**Post Employment Benefit Commission Minutes**

**May 14, 2010**

**Room 1B, State Legislative Office Building**

**Attendance:** Michael Cicchetti, Christine Shaw, Tom Woodruff, Sal Luciano, Paul Mansour, Julie McNeal, Jamie Young , Greg Stump,

**Others Present:** Robert Dakers, Dan Colter

Chairman Cicchetti called the meeting to order at 1:05 PM.

In regard to the March 19, 2010 minutes, members noted that these minutes do not reflect the full discussion of the issues and comments made by each of the members. The March 19, 2010 minutes, amended to reflect that all members participated actively in the discussion, were approved by the members. The minutes were also amended to reflect that Christine was not in attendance at the March 19th meeting.

Mike referred to the revised draft report outline that was sent out by Greg, which now reflects the potential approaches to addressing pension and OPEB funding and liabilities that were offered by members. Mike asked for any comments that members had on the outline.

Julie suggested that many readers may not be familiar with a number of the acronyms often used in discussing these issues, and that a glossary of terms may be helpful. She also noted that at an earlier meeting that a discussion of plans provided by private employers was to be part of the peer group comparison. Bob noted that that was inadvertently omitted from the outline and will be added back in.

Sal suggested that a discussion of the new federal health reform legislation and the impact that it can have on the growth of health care costs through initiatives such as medical homes and other reforms should be included in the report.

Christine offered a general comment that the outline contained fairly few options dealing with funding. She suggested that one approach in this regard would be to designate operational surpluses above a certain level towards reducing these liabilities (go beyond the ARC) or the State’s debt. The provisions currently in place in this regard and the mechanics of how this could work or be structured was discussed by members. Julie believes this is part of the overall issue of fiscal discipline which should be specifically addressed in the report. Christine and Mike noted that the funding approaches to be recommended will need to take into account the state’s current fiscal situation, and that the report will have to offer both short and long term suggestions as to funding.

Jamie and Paul raised the issue that pension and OPEB plan changes or any early retirement incentives should not be made or offered without prior actuarial estimates of the impacts of such changes or incentives. One of the questions is if there is the time for this type of analysis during a legislative session, for example. Paul noted that the commission may be able to reach consensus on many of these fiscal discipline and funding recommendations, while it may be more difficult to do so in some other areas.

There was discussion as to the methods available to ensure the state contributes the ARC each year for the SERS plan. A strong mechanism is now in place for the teacher retirement fund. For SERS, the requirement to meet the ARC is in the SEBAC agreement, although the parties have negotiated agreements that provided some budget relief in this regard for the current two year budget and some other years in the past. There was discussion as to whether the SEBAC agreement is the appropriate mechanism. It was noted, again, that the major part of the liability in SERS is related to Tier I, which liability will have to be amortized in some fashion.

Sal asked about the status of the actuarial projections being sought by the commission, since it is important to know where we are, including the impact of the significant changes recently agreed to. Bob noted that the OPEB projections should be forthcoming within the next two to three weeks while the SERS projections are about 4 or 5 weeks away. Mike and the members discussed the probable need of seeking an adjustment of the July 1, 2010 date for the final report.

Sal noted that a major issue for the OPEB liability is slowing the growth in health care costs. Tom also noted that those retiring before 65 are more expensive for the State since these retirees are not yet on Medicare. Jamie asked if the commission should seek information from the Governor’s Health Reform Cabinet regarding the potential impact on our costs from health care reform. Bob note that he is a member of the cabinet, and it appeared to him that the initial emphasis of the health care reform will involve reforms in the small group and individual market and improving affordability and access for those with lower incomes. There would be less direct impacts on plans of larger employers like the state, and that many of the reforms related to cost control and improving quality involve demonstration projects in the areas of Medicare and Medicaid. Tom noted that the State will be applying for the early retiree reinsurance program related to the reform and that the State is working on a medical home pilot with respect to the state employee health plan.

Greg noted that while having the discipline to fund the ARC is important, the State has come close to fully funding the ARC over the past 20 years, and for a variety of reasons, has still remained at essentially the same funding ratio. One approach to this issue is to take a look at how the ARC gets calculated to ensure that the State will make progress in actually improving its funding ratio in the coming years.

Julie, in light of the current state of the economy and the amount of time it will take to approach prior levels of economic activity, wondered where the money will come from to fund these liabilities and all the state’s other needs. Paul raised similar concerns in this regard. Sal noted that the State’s budget problem came to be perceived as a spending problem only after the revenue dropped as a result of actions by Wall Street in regard to the real estate market and other actions by the State regarding revenues, including the new I-95 plazas agreement. Sal noted the changes made state employees to help respond to these revenue issues, including changes in the area of retiree benefits.

Mike noted that the State’s revenues are historically highly connected to Wall Street, and efforts to add more progressivity to the State’s tax system would add to this volatility. He does believe that we have spending side issues that we need to address, and that increasing costs of employee benefits is an issue that the State must address in a significant and meaningful way. Mike noted the $3.2 to $3.8 billion structural hole the state is facing for fiscal year 2012. Paul noted that while this problem is clearly serious, Connecticut is not alone, and some other states, such as California, are in worse shape.

Christine asked if we have information regarding the level of benefits offered to Connecticut state employees compared to other governments. She recalled a figure that the average pension for Connecticut state employees is $30,000. Julie noted that for many in the private sector, a defined benefit pension of $30,000 would be very attractive. Sal noted that some companies do not know if they will be around to offer defined benefits while larger companies are better positioned to do so.

Tom again noted his belief that the potential impact of the state’s initiatives to reduce its health care costs should be reflected and addressed in the report.

Paul indicated that, based on his review of the issues, he would support including some type of defined benefit plan, for new employees, since it is at a lower cost and offers more security.

Mike indicated that the next meeting would be May 21, 2010. The meeting adjourned at 2:50 PM.