

Finance, Revenue and Bonding Committee

JOINT FAVORABLE REPORT

Bill No.: Senate Bill 453

AN ACT CONCERNING INDEPENDENT REVIEW OF THE INVESTMENT

Title: PERFORMANCE OF THE STATE'S PENSION FUNDS.

Vote Date: 4/03/2024

Vote Action: Joint Favorable

PH Date: 4/01/2024

File No.: 579

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SPONSORS OF BILL:

Finance, Revenue and Bonding Committee
Senator John Fonfara, 1st District
Senate Republican Office

REASONS FOR BILL:

This bill requires the Office of Legislative Management to issue a request for proposals for an advisory firm to conduct an independent review of the investment performance of the state's pension funds relative to peer states' investment performance. A report on such review is to be submitted to the Finance, Revenue and Bonding Committee on an annual basis. This legislation is in response to a [report published in January 2023 by the Yale School of Management](#) regarding the poor investment performance of Connecticut's Pension Funds.

RESPONSE FROM ADMINISTRATION/AGENCY:

[Erick Russell, State Treasurer, Office of the State Treasurer \(OTT\)](#), emphasized that he, in collaboration with the [Investment Advisory Council \(IAC\)](#), has implemented several reforms that have significantly improved the recent performance of the Connecticut Retirement Plans and Trust Funds (CRPTF). Namely, OTT currently contracts with Meketa Investment Group to provide monthly investment reports, the agency's annual reports, and an independent analysis on pension funds. Meketa presents regular reviews during the Investment Advisory Council meetings, which are open to the public.

Treasurer Russell notes that, as the bill is written, the advisory firm is disqualified from submitting a proposal or being chosen for the review if it has a conflict of interest, which is defined in the bill as having an existing contract with the Office of the Treasurer or being likely to have a contract related to the management of the state's pension funds within 12 months of submitting the proposal. These restrictions would eliminate many of the internationally renowned companies that respond to similar proposals by OTT. There is thus an inherent

danger that respondents will be lacking the qualifications to compete for more sophisticated projects. It is critical to have proposals evaluated by professionals with experience and deep knowledge in this investment space to eliminate the possibility of poorly constructed or inaccurate analysis.

NATURE AND SOURCES OF SUPPORT:

[Mary Mustard, Managing Principal, Consultant, Meketa Investment Group](#), works with the State of Connecticut Retirement Plans and Trust Funds as their investment consultant. Peer comparisons and benchmarking are the two components of the bill that she would like to address. She urges the committee to consider more than a plan's structure and size when defining a peer group. Considering a peer group of only state plans is a reasonable approach, but large municipal plans have much in common and don't necessarily have to be excluded. Benchmarks are an important evaluation tool, and can help answer questions on the success of a pension fund. Connecticut pensions use standard benchmarks and are consistent with benchmark use with peers. The IAC reviews the benchmark performance quarterly and the selection of the benchmark is part of the asset allocation process.

NATURE AND SOURCES OF OPPOSITION:

[Nikolai Marku](#), who emigrated to the United States from the Soviet Union, expresses concern that this bill will allow the State to pick winners and losers, and eventually become so powerful that it takes all free will away from its citizens.

Reported by: Jean Holloway

Date: April 11, 2024