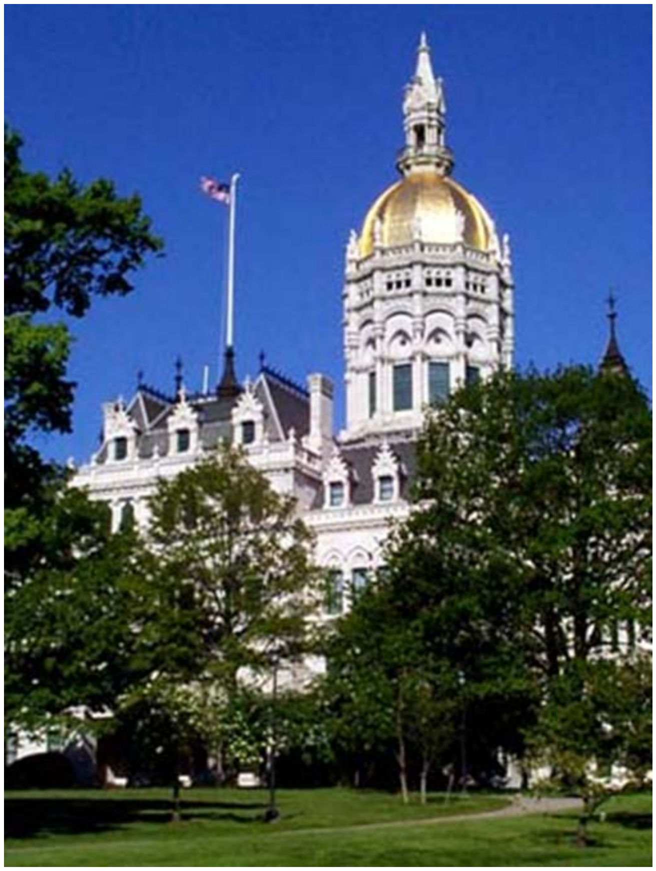
STATE OF CONNECTICUT



AUDITORS' REPORT
TEACHERS' RETIREMENT BOARD
FISCAL YEARS ENDED JUNE 30, 2018 AND 2019

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ CLARK J. CHAPIN

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September 14, 2021

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Teachers' Retirement Board for the fiscal years ended June 30, 2018 and 2019. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, and policies; and a need for improvement in practices and procedures that warrant the attention of management. A significant finding and recommendation is presented below:

Page 10	During the audited period, 60 members received disability benefits with disability dates from July 1, 2015 to June 30, 2019. We tested 10 of them and found that the Medical Review Committee did not perform 24-month reviews for two members with disability dates of May 1, 2016 and July 1, 2017. These members were still receiving disability benefit payments during our test in April of 2021. The Teachers' Retirement Board should ensure that its Medical Review Committee reexamines the disability status of all members after their first 24 months of receiving a disability allowance. (Recommendation 1.)

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

CLARK J. CHAPIN

September 14, 2021

AUDITORS' REPORT
TEACHERS' RETIREMENT BOARD
FISCAL YEARS ENDED JUNE 30, 2018 AND 2019

We have audited certain operations of the Teachers' Retirement Board in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2018 and 2019. The objectives of our audit were to:

1. Evaluate the board's internal controls over significant management and financial functions;

2. Evaluate the board's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and

3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the board; and testing selected transactions. Our testing was not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the board's management and the state's information systems, and was not subjected to the procedures applied in our audit of the board. For the areas audited, we:

1. Identified deficiencies in internal controls;

2. Identified apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures; and

3. Identified a need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the Teachers' Retirement Board.

COMMENTS

FOREWORD

Section 10-183*l* of the General Statutes established the Teachers' Retirement Board (TRB). The board is responsible for managing the teachers' retirement system, which operates generally under the provisions of Title 10, Chapter 167a of the General Statutes. The 14-member board consists of:

- Three ex-officio members – the Commissioner of the Department of Education, the State Treasurer, and the Secretary of the Office of Policy and Management (or their designees)
- Six system participants (four active and two retired teachers) elected by their peers
- Five public members appointed by the Governor

The Teachers' Retirement Board members as of June 30, 2019 were as follows:

Ex-officio Members – In Accordance with Section 10-183*l* of the General Statutes

Melissa N. McCaw, Secretary Office of Policy and Management	Designee: Gregory Messner Assistant Executive Budget Officer
Sean T. Wooden, Treasurer Office of State Treasurer	Designee: Laurie Martin Chief Investment Officer
Dianna R. Wentzell, Commissioner State Department of Education	Designee: Keith Norton Chief Financial Officer

Teacher Members – Elected by Teacher Membership

Retired Teachers:

Clare H. Barnett, Chairperson
William Murray

Active Teachers:

Stephen McKeever
Lisa Mosey
Steve Muench
William Myers

Public Members – Appointed by Governor

Charles B. Higgins
Jonathan Johnson
Three Vacancies

Darlene Perez served as secretary (administrator) from September 20, 2004 through October 1, 2017. Helen Sullivan has served as secretary since May 29, 2018 and continues to serve in that capacity.

