



# House of Representatives

General Assembly

**File No. 740**

*January Session, 2001*

Substitute House Bill No. 6859

*House of Representatives, May 10, 2001*

The Committee on Planning and Development reported through REP. DAVIS of the 50th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

***AN ACT ENHANCING BENEFITS IN THE POLICE OFFICER AND  
FIREFIGHTER'S SURVIVORS BENEFIT FUND AND THE MUNICIPAL  
EMPLOYEES' RETIREMENT SYSTEM.***

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

1 Section 1. Section 5-166a of the general statutes is repealed and the  
2 following is substituted in lieu thereof:

3 Any person who is appointed a judge of the Supreme Court or  
4 Superior Court, or, prior to July 1, 1978, was appointed to the Common  
5 Pleas, Circuit or Juvenile Court and who has, at the time of [his]  
6 appointment, at least ten years of state service to [his] such person's  
7 credit for purposes of the state employees retirement system may, at  
8 any time within twelve years after initial appointment as a judge to  
9 any of such courts, elect to remain, or, if [he] such person has  
10 withdrawn from said system, to be reinstated upon payment of  
11 contributions as provided in section 5-167, as a member of the state  
12 employees retirement system in lieu of participation in the benefits of

13 sections 51-49 to 51-50b, inclusive, and 51-51, and to make  
14 contributions to the State Employees Retirement Fund based upon  
15 [his] such person's salary as such judge and to receive credit for  
16 retirement purposes in said system for the period of service as such  
17 judge. Any contributions made under section 51-50b by any such judge  
18 prior to such election shall be transferred from the General Fund to the  
19 State Employees Retirement Fund and such judge shall be credited, for  
20 purposes of retirement under the state employees retirement system,  
21 with the period of [his] such person's service as a judge. The  
22 contributions to the state employees retirement system of any such  
23 person who does not elect to remain or be reinstated in the state  
24 employees retirement system during such twelve-year period or who,  
25 during such period, dies or indicates, in writing, [his] an intention not  
26 to remain or be reinstated in such system shall be refunded to such  
27 person or to [his] such person's named beneficiary or, if none, [his]  
28 such person's estate, as the case may be. Any such refunds processed  
29 on or after January 1, 2001, shall include interest credited in accordance  
30 with the provisions of subsection (b) of section 5-166. Notwithstanding  
31 the provisions of this chapter or chapter 872, any retired state  
32 employee who is appointed a judge and who resigns prior to  
33 retirement as a judge shall not receive a reduction in the amount of  
34 retirement income or retirement benefits that [he] such person would  
35 have received had [he] such person remained a retired state employee,  
36 including any cost of living allowance granted to retired state  
37 employees.

38 Sec. 2. Section 7-323e of the general statutes is repealed and the  
39 following is substituted in lieu thereof:

40 (a) When any full-time paid [policeman or fireman] police officer or  
41 firefighter who was covered by the provisions of this part dies, either  
42 before or after retirement, the surviving spouse of such [policeman or  
43 fireman] police officer or firefighter shall, until the death or remarriage  
44 of such spouse, receive out of the fund a monthly sum equal to

45 [twenty-five] thirty per cent of the compensation of such [policeman or  
46 fireman] police officer or firefighter.

47 (b) During any period in which such spouse has one dependent  
48 child under eighteen years of age, provided such child was dependent  
49 on such [policeman or fireman] police officer or firefighter at the time  
50 of death, such spouse shall receive from the fund an additional  
51 monthly sum equal to [twelve and one-half] fifteen per cent of the  
52 compensation of such [policeman or fireman] police officer or  
53 firefighter.

54 (c) During any period in which such spouse has two or more  
55 dependent children under eighteen years of age, provided such  
56 children were dependent on such [policeman or fireman] police officer  
57 or firefighter at the time of [his or her] death, such spouse shall receive  
58 from the fund an additional monthly sum equal to [twenty-five] thirty  
59 per cent of the compensation of such [policeman or fireman] police  
60 officer or firefighter.

