

Legislative History for Connecticut Act

PA 16-113

HB5420

Senate	3063-3064, 3078-3079, 3383-3386	8
Appropriations	4046-4048, 4051-4056, 4182-4183, 4199-4200	13
House Transcripts have not been received. They are available on CGA website, but are not the Official copy. Contact House Clerk for assistance (860) 240-0400		21

Transcripts from the Joint Standing Committee Public
Hearing(s) and/or Senate and House of Representatives
Proceedings

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**CONNECTICUT
GENERAL ASSEMBLY
SENATE**

**PROCEEDINGS
2016**

**VOL. 59
PART 9
2751 – 3097**

/je
SENATE

313
May 4, 2016

Page 21, Calendar 528, House Bill Number 5420, AN
ACT CONCERNING PRINCIPAL INVESTMENT OFFICERS.

THE CHAIR:

Senator Bye.

SENATOR BYE (5TH):

Good evening, Madam President. I move acceptance of the Joint Committee's favorable report and passage of the bill.

THE CHAIR:

The motion is on acceptance and passage in concurrence. Will you remark, ma'am?

SENATOR BYE (5TH):

Yes, Madam President, in concurrence with the House. This bill allows the treasurer more discretion and ability to attract and keep the best candidates to be her principal investment officers. I move passage.

THE CHAIR:

Will you remark further. Senator Kane.

SENATOR KANE (32ND):

Thank you, Madam President. I rise for a question to the proponent of the bill.

THE CHAIR:

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SENATE

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May 4, 2016

Please proceed, sir.

SENATOR KANE (32ND):

I'm just kidding. [laughter]

THE CHAIR:

So, I'll put in on Consent sir?

SENATOR KANE (32ND):

Yes, I urge adoption. I would move it to --

THE CHAIR:

Thank you. I'll ask everybody, you'll put it on
Consent.

SENATOR BYE (5TH):

Madam President, I'd ask for a roll call vote. Oh,
no? Okay.

THE CHAIR:

No, no.

SENATOR BYE (5TH):

I move it on Consent.

THE CHAIR:

Thank you. Thank you very much. It will be on
Consent.

THE CHAIR:

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SENATE

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May 4, 2016

Mr. Clerk. Will you please call the numbers on the Consent Calendar Number 2.

THE CLERK:

House Bill 5612; House Bill 5189; House Bill 5138;
on page 5, Calendar 377, House bill 5467; page 6,
Calendar 391, House Bill 5456; on page 8, Calendar
418, House Bill 5364; page 10, Calendar 442, House
Bill 5468; on page 14, Calendar 478, House Bill
5366; on page 15, Calendar 47, House Bill 5317; page
19, Calendar 513, House Bill 5553; page 21, Calendar
528, House Bill 5420; page 26, Calendar 560, House
Bill 5069; page 29, Calendar 581, House Bill 5547;
page 30, Calendar 590, House Bill 5407.

THE CHAIR:

The machine will be open.

THE CLERK:

Immediate roll call has been ordered in the Senate.
Immediate roll call on Consent Calendar Number 2 has
been ordered in the Senate.

THE CHAIR:

Senator Fasano, would you like to vote on this
Consent Calendar please? Thank you.

All members have voted? All members have voted?
The machine will be closed. Mr. Clerk, will you
please call the tally on Consent Calendar 2.

THE CLERK:

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SENATE

329
May 4, 2016

Consent Calendar Number 2,

Total Number Voting	36
Those voting Yea	36
Those voting Nay	0
Absent and not voting	0

THE CHAIR:

The Consent Calendar passes. Senator Duff. Senator Duff.

SENATOR DUFF (25TH):

Can the Clerk please call Calendar page 13, Calendar 472, House Bill 5311.

THE CHAIR:

Mr. Clerk.

THE CLERK:

On page 13, Calendar 472, Substitute for House Bill Number 5311, AN ACT CONCERNING TELECOMMUNICATIONS PROVIDER TARIFFS FOR SERVICES OFFERED TO BUSINESS RETAIL END USERS AND CERTAIN TELECOMMUNICATIONS SERVICE-RELATED EFFORTS. It's amended by House A.