The board administers a state-subsidized defined benefit retirement system for public school educators who work at least half-time. Public school teachers are not covered by Social Security. The retirement system offers normal, prorated, early and vested deferred retirement benefits after certain vesting periods. The board also provides health insurance for some retired members and their spouses and partially reimburses towns that provide health insurance for retirees and spouses not covered by the board's health plan.

Public school teachers employed at least half-time in a position requiring State Board of Education certification must participate in the teachers' retirement system. The professional staff of the State Board of Education and the constituent units of the state's higher education system can also participate or can otherwise belong to the State Employees Retirement System. Certain eligible higher education employees can also participate in an alternate retirement program authorized by Sections 5-154(u), 5-154(v), 5-156, 5-158f, and 5-160(g) of the General Statutes.

According to the board's administrative report, as of June 30, 2019, there were 66,492 non-retired members, of whom 50,940 were actively teaching. Effective January 1, 2018, active teachers must contribute 8.25% of their pensionable salary to the retirement fund with 7% helping to finance retirement benefits and 1.25% helping to finance retiree health insurance. The 7% is credited to the member's account balance and is, together with credited interest, refundable to members leaving the system. The 1.25% is not refundable. Members with five or more years of credited service are paid interest on their mandatory and voluntary contributions.

Retired members and their spouses participating in Medicare Part A and B may enroll in a Medicare Advantage or Medicare Supplement plan offered by TRB. The retired members pay one-third of the monthly premium costs of the basic plan and the full cost for any additional benefits. The premiums are subsidized by the 1.25% active member contribution, state appropriations, and investment income. Retired members and their spouses not eligible for Medicare Part A and B may continue their health insurance coverage through the last school system in which they worked. The school system must charge the retired members the same premium as active members. The employers, typically boards of education, are subsidized by TRB to help offset their costs. As of June 30, 2019, the subsidy payment was, generally, up to $110 monthly for individual coverage and up to $220 monthly for member and spouse coverage. If certain conditions are met, the subsidy payment for individual coverage may be increased up to $220 monthly. The subsidies reduce the amounts that retired members must pay their former employer.

The board annually adds interest to active and inactive members' account balances, except for inactive vested members who have not taught for over 25 years and inactive non-vested members who have not taught for over 10 years. The credited interest is paid to members who withdraw their contributions from the fund. Interest rates for mandatory contributions for the two audited years compared to the previous year are presented below:

Interest Posting Date	Interest Rate for Regular/ Supplemental Contributions	School Year Balances
June 30, 2017	5.1%	2015-2016
June 30, 2018	6%	2016-2017
June 30, 2019	4%	2017-2018

In the event that a member's participation in the retirement system is terminated during the fiscal year, the interest rate is prorated monthly and applied to the member's balance as of the previous June 30th.

The retirement system is funded by member contributions, state contributions, and investment earnings. As discussed more fully in the Résumé of Operations section below, required state funding is actuarially determined but member contributions are defined by statute as a set percentage of member salaries. Section 10-183z of the General Statutes provided for a phase-in of full funding. Beginning in the 1992-1993 fiscal year, annual state funding was to cover 100% of normal (current service) cost plus the amount required to amortize the unfunded past liability over 40 years. In addition, state contributions include the 30-year amortization of the unfunded liability attributed to benefit-enhancing legislation enacted after June 30, 1980.

Pursuant to Section 10-183*l*(b) of the General Statutes, the board is required to employ an actuary. At least once every two years, the actuary prepares an actuarial analysis for valuation of the assets and liabilities of the teachers’ retirement system, including the unfunded liability. The June 30, 2018, actuarial evaluation reported an unfunded actuarial accrued liability for retirement benefits as of that date of $16,760,263,000, compared with $13,127,607,000 as of June 30, 2016. The total actuarial accrued liabilities as of those dates were $34,712,018,000 and $29,860,318,000, respectively. The increase reflected the reduction in the teachers’ retirement system assumed rate of return from 8% to 6.9% as mandated by Public Act 19-117.

Significant Legislation

Public Act 17-2 (Section 586) of the June Special Session increased mandatory regular contributions from active teachers' pensionable salaries from 6% to 7%, effective January 1, 2018.