61 (d) If no spouse survives such [policeman or fireman] police officer  
62 or firefighter who, at death, has one or more dependent children under  
63 eighteen years of age, or upon the death or remarriage of the spouse  
64 while receiving monthly payments with respect to one or more  
65 dependent children as hereinbefore described, the Retirement  
66 Commission shall cause to be paid to the legal guardian of such  
67 dependent child or children under eighteen years of age, or in its  
68 discretion to the spouse if such spouse remarries, for the sole use and  
69 benefit of such child or children a monthly sum equal to [twenty-five]  
70 thirty per cent of compensation in the case of one such child and  
71 [thirty-seven and one-half] forty-five per cent of compensation in the  
72 case of two or more children. In any case where payments under this  
73 section are being made with respect to one or two such children, as  
74 each such child reaches eighteen years of age payment as to such child  
75 shall cease.

76 (e) If no spouse or no dependent child or children under eighteen  
77 years of age survive such [policeman or fireman] police officer or  
78 firefighter, and such [policeman or fireman] police officer or firefighter  
79 is survived by a dependent father or mother, they shall receive, in a  
80 manner determined by the Retirement Commission, a monthly sum  
81 from the fund equal to that herein provided to be received by a spouse  
82 without dependent children, provided, no child or children shall be  
83 entitled to receive double benefits by reason of the death of both  
84 parents and such child or children shall receive the highest benefit  
85 payable by reason of the death of either parent.

86 (f) If no spouse or no dependent child or children under eighteen  
87 years of age and no dependent father or mother survive such  
88 [policeman or fireman] police officer or firefighter, and such  
89 [policeman or fireman] police officer or firefighter is survived by a  
90 beneficiary designated by such [policeman or fireman] police officer or  
91 firefighter prior to death on a form prescribed by the Retirement  
92 Commission, such beneficiary shall receive an amount equal to the  
93 deceased's contributions under section 7-323c without interest. If no  
94 named beneficiaries survive such [policeman or fireman] police officer  
95 or firefighter the aforesaid contributions, without interest, shall be paid  
96 to the executor or administrator of such deceased [policeman or  
97 fireman] police officer or firefighter, or, at the option of the Retirement  
98 Commission, in accordance with the terms of section 45a-273.

99 Sec. 3. Section 7-436 of the general statutes is amended by adding  
100 subsection (e) as follows:

101 (NEW) (e) On and after January 1, 2002, the following formula shall  
102 be used for the purpose of calculating the monthly allowance of each  
103 member covered by the Old Age and Survivors Insurance System on  
104 the first of the month after such member becomes eligible for Social  
105 Security or until such member qualifies for a Social Security disability  
106 award, if earlier: One-twelfth of one and one-half per cent of such

107 member's final average pay up to the breakpoint for the year in which  
108 such member separated from service plus two per cent of such  
109 member's final average pay in excess of the breakpoint for the year in  
110 which such member separated from service, multiplied by such  
111 member's years of retirement credit and fractions thereof. Such  
112 allowance shall be reduced in recognition of any optional form of  
113 retirement income elected in accordance with section 7-439g. For the  
114 purposes of this subsection, "breakpoint" has the same meaning as  
115 "year's breakpoint" in subsection (a) of section 5-192f.

116       Sec. 4. Section 7-439b of the general statutes is repealed and the  
117 following is substituted in lieu thereof:

118       (a) On July 1, 1986, and on July first of each subsequent year the  
119 State Retirement Commission shall adjust the retirement allowance of  
120 each member of the Municipal Employees' Retirement Fund and any  
121 annuitant who is receiving benefits under the provisions of this part to  
122 include a cost of living increase. There shall be an annual actuarial  
123 determination of the increase by determining the annual yield on the  
124 assets of the fund. In determining the yield, the actuary shall use an  
125 adjusted asset value, such that the market values of assets are adjusted  
126 to recognize a portion of realized and unrealized gains or losses each  
127 year until fully recognized. The amount of the increase, as a percentage  
128 of retirement allowance, shall be the excess of the annual yield over a  
129 six per cent yield, provided no increase granted under the provisions  
130 of this section shall be less than three per cent nor more than five per  
131 cent. Each such member shall receive the increases beginning on the  
132 first July first following the member's sixty-fifth birthday. Each such  
133 annuitant shall receive the increases beginning on the first July first  
134 following the date the deceased member would have reached the age  
135 of sixty-five. Any member who retired for disability under the  
136 provisions of section 7-432 shall receive the increases beginning July 1,  
137 1986.