THE CHAIR:

I'm sorry, is that, Senate, not yours --

SENATOR DUFF (25TH):

The Senate will stand at ease.

THE CHAIR:

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**CONNECTICUT
GENERAL ASSEMBLY
SENATE**

**PROCEEDINGS
2016**

VETO SESSION

**MAY
SPECIAL
SESSION**

**VOL. 59
PART 10
3098 – 3389**

tlg
SENATE

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June 20, 2016

SENATOR DUFF (25TH):

Thank you, Madam President. Madam President, would the Clerk please call on Agenda Number 3, substitute H.B. 5437 -- I'm sorry, no. Would the Clerk please call, as the first one, H.B. 5420 as the next item of business, please?

THE CHAIR:

Mr. Clerk.

CLERK:

H.B. 5420, AN ACT CONCERNING PRINCIPAL INVESTMENT OFFICERS.

THE CHAIR:

Senator Duff.

SENATOR DUFF (25TH):

Thank you, Madam President. Make a motion to repass the bill, please.

THE CHAIR:

Motion is to repass. Will you remark?

Not yet, Senator Bye.

Seeing no one wants to speak on the repass, I'll try your minds. All those in favor please say aye.

SENATORS:

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SENATE

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June 20, 2016

Aye.

THE CHAIR:

Opposed? The motion on repass-- the motion to discuss the repass is --

SENATOR DUFF (25TH):

Adopted.

THE CHAIR:

-- adopted? Thank you. (Gavel)

SENATOR DUFF (25TH):

Thank you, Madam President. Madam President, I would now yield to Senator Bye, the Chair of the Appropriations Committee, for a motion to repass bill number 5420.

THE CHAIR:

Senator Bye, will you accept the --

SENATOR BYE:

Yes. Good afternoon, Madam President. Madam President, I move to repass H.B. 5420. It passed both chambers almost unanimously, or I believe unanimously -- let me just double check my facts -- with one nay. So it's important that we repass this bill to state that we think that principal investment officer is a critical hire for the State with such a large investment portfolio.

Thank you, Madam President.

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SENATE

22
June 20, 2016

THE CHAIR:

Will you remark on the bill? Senator Boucher.

SENATOR BOUCHER:

Thank you, Madam President. Madam President, I rise to support this bill but very cautiously because I do know that Vinny (phonetic) has his eye on me when I get up to speak these days, but to certainly support this motion because I think the Treasurer's Office needs every ability to hire the very best staff given the difficulties in the investment world today. It's a very specific and different type of role that is played, and we need to provide them with as much t-- many tools as we can in their toolbox.

Thank you.

THE CHAIR:

Will you remark further on the bill? Will you remark further on the repass of the bill? If not, Mr. Clerk, will you call for a roll call vote, and the machine will be opened.

CLERK:

Immediate roll call has been ordered in the Senate.
Immediate roll call has been ordered in the Senate.

THE CHAIR:

All members have voted? All members have voted?
The machine will be closed. Mr. Clerk, please call a tally.

tlg
SENATE

23
June 20, 2016

CLERK:

H.B. Number 5437

(HB5420)

Total number Voting	35
Those voting Yea	34
Those voting Nay	1
Absent and not voting	1

THE CHAIR:

The repass, in concurrence, has been adopted.
(Gavel)

Senator Duff.

SENATOR DUFF (25TH):

Thank you, Madam President. Madam President, I would ask the Clerk to call from Senate Agenda Number 3, substitute for H.B. 5437, which is P.A. 16-8. And having been on the prevailing side of that vote when it passed in the Senate, I move for reconsideration of the bill.

THE CHAIR:

Will you remark further on the repass of the bill? Seeing -- let me try your minds. All those in favor please say aye.

SENATORS:

Aye.

THE CHAIR:

**JOINT
STANDING
COMMITTEE
HEARINGS**

**APPROPRIATIONS
PART 8
3960 - 4681**

2016

CHAIRPERSON: Representative Walker

SENATORS: Bye, Flexer, Formica, Kane,
Kissel, Slossberg, Chapin,
Winfield

REPRESENTATIVES: McGorty, Walker, Miller,
France, Ziobron, Genga,
Mulligan, O'Neil, Aman,
Gonzalez, Orange, Porter,
Rosario, Belsito, Ryan,
Betts, Johnson, Santiago,
Bolinsky, Candelaria,
Kokoruda, Tercyak, Case,
Lavielle, Tweedie, Urban,
Lesser, Wilms

REP. WALKER (93RD): Good afternoon, I'd like to call the appropriations public hearing to order. Today, we have several bills to be reviewed and commented on.

Today, the first speaker is the State Treasurer; Treasurer Napier.

TREASURER NAPIER: Good afternoon Representative Walker and Senator Bye, and members of the Appropriations Committee. Thank you for the opportunity to offer testimony and support of RAISED BILL 5420, an ACT CONCERNING PRINICIPAL 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

HB 5418

measure. Second, the members of the Investment Advisory Council are appointed by leadership of both chambers of The Connecticut General Assembly with a chair and five union members appointed by the governor. Enactment of this bill is essential to my ability to fulfill the principal fiduciary responsibilities of the State's Pension and Trust Fund Assets, that is meeting 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 dollar pension and trust funds are overseen by staff of in-house investment professionals led by a chief investment officer who is with me this afternoon, 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 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; 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 topflight seasoned investment professionals with highly technical investment and securities expertise necessary in the evaluation and monitoring a plan and trust fund 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 principal investment officer's compensation range established by The Department of Administrative Service and The Office of Policy and Management, 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 the 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 professions at more than 20 years.

The turnover and long recruitment time for these positions 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.

I would also like to offer a brief comment concerning another bill on today's agenda, RAISED BILL NO. 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 State Treasurer, I serve as Secretary of the Investment Advisory Council and I am an ex-officio member of the Governing Boards of

average, if we would go across asset classes, the average is \$193.

If we would look based on the asset class, and that is how we hire, based on the asset class and the skill. The investment skill level required, let's just say for public equities, the average is actually \$179. Now, we probably would not start at \$179, but we would want the flexibility. We are right now recruiting and we have gotten a lot of denials from the onset, because the base is so low, it begins at \$138.

SENATOR BYE (5TH): Okay, well it is clearly complicated, which is why you are saying you need a group of people to look at this and make recommendations.

TREASURER NAPIER: I would say that the average would be anywhere from \$140 to \$180.

SENATOR BYE (5TH): Okay, thank you.

REP. WALKER (93RD): Thank you, Senator Kane.

SENATOR KANE (32ND): Thank you Madam Chair. Good afternoon.

TREASURER NAPIER: Hello Senator.

SENATOR KANE (32ND): Hi how are you? So, the Investment Advisory Council is made up of whom? And, I know there are appointed by the Leaders in the General Assembly, but who sits on there? Are there professionals?

TREASURER NAPIER: You want their names?

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SENATOR KANE (32ND): No, no, no, not names. Who are they? Are they investment professionals?

TREASURER NAPIER: Well, the state statute does require that they have investment knowledge.

SENATOR KANE (32ND): That's it?

TREASURER NAPIER: That's it. Or, I should say investment experience. And, you know that the appointing authorities, and I am not an appointing authority, this is an independent body; I do not get any representatives unless advised counsel. How, each member appointing authority defines that, is left up to them.

SENATOR KANE (32ND): I guess what I am trying to understand, is this Bill 5420, and correct me if I am wrong, but it just seems to require that the treasurer consult and seek approval from the IAC before hiring an investment officer. Is that correct?

TREASURER NAPIER: That's right.

SENATOR KANE (32ND): So, where is the harm in that?

TREASURER NAPIER: There is no harm. I am recommending that more of the senior investment professionals come under the umbrella of the Investment Advisory Council and not DAF or OPM.

SENATOR KANE (32ND): Gotcha. So, you're testifying in favor of the bill.

TREASURER NAPIER: That's right. At the end of the day, the Investment Advisory Council has an inside perspective on the demands of the Investment

Professionals. They report to them monthly with their own reports, on the various asset classes and they do appreciate how difficult it is for us to recruit. When we have a vacancy, it typically takes us two years to fill it.

SENATOR KANE (32ND): Okay, thank you, Madam Chair.

REP. WALKER (93RD): Thank you, Representative.

REP. ZIOBRON (34TH): Thank you Madam Chair and good afternoon, nice to see you. So, when I read the bottom paragraph of your testimony, and you talk about the short tenure of 2.6 years of these folks, how many vacancies do you currently have? Like, what is the optimal staffing that your agency would need to protect taxpayer investment and what are your vacancies now?

TREASURER NAPIER: Within the Pension Fund Management Division, there are seven positions, of which five are vacant. Well, actually five are vacant.

REP. ZIOBRON (34TH): That's pretty significant. And, is that something that has been like kind of a long-term issue? This is not new, so has this been going on for a long time?

TREASURER NAPIER: No, this has been going on for an awful longtime.

REP. ZIOBRON (34TH): Thank you. Thank you, Madam Chair.

REP. WALKER (93RD): Thank you. Are there any--

REP. WILMS (142ND): Thank you Madam Chair and welcome State Treasurer. So, the question that I have is on the rate of return, and in terms of who sets that. So, what is the problem right now that we are trying to fix/terms of how that rate of return is established?

TREASURER NAPIER: I have no idea. I think that you would have to ask the sponsors of the bill. I was not consulted; I do not know what the motive was.

REP. WILMS (142ND): I see. Okay, well, thank you.

REP. WALKER (93RD): Representative Belisito.

REP. BELISITO (53RD): Thank you Madam Chair and Madam Treasurer. I have a simple question. You are missing five out of seven people, how are you functioning?

TREASURER NAPIER: Well, in a very expensive manner, and in some cases we have additional support from outside consultants, and that obviously is more costly. In other cases, we have our Chief Investment Officer that is doing triple duty, she is right here and can answer that question. She is "Super Woman."

REP. WALKER (93RD): Please identify yourself.

DEBORAH SPAULDING: Yes, my name is Deborah Spaulding and I serve as the Chief Investment Officer at the Office of the State Treasurer. It is true that we are short investment staff today. As Treasurer Napier mentioned, we do employ investment consultants that help us in different asset classes and we have drawn upon them to fill the gaps while we are currently in an active recruiting mode. As Treasurer Napier mentioned, that is a costly

exercise. We would be preferring to invest our time in growing our own internal staff and in the meantime, I work long hours.

REP. BELISITO (53RD): Okay, so, but you are missing five out of seven people. Could you tell me why they have left?

TREASURER NAPIER: For greener pastures.

REP. BELISITO (53RD): For greener pastures. Oh, they went to Florida?

TREASURER NAPIER: No, they were recruited by the private sector.

REP. BELISITO (53RD): Really?

TREASURER NAPIER: When you have the #1 hedge fund in the country, and I made that very clear to D.A. _____ (16:05) that we were going to lose him, as soon as we became #1 in the country, and we did. He got irresistible offers, and that happens a lot with our Principle Investment Officers. You know, Connecticut is a feeding ground, our officers, for a lot of professionals that come here for a few minutes and then they are able to write their ticket for a much better compensation.

REP. BELISITO (53RD): So, it is a really good starting place for them, or middle area for them.

TREASURER NAPIER: Well, I mentioned for the most part, we are being _____ (16:42) we do have investment officers, and you know they can be freshmen, but the principle investment officers, they have be seasoned. So, they are seasoned when they come here. It could be that we are getting

them on a rebound, there has been a downsize on Wall Street, or with their company and we are there to see the talent and we grab them, and then they are finally back on their feet and everybody knows they are back in the market and they start to get offers again.

REP. BELISITO (53RD): Thank you very much. Thank you, Madam Chair.

REP. WALKER (93RD): Thank you. So, approximately how much does it cost you with consultants, in order to fill those gaps that you have?

TREASURER NAPIER: Well, I would say about 30% to 40% more.

DEBORAH SPAULDING: Yes, I think that's correct.

REP. WALKER (93RD): 30% to 40% more than what it would be. Any other questions? Thank you, and thank you for your testimony.

Next, PETER ADOMEIT. Good afternoon sir.

PETER ADOMEIT: Good afternoon Senator Bye, Representative Toni Walker, Senator Rod Kane, Representative Melissa Ziobron and distinguished members of the Appropriations Committee. My name is PETER ADOMEIT, and I am the Chair and Neutral Trustee of the Connecticut State Employee's Retirement Commission and I am accompanied by John Garret, our actuary, in case there are technical questions.

I come today on behalf of the Commission, to speak in opposition to House Bill No. 5418 and that concerning establishing any anticipated rate of



Testimony of State Treasurer Denise L. Nappier

SUBMITTED TO THE APPROPRIATIONS COMMITTEE

MARCH 4, 2011

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 (or "IAC", as we call it) are appointed by leadership of both chambers of the General Assembly, with the chair and five (5) union representative appointed by the Governor.

Enactment of this bill is essential to my ability to fulfill the 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 funds¹ 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 IAC. The salaries for these senior investment professionals fall within a range established by the Treasurer in consultation with the IAC, 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 officers² ("PIOs"); however, these positions require approval by both DAS and OPM. This separate process for our most senior investment professionals has constrained our ability to recruit and retain qualified 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 IAC 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 PIOs, as compared with the average tenure of other senior professionals within the Treasury 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 IAC, and am an *ex officio* member of the governing boards of the State's largest pension plans – the State Employees' Retirement Commission ("SERC") and the Teachers' Retirement Board ("TRB"). 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.

TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE
MARCH 4, 2016

Benjamin Barnes
Secretary
Office of Policy and Management

Testimony Regarding Various Bills

Senator Bye, Representative Walker and distinguished members of the Appropriations Committee, thank you for the opportunity to offer testimony on several bills under consideration by the committee.

The Office of Policy and Management fully supports Senate Bill 267, An Act Making Changes to the Teachers' Retirement System to Allow Retention of the Plan D Coparticipant Option After Divorce and to Cease Crediting Interest on Certain Inactive, Nonvested Members, and Eliminating Certain Obsolete Language. This bill was submitted by the Teachers' Retirement Board and accomplishes several things. Currently, the Plan D co-participant option is terminated upon divorce. Allowing retention of the co-participant option eases the burden to retired members who must divide the pension asset during a divorce. Section 2 of the bill eases administrative burdens for the agency. Currently the Teachers' Retirement Board must credit interest on pension contributions and issue annual statements for at least 25 years before an account can be deemed abandoned. This legislation would reduce the period of inactivity from 25 to 10 years for non-vested members only; the period for vested members would remain at 25 years. Section 2(b) eliminates references to the pension reserve account which ceased to exist decades ago.

The Office of Policy and Management is opposed to the following bills:

- Senate Bill 269, An Act Requiring the Secretary of the Office of Policy and Management to Study the Impact of Implementing a Forty-Hour Work Week for State Employees. OPM is currently negotiating contracts with the unionized workforce. New and additional reporting requirements are not supported.
- House Bill 5417, An Act Creating an Office of Overtime Accountability. We are opposed to creation of new entities and reporting requirements.
- House Bill 5418, An Act Concerning Establishing the Anticipated Rate of Return for Investments in State Retirement Plans. The State Employees Retirement Commission and the Teachers' Retirement Board are currently

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charged with this responsibility and are more appropriate bodies than the Investment Advisory Committee for determining actuarial assumptions for their plans.

- **House Bill 5420, An Act Concerning Principal Investment Officers.** The role of establishing appropriate salary ranges for positions should remain with the Department of Administrative Services.

I would like to again thank the committee for the opportunity to present this testimony.