Public Act 18-81 (Section 22) required the State Comptroller to transfer $16,100,000 from excess revenue to the retired teachers' health insurance premium account established pursuant to Section 10-183t(d) of the General Statutes in addition to any other contributions or payments required pursuant to Section 10-183t of the General Statutes, effective May 14, 2018.

Public Act 19-117 (Sections 82-90) made the following changes effective June 26, 2019:

- Required the board to limit the credited interest rate to member accounts to no more than 4% and limited the assumed rate of return to 6.9%.
- Established the Connecticut Teachers' Retirement Fund Bonds Special Capital Reserve Fund to provide protection for holders of pension obligation bonds issued in 2008 to help cover the teachers' retirement system unfunded liability. It also appropriated $380,901,255 from the General Fund for deposit in the reserve fund. If the state fails to make its full annual required payment to retirement fund bondholders, then the State Treasurer would direct a transfer of money from the reserve fund to complete the payment and Connecticut Lottery Corporation funds would be diverted to replenish the reserve.
- Directed that the unfunded actuarial accrued liability as of June 30, 2018 be separately amortized over a 30-year period and future actuarial gains and losses be amortized over separate 25-year periods.
- Changed the amortization method for the Teachers' Retirement System unfunded liability from a level-percentage of payroll to a level-dollar amortization over a five-year period.

RÉSUMÉ OF OPERATIONS

Fund Accounting

The Teachers' Retirement Board's financial transactions are accounted for through various state funds and within the General Fund by specific appropriation accounts within the budget established by the General Assembly, as required by generally accepted accounting principles (GAAP) for state and local governments. The budget establishes spending limits which can be amended. Section 10-183r of the General Statutes provides for funding of the system as follows:

1. Administrative expenses, exclusive of benefits, are paid out of legislative appropriations from the General Fund.

2. Benefits are paid out of the Teachers’ Retirement Fund and the Other Post-Employment Benefits (OPEB) Teachers’ Fund, which are funded by member contributions, state appropriations from the General Fund, proceeds of bonds, and teachers’ retirement system earnings.

3. Professional fees associated with the administration of the health benefit plans are paid for out of the OPEB Teachers' Fund.

Teachers' Retirement Fund

A comparison of the major revenue sources of the Teachers' Retirement Fund, as shown in the board’s administrative report, for the audited period and the previous fiscal year is presented below:

Fiscal Year	State Actuarial Funding	Member Contributions	Investment Income
2016-2017	$1,012,162,000	$246,819,382	$2,208,502,962
2017-2018	$1,271,033,000	$273,142,869	$1,208,531,811
2018-2019	$1,292,314,000	$295,057,689	$1,036,361,656

Member contributions consisted primarily of the previously mentioned 8.25% (7.25% prior to January 1, 2018) salary deduction. Employers collect these deductions and remit them to the board.

Pursuant to Section 10-183z of the General Statutes, the board’s actuary annually determines the required annual state contribution to the Teachers' Retirement Fund. The state's contribution equaled the required contribution for the audited period as presented below:

	2016-2017	2017-2018	2018-2019
Actuarially Determined Funding	$1,012,162,000	$1,271,033,000	$1,292,314,000
Actual State Contributions	$1,012,162,000	$1,271,033,000	$1,292,314,000
Percentage Funded	**100%**	**100%**	**100%**

In addition to the actuarial funding by the state, various towns funded an early retirement incentive program pursuant to Section 10-183jj of the General Statutes. Under that program, a local or regional board of education may pay for at least 50% of the cost of unserved additional credited service time for participating members, with any remaining costs funded by the participating members. Receipts attributed to the early retirement program totaled $495,853, $938,436, and $787,903 for fiscal years 2016-2017, 2017-2018, and 2018-2019, respectively.

A summary of fund expenditures for the audited period and the previous fiscal year, as shown in the board's administrative report, is presented below:

	2016-2017	2017-2018	2018-2019
Retirement Benefits	$1,889,248,290	$1,937,030,155	$2,004,712,660
Contribution Refunds	73,284,401	57,061,929	61,928,112
Totals	**$1,962,532,691**	**$1,994,092,084**	**$2,066,640,772**

The number of retirees and beneficiaries receiving payments, as shown in the board's administrative report, increased from 36,274 as of June 30, 2017 to 37,260 as of June 30, 2018 and 37,772 as of June 30, 2019. The rise in retirement benefits is partially attributable to this increase, but also reflects annual cost of living adjustments (COLA).

