



# House of Representatives

General Assembly

**File No. 29**

February Session, 2000

Substitute House Bill No. 5544

*House of Representatives, March 9, 2000*

The Committee on Labor and Public Employees reported through REP. DONOVAN of the 84<sup>th</sup> Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

## ***An Act Allowing For Deferred Retirement Option Plans In The Municipal Employees' Retirement System.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (a) On or after the effective date of this act, the  
2 Retirement Commission may create a deferred retirement option plan.  
3 If created, such plan shall permit members of the Municipal  
4 Employees' Retirement Fund who are eligible for a service retirement  
5 allowance to elect participation in such plan, provided such plan has  
6 been adopted by the participating municipality that employs such  
7 member.

8 (b) The deferred retirement option plan shall include a fixed period  
9 of time for member participation, not to exceed five years, and a  
10 specified rate of interest credit for member accounts. All other  
11 provisions of the deferred retirement option plan shall be as  
12 determined by the Retirement Commission, provided the structure of

13 such plan is certified by the consulting actuary to the Municipal  
14 Employees' Retirement Fund as having no anticipated impact on the  
15 contribution rates for municipalities participating in said fund.

16 (c) Any municipality participating in the Municipal Employees'  
17 Retirement Fund shall have the option of adopting the deferred option  
18 plan for its members. Such adoption shall be in a manner prescribed by  
19 the Retirement Commission.

20 Sec. 2. This act shall take effect July 1, 2000.

**Statement of Legislative Commissioners:**

In section 1, the phrase "participating municipality for which such member is employed" was changed to "participating municipality that employs such member" for cleanness and conciseness in the phraseology.

**LAB Committee Vote:** Yea 11 Nay 0 JFS-LCO

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

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**OFA Fiscal Note**

**State Impact:** None

**Affected Agencies:** State Comptroller

**Municipal Impact:** None

**Explanation**

**State and Municipal Impact:**

The bill allows the Retirement Commission to create a deferred retirement option plan for eligible members of the Municipal Employees' Retirement Fund (MERF) and has no fiscal impact. The bill specifies that the newly created option must be determined by the consulting actuary to MERF to have no impact on the contribution rates for participating municipalities.

The Municipal Employees' Retirement System is supported solely by the contributions of participating municipalities and their employees, with no contributions by the State.

**BACKGROUND**

**Deferred Retirement Option Plans ("DROP" Plans)**

A DROP plan allows an employee who would otherwise be eligible to retire with a benefit under an employer's defined benefit retirement plan to continue working. However, instead of having the continued

compensation and additional years of service taken into account under the defined benefit plan formula, the employee has a sum of money credited to a separate account during each year of continued employment. The account earns interest at a rate determined by the plan. When the employee eventually retires, the account is paid to the employee, in addition to whatever benefit the employee has acquired under the defined benefit plan based on earlier years of service.

### **Actuarially Neutral Design**

Increases in pension benefits above those currently provided result in additional costs to a retirement system. If a DROP plan is provided as an actuarially equivalent option, offered to everyone, then there should be no direct cost for the program.

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**OLR Bill Analysis**

sHB 5544

***AN ACT ALLOWING FOR DEFERRED RETIREMENT OPTION PLANS IN THE MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM.***

**SUMMARY:**

This bill allows the Retirement Commission, which is located within the comptroller's office, to establish a deferred retirement option plan. Municipal employees who participate in the Municipal Employees Retirement Fund (MERF) and who are eligible for retirement may participate if their town adopts the plan.

The commission determines how towns can join the plan and what its terms are, but it must (1) set five years as the maximum employee participation period and (2) establish a specific interest rate.

The commission must have the MERF consulting actuary certify that the plan will have no anticipated effect on MERF employer contribution rates.

EFFECTIVE DATE: July 1, 2000

**BACKGROUND**

**Deferred Retirement Option Plans**

These plans allow municipal employees to continue working when eligible to retire while their retirement benefits are placed in an interest-bearing account administered by MERF. Participating employees stop accruing additional retirement credit once they enter the plan.

**COMMITTEE ACTION**

Labor and Public Employees Committee

Joint Favorable Report  
Yea 11    Nay 0