary account. It also will not be considered the member's one time withdrawal during their career from the voluntary account.

In answer to Bill Murray's question Lou Laccavole confirmed that this procedure applies to each purchase transaction. Lou Laccavole, in answer to Eric Judge's question stated that the problem is caused by the fact that members are receiving the amounts from several

different sources and are not submitting it all at once. Our publication will encourage members to submit all checks for the transaction at the same time to avoid this problem. Roz Schoonmaker asked if there is a problem with the member receiving the check and if there will be an explanation of the procedure provided to members. Lou Laccavole stated that the check is made payable to the Connecticut Teachers' Retirement Board FBO (for benefit of) the member's name. They should collect all rollover checks and their personal check needed for the transaction and submit them all at once. A simplified explanation of the IRS requirements will be provided.

Administrator Perez asked Barbara Jiantonio, Benefits Division Supervisor, to explain what is already attached to the purchase of additional service credit invoice package when it is sent to the member. Ms. Jiantonio explained that an acceptance payment policy indicating what we will accept and transfer / roll-over authorization instructions are included. The member's Voluntary and / or Supplemental Account balances are provided. An additional document explaining the IRS requirements will also be included in the package in the future.

Administrator Perez stated that an investment company releasing the money as a direct roll-over may charge a surrender fee reducing the amount expected. Members are informed about the possibility of a surrender fee. However, if the member wanted to keep that money invested for as long as possible they are not going to request the transfer until two days before the money is due. By the time the money goes to our lockbox, we receive the paperwork from the bank and we send out a receipt to the member, it is probably after the due date. This causes a problem if the amount is short. It is past the due date for the member to supplement the payment with a personal check.

This procedure has been patterned after other systems. Massachusetts and Oklahoma have been doing this for a while.

Service credits can be purchased before retirement therefore this is a problem for everyone.

Lou Laccavole stated that he would talk with the lockbox regarding special directives for processing incoming checks in response to a question from Wayne Woodtke, Association of Retired Teachers of Connecticut and former Business Operations Officer for Bank of America Lockbox.

The procedure to only accept transfers that complete the purchase of service credit will become effective July 1, 2008. Information will be posted on the website.

MATTERS FOR BOARD ACTION

Chairperson Barnett requested a Motion to accept the March 5, 2008 minutes. Mary Nicholas made note that corrections of typographical errors are needed on pages 6 and 7. Rosalyn Schoonmaker motioned to accept the March 5, 2008 meeting minutes with corrections. Seconded by Mary Nicholas, members voted in favor with abstentions from Eric Judge, Brian Mahoney, Bill Murray and Marion Jewell as they were not at that meeting. The Motion was passed.

Motion to approve the granting of service retirement and survivorship benefits for March and April 2008 was made by Rosalyn Schoonmaker. Seconded by Bill Murray, all members voted in favor and the Motion passed.

Motion to approve the reports and recommendations of the Medical Review Committee for March and April 2008 was made by Bill Murray and Seconded by Rosalyn Schoonmaker. All members voted in favor and the Motion passed. Eric Judge abstained.

Chairperson Barnett stated that there was an increasing use of out of country hospital care. Administrator Perez added that there is a need to make modifications to the existing provisions because people are staying abroad longer. We are trying to make sure that people who are traveling get the care needed to stabilize them until they can return to the United States for treatment. What was a travel provision is turning into a primary care provision. The major medical health care plan was not intended to be used as a primary care provider and will have an adverse impact on premiums. The Board has done much work to keep the plan at a respectable level of coverage and to keep the premiums affordable. It is our responsibility to make sure that the costs don't skyrocket because of a small group of people who choose to live out of country.

One suggestion submitted was to pay out of country expenses when the visit is 31 days of duration or less.

James Stirling, Stirling Benefits, stated that they are starting to identify some members who are using the plan as a primary benefit while they may own a home in i.e., Costa Rica.

The language in the plan document dates back to 1994 which used 1980's Blue Cross contract language. The language was silent on the question of people living overseas. The plan now says that you have hospitalization while overseas for 30 days which implies you should get out after 30 days because your hospitalization benefits stop. But it is silent about the major medical portion. So someone who has an ongoing medical condition that needs to see the doctor every 30 days may be using the plan outside the country as a primary benefit. It is hard to come up with language that says the benefit is for coverage while traveling. How do you define traveling – is someone taking a 3 week tour or a 3

month tour? Intent has always been that if you are going to live overseas you need to have coverage that covers you as a primary overseas.

In response to Bill Murray's question, James Stirling stated that cost of care varies with the country involved. Costa Rica or Mexico would be very low while Japan or Europe could be much higher. Members may feel that they have coverage because the language is ambiguous. The document states 30 days of hospitalization and \$100,000 for major medical.

Chairperson Barnett stated that James Stirling has been working with Administrator Perez on this. She requested that the Board members submit any concerns or suggestions. She requested that something be sent to the Board prior to the next meeting. Mr. Stirling noted that they are close to having drafted language for the Board to act on. Administrator Perez offered the Board the opportunity to provide guidance as to how broad or narrow they want the policy to be.

Bill Murray questioned how many people are making out of country claims on the plan. Mr. Stirling stated that in 2005 – 06 there was \$25,000 in claims and in 2006 – 07 there was \$34,000 in claims. The intent of the plan was to replicate the benefits that existed in the Blue Cross contract which was clearly a travel benefit.

Defining travel by the number of days or by having "residency" out of country needs to be determined. It was noted that Medicare does not pay out of country benefits. Marion Jewell suggested making available the purchase of supplemental insurance for travel similar to AAA.

Rosalyn Schoonmaker made a Motion to move the item on out of country benefits from Matters for Board Action to Matters for Board Information. Seconded by Mary Nicholas, all members voted in favor and the Motion passed. Information will be provided to the Board prior to the next meeting. It will again be discussed at that time for possible action.

MATTERS FOR BOARD INFORMATION

Chairperson Barnett noted that the Retirement Statistics reports for March and April were sent to the Board for their review. There was no discussion.

COMMENTS FROM OBSERVERS

An observer questioned if state employees have a pension plan consistent with the TRB pension plan. Chairperson Barnett stated that state employees are direct employees of the State. Their wages, health care and other benefits are subject to collective bargaining with the State. Teachers are employees of cities and regional school districts so their wages,

health care and benefits are bargained locally. Their pension plan is defined by the Connecticut State Statutes and thus rules the Connecticut State Teachers' Retirement System.

ADJOURNMENT

Rosalyn Schoonmaker made a Motion to adjourn the meeting. Seconded by Mary Nicholas, all members voted in favor and the Motion passed. The meeting adjourned at 3:11 p.m.

Board members were given a tour of the new facility.

Respectfully submitted,

Jean Ouellette, Administrative
Assistant

Attest:

Darlene Perez, Administrator

May 22, 2008

Date

Date Approved