Pursuant to Section 10-183g of the General Statutes, retirees may be eligible to receive annual cost of living adjustments beginning in either June or January following nine months of their retirement anniversary, with differing COLA levels depending upon the member's retirement date. Members who retired prior to September 1, 1992 were eligible for an annual COLA in line with Consumer Price Index increases subject to a range of 3% to 5%. For members who retired on or after September 1, 1992 but prior to July 1, 2007, the COLA is calculated using the Social Security Administration percentage, provided no COLA shall exceed 6%, and if the return earned by the pension assets for the preceding fiscal year is less than 8.5%, the COLA shall not exceed 1.5%. For members who retired on or after July 1, 2007, the COLA is calculated similarly but subject to a 5% maximum if the return on pension assets exceeds 11.5% and a 3% maximum if the return on pension assets exceeds 8.5%. If the return on pension assets is 8.5% or less, then the COLA will not exceed 1%.

A summary of the COLA increases granted during the audited period is presented below:

COLA Dates	Retirement Date Prior to September 1992	Retirement Date On or After September 1992	
		Joined the system prior to July 1, 2007	Joined the system on or after July 1, 2007
July 2017	3.0%	0.3%	0.3%
January 2018	3.0%	2.0%	2.0%
July 2018	3.0%	2.0%	2.0%
January 2019	3.0%	1.5%	1.0%

Contribution refunds are paid to non-retired members who terminate from public school teaching and wish to withdraw their cumulative account balances. These balances consist of accumulated member contributions with credited interest. By withdrawing such funds, the member forfeits the right to any retirement benefit. If the former member returns to public school teaching, they have the option of repurchasing the forfeited service. As shown above, contribution refunds totaled $73,284,401, $57,061,929, and $61,928,112 in fiscal years 2016-2017, 2017-2018, and 2018-2019, respectively. Public Act 16-91 allowed the teachers' retirement system to stop crediting interest on the contributions of inactive non-vested members after 10 rather than 25 years of inactivity. This resulted in a large increase in members requesting refunds of their account balances for the 2016-2017 fiscal year.

The State Treasurer is the custodian of the Teachers' Retirement Fund investments. A comparative summary of the cost and market values of the fund's investments is presented below:

As of June 30,	Cost	Market
2017	$9,717,295,187	$17,126,802,473
2018	$9,864,692,083	$17,936,759,675
2019	$9,917,090,763	$18,492,535,913

The Teachers' Retirement Fund assets consist of the investments listed above. Per the State Comptroller's Comprehensive Annual Financial Report, the net position (assets less liabilities) amounted to $17,134,326,000, $17,946,839,000, and $18,493,455,000 as of June 30, 2017, 2018, and 2019, respectively. The net position figure includes fund liabilities but does not include the actuarially determined accrued liability for retirement benefits discussed in the Foreword of this report. Instead, that information is presented, pursuant to governmental accounting standards, in a Schedule of Changes in Net Pension Liability and Plan Net Position table that accompanies the financial reports.

Other Post-Employment Benefits (OPEB) Teachers' Fund

A comparison of the major revenue sources of the OPEB Teachers' Fund, as shown in the board’s administrative report, for the audited period and the previous fiscal year is presented below:

Fiscal Year	State Funding	Contributions	Investment Income
2016-2017	$19,922,013	$ 95,690,646	$ 369,000
2017-2018	$19,199,173	$101,590,099	$ 461,598
2018-2019	$35,319,923	$106,710,224	$1,090,566

State General Fund contributions were made for the health insurance cost subsidy provided pursuant to Section 10-183t of the General Statutes. The significant increase in state funding for fiscal year 2018-2019 was due to the $16,100,000 transfer from the General Fund mandated by Public Act 18-81, Section 22.

A summary of fund expenditures for the audited period and previous fiscal year, as shown in the board's administrative report, is presented below:

	2016-2017	2017-2018	2018-2019
OPEB Teachers’ Fund Expenditures	$133,159,614	$147,205,049	$121,031,713

Expenditures consisted primarily of medical insurance and prescription drugs. The decrease in fund expenditures in fiscal year 2018-2019 was due to the implementation of a Medicare Advantage Plan and the hiring of a new healthcare consultant. TRB only pays the premium for this new health care plan. It does not pay reimbursable claims as it did with the previous plan.

The OPEB Teachers' Fund provides subsidized health insurance for retired members and their spouses. Active members must contribute 1.25% of their annual pensionable salary to this account. Retired members and the state are each required to pay one-third of the cost of the board's basic health insurance plan, with the remaining cost of the basic plan absorbed by the resources of the fund. The fund's balance, as shown in the board's administrative report, was $60,844,482, $34,890,303, and $56,979,303 as of June 30, 2017, 2018, and 2019, respectively.