138        (b) Notwithstanding any provision of the general statutes, each  
139 member of the Municipal Employees' Retirement Fund who retires on  
140 or after January 1, 2002, shall receive a cost of living increase beginning  
141 on the first July first following such member's retirement date and on  
142 each subsequent July first. Such increase shall be not less than two and  
143 one-half per cent and not more than six per cent, based upon the  
144 following formula: Sixty per cent of the annual increase in the  
145 consumer price index for urban wage earners and clerical workers for  
146 the immediately preceding twelve-month period up to six per cent,  
147 plus seventy-five per cent of the annual increase in such index for the  
148 same period over six per cent. In the event a member who retires on or  
149 after January 1, 2002, becomes deceased, such cost of living adjustment  
150 shall be applied to the allowance of the annuitant, if any. The  
151 provisions of this subsection do not apply to members who retired  
152 under the provisions of section 7-432.

153        (c) Notwithstanding any provision of the general statutes, each  
154 member of the Municipal Employees' Retirement Fund who retires  
155 prior to January 1, 2002, and has not attained age sixty-five shall  
156 receive on July 1, 2002, and on July first of each subsequent year a cost  
157 of living increase equal to two and one-half per cent. In the event that a  
158 member who retires prior to January 1, 2002, becomes deceased, such  
159 cost of living increase shall be applied to the allowance of the  
160 annuitant, if any. The cost of living increase provided for in this  
161 subsection shall continue until the July first following the member's  
162 sixty-fifth birthday, at which point the formula set forth in subsection  
163 (a) of this section shall become operative. The provisions of this  
164 subsection do not apply to members who retired under the provisions  
165 of section 7-432.

166        Sec. 5. Subdivision (5) of section 7-425 of the general statutes is  
167 repealed and the following is substituted in lieu thereof:

168        (5) "Member" means any regular employee or elective officer

169 receiving pay from a participating municipality, and any regular  
170 employee of a free public library [which] that receives part or all of its  
171 income from municipal appropriation, who has been included by such  
172 municipality in the pension plan as provided in section 7-427, but shall  
173 not include any person who customarily works less than twenty hours  
174 a week if such person entered employment after September 30, 1969,  
175 any police officer or firefighter who will attain the compulsory  
176 retirement age after less than [ten] five years of continuous service in  
177 fund B, any teacher who is eligible for membership in the state  
178 teachers retirement system, any person eligible for membership in any  
179 pension system established by or under the authority of any special act  
180 or of a charter adopted under the provisions of chapter 99, or any  
181 person holding a position funded in whole or in part by the federal  
182 government as part of any public service employment program, on-  
183 the-job training program or work experience program, provided  
184 persons holding such federally funded positions on July 1, 1978, shall  
185 not be excluded from membership but may elect to receive a refund of  
186 their accumulated contributions without interest.

187       Sec. 6. Section 7-428 of the general statutes is repealed and the  
188 following is substituted in lieu thereof:

189       Any member of fund B shall be eligible for retirement and to receive  
190 a retirement allowance upon completing twenty-five years of  
191 aggregate service in a participating municipality or upon attaining the  
192 age of fifty-five years, provided such employee has had [ten] five years  
193 of continuous service or fifteen years of active aggregate service in a  
194 participating municipality.

195       Sec. 7. Section 7-431 of the general statutes is repealed and the  
196 following is substituted in lieu thereof:

197       Any member of fund B separated from the service of the  
198 municipality by which [he] the member is employed, except for cause,  
199 after completing at least [ten] five years of continuous service but

200 before reaching the voluntary retirement age, shall be entitled to a  
201 retirement allowance upon reaching the voluntary retirement age;  
202 provided, at the option of the member, the retirement allowance may  
203 commence on the date of such separation and be payable in such an  
204 amount as may be determined by the Retirement Commission to be the  
205 actuarial equivalent of the retirement allowance that would have been  
206 payable except for the election of such option.