General Fund

The Teachers' Retirement Board pays administrative expenses, state funding contributions, and the state health insurance subsidies out of legislative appropriations from the General Fund. A summary of expenditures for the audited period and previous fiscal year is presented below:

	2016-2017	**2017-2018**	**2018-2019**
Transfers to:			
Teachers' Retirement Fund	$1,012,162,000	$1,271,033,000	$1,292,314,000
OPEB Teacher's Fund	19,922,013	19,199,173	19,219,923
Total Transfers	1,032,084,013	1,290,232,173	1,311,533,923
Administrative Expenses	2,058,630	1,980,647	1,981,393
Totals	**$1,034,142,643**	**$1,292,212,820**	**$1,313,515,316**

Administrative expenses consisted primarily of personal services payments to employees. These personal services payments to employees totaled $1,653,278, $1,569,719, and $1,476,745 for fiscal years 2016-2017, 2017-2018, and 2018-2019, respectively.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Teachers' Retirement Board disclosed the following recommendation, which has been repeated from the previous audit:

Improper Disability Benefits

Criteria: The Teachers' Retirement Board's Medical Review Committee established in accordance with Section 10-183aa of the General Statutes is responsible for evaluating medical evidence and making recommendations to the board regarding eligibility for disability allowances. Per Section 10-183b(13) of the General Statutes, the definition of disabled changes from "inability to perform the usual duties of his occupation" to "inability to engage in any substantial gainful activity" after the first 24 months of receiving a disability allowance. At that point, members receiving disability allowance payments are required to submit new medical documentation to substantiate that they do not have the ability to engage in any substantial gainful activity.

Condition: We tested ten members receiving disability benefits and found that the Medical Review Committee did not perform 24-month reviews for two members with disability dates of May 1, 2016 and July 1, 2017. These members were still receiving disability allowance payments during our test in April of 2021.

Context During the audited period, there were 60 members receiving disability benefits with disability dates ranging from July 1, 2015 to June 30, 2019.

Effect: The Teachers' Retirement Board may have made payments to the members that were not eligible to receive them.

Cause: The Teachers' Retirement Board attributed this oversight to pension system data storage and reporting limitations.

Prior Audit Finding: This finding has been previously reported in the last audit report covering the fiscal years ended June 30, 2016 through 2017.

Recommendation: The Teachers' Retirement Board should ensure that its Medical Review Committee reexamines the disability status of all members after their first 24 months of receiving a disability allowance. (See Recommendation 1.)

Agency Response: "We agree with this recommendation. The Teachers' Retirement Board has been operating with the same pension software for the past 22 years. This is far beyond the operational life of the system and has not allowed the agency to take advantage of recent technological upgrades in financial tracking and data analysis. In an effort to ensure the disability program maintains the proper oversight of member distributions we have implemented an alternative software program to preserve the integrity of information related to reviews. We are also examining other ways in which the disability program administration could be improved through partnering with sister agencies to obtain better member income data related to disability payment processing."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Teachers' Retirement Board contained four recommendations. Three have been implemented or otherwise resolved and one has been repeated or restated with modifications during the current audit.

- The Teachers' Retirement Board should implement a process to ensure members are notified of changes to their accounts. **This recommendation has been resolved.**

- The Teachers' Retirement Board should comply with the requirements of the disability allowance program. **This recommendation is being repeated. (See Recommendation 1.)**

- The Teachers' Retirement Board should develop procedures to ensure early retirement incentive plan payments are accurately calculated by local boards of education. **This recommendation has been resolved.**

- The Teachers' Retirement Board should review its regulations to determine whether modifications or additions are necessary to reflect current statutory language and internal procedures. **This recommendation has been resolved.**

Current Audit Recommendation:

1. **The Teachers' Retirement Board should ensure that its Medical Review Committee reexamines the disability status of all members after their first 24 months of receiving a disability allowance.**

   Comment:

   During the audited period, 60 members received disability benefits with disability dates from July 1, 2015 to June 30, 2019. We tested 10 of them and found that the Medical Review Committee did not perform 24-month reviews for two members with disability dates of May 1, 2016 and July 1, 2017. These members were still receiving disability benefit payments during our test in April of 2021.

ACKNOWLEDGMENTS

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Teachers' Retirement Board during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

James Carroll
Marcin Baran
Tatsiana Sidarau
Jacob Rocco

T. Sidarau
Tatsiana Sidarau
Associate Auditor

Approved:

John C. Geragosian
State Auditor

Clark J. Chapin
Clark J. Chapin
State Auditor