207       Sec. 8. Subsection (a) of section 7-436b of the general statutes is  
208 repealed and the following is substituted in lieu thereof:

209       (a) Any member of fund B of the municipal employees' retirement  
210 system, who, prior to [his] such member's date of employment with a  
211 municipality [which] that is participating in said fund B, served in any  
212 branch of the armed forces of the United States during the times set  
213 forth in section 27-103 shall be credited with the period of such service  
214 to the extent that [he] such member makes contributions to said fund  
215 for all or any part of the period of such service, except that any veteran  
216 who becomes a member on or after October 1, 1984, shall not receive  
217 credit for such war service if [he] such member has received or is  
218 entitled to receive any retirement allowance for the same years of  
219 service from the federal government. Such contributions shall be  
220 computed at a rate of two per cent of [his] such member's first year's  
221 salary as such employee, with interest at five per cent per annum,  
222 payable within one year of such employment, or on or before January  
223 1, 1992, whichever is later, provided such contributions are made prior  
224 to [his] the date of retirement. The period of such service for which  
225 contributions to said fund are made shall be counted for the purpose of  
226 computing the amount of [his] such member's retirement allowance,  
227 provided such member shall have completed [ten] five years of  
228 continuous service or fifteen years of active aggregate service with a  
229 participating municipality or shall be retired prior thereto due to  
230 disability incurred in the course of [his] employment. Any member  
231 who purchases credit pursuant to this section and who later receives a

232 retirement allowance for permanent and total disability under this part  
233 shall, upon [his] written request, be refunded all such contributions  
234 paid under this section, provided such military service credit did not  
235 serve to increase the amount of disability retirement benefits for which  
236 [he] such member was eligible.

237       Sec. 9. (NEW) Each participating employer may pick up the member  
238 contributions required by section 7-440 of the general statutes, for all  
239 compensation earned on and after January 1, 2002, and the  
240 contributions so picked up shall be treated as employer contributions  
241 in determining tax treatment under the United States Internal Revenue  
242 Code and the Connecticut Income Tax Code. The employer shall pay  
243 these member contributions from the same source of funds that is used  
244 to pay the member. The employer may pick up these contributions by  
245 a reduction in the cash salary of the member, or by an offset against a  
246 future salary increase, or by a combination of a reduction in salary and  
247 offset against a future salary increase. If member contributions are  
248 picked up, they shall be treated for all purposes of the Municipal  
249 Employees' Retirement Fund in the same manner and to the same  
250 extent as member contributions made prior to the date picked up.  
251 Municipalities participating in fund B may adopt this section for their  
252 members. Such election shall be made in a manner prescribed by the  
253 Retirement Commission.

254       Sec. 10. Section 5-264a of the general statutes is repealed and the  
255 following is substituted in lieu thereof:

256       (a) The state or any political subdivision of the state may, by  
257 contract, agree with any employee to defer, in whole or in part, any  
258 portion of such employee's compensation and may subsequently, with  
259 the consent of the employee, contract for, purchase or otherwise  
260 procure, for the purpose of funding a deferred compensation program  
261 for such employee, (1) an investment savings account, (2) a fixed or  
262 variable life insurance or annuity contract from any life underwriter

263 licensed by this state who represents an insurance company licensed to  
264 contract business in this state, or (3) a beneficial interest in an  
265 investment trust established by an organization of public employers,  
266 the assets of which are managed by a not-for-profit organization  
267 registered as an investment advisor under applicable federal statutes  
268 and regulations, from an entity registered as a broker-dealer under  
269 statutes and regulations of the state governing the sale of securities,  
270 provided the employee shall be furnished prior to purchase with  
271 disclosures substantially comparable to the disclosures required under  
272 the Securities Act of 1933 and the Investment Company Act of 1940 for  
273 the sale of similar nonexempt products.

274 (b) The State Comptroller or the officer designated by the chief  
275 executive officer of any other political subdivision is authorized to  
276 enter into such contractual agreements with employees of the state or  
277 the political subdivision, as the case may be, on behalf of the state or  
278 the political subdivision to defer any portion of that employee's  
279 compensation.

280 (c) The administration of the deferred compensation program shall  
281 be under the direction of the State Comptroller or the officer  
282 designated by the particular political subdivision. Payroll deductions  
283 shall be made, in each instance, by the appropriate payroll officer. The  
284 administrator of the deferred compensation program may contract  
285 with a private corporation or institution for providing consolidated  
286 billing and other administrative services with respect thereto.

287 (d) For the purposes of this section: "Employee" means any person,  
288 whether appointed, or elected, including members of the General  
289 Assembly, or under contract, providing services for the state or a  
290 political subdivision, for which compensation is paid; and "investment  
291 savings account" means a savings account in a state bank and trust  
292 company, national banking association, mutual savings bank, savings  
293 and loan association or federal savings and loan association or a share

294 account in a credit union or federal credit union established to receive  
295 the deferred compensation of a state employee under the deferred  
296 compensation plan established by the State Comptroller or the officer  
297 designated by a political subdivision pursuant to this section.

298 (e) Notwithstanding any other provision of law to the contrary,  
299 those persons designated to administer the deferred compensation  
300 program are hereby authorized to make (1) deposits or payments to  
301 such investment savings accounts, (2) payment of premiums for the  
302 purchase of fixed or variable life insurance or annuity contracts, or (3)  
303 payments for interests in investment trusts established by an  
304 organization of public employers and managed by a not-for-profit  
305 organization registered as an investment advisor under applicable  
306 federal statutes and regulations under the deferred compensation  
307 program. Such payments shall not be construed to be a prohibited use  
308 of the general assets of the state or the other political subdivision.

309 (f) The state may, by contract, agree with any employee to defer, in  
310 whole or in part, any portion of such employee's compensation and  
311 may subsequently, with the consent of the employee, contract for,  
312 purchase or otherwise procure, for the purpose of funding a deferred  
313 compensation program for such employee, shares of an investment  
314 company, registered under the Investment Company Act of 1940,  
315 which shares are registered under the Securities Act of 1933, including  
316 equity, fixed income, short-term or money market mutual funds.  
317 Notwithstanding any other provision of law to the contrary, those  
318 persons designated by the state to administer the deferred  
319 compensation program are hereby authorized to make deposits or  
320 payments to an investment company, registered under the Investment  
321 Company Act of 1940, for the purchase of shares of such investment  
322 company, which shares are registered under the Securities Act of 1933,  
323 including equity, fixed income, short-term or money market mutual  
324 funds. Such payments shall not be construed to be a prohibited use of  
325 the general assets of the state.

326     (g) Upon request of a political subdivision of the state, the State  
327     Comptroller shall make available to the employees of the political  
328     subdivision the deferred compensation program provided to state  
329     employees under such additional terms and conditions as the State  
330     Comptroller may prescribe.

**PD**         *Joint Favorable Subst.*

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:** Revenue Loss

**Affected Agencies:** Office of the State Comptroller

**Municipal Impact:** See Explanation Below

**Explanation**

**State Impact:**

The benefit enhancements in the Municipal Employees Retirement System (MERS) and the Connecticut Policemen and Firemen Survivor’s Benefit Fund (PFSBF) provided by the bill will result in no cost to the Office of the State Comptroller (OSC). While the State Comptroller administers MERS and PFSBF, all costs associated with the funding and administration of MERS and PFSBF are borne by participating municipalities.

The bill also allows judges already vested in the State Employees Retirement System (SERS) to elect to withdraw from SERS and to receive interest on their refunded SERS contributions beginning with refunds processed on and after January 1, 2001. This provision is anticipated to have a minimal cost to the State Employees Retirement Fund. The current actuarial assumption regarding refunds anticipates the payment of interest on all refunded service contributions. Based upon this existing assumption, there is no fiscal impact to the state’s contribution to SERS anticipated as a result of this change.

The bill is anticipated to result in an annual revenue loss of \$500,000 due to a reduction in Personal Income Tax. The bill allows the municipalities to “pick up” member’s contributions and have those contributions treated as employer contributions for tax purposes. Therefore, state income taxes will be calculated based on a participant’s wages less amounts deducted for contributions to the Municipal Employee Retirement Fund (MERF).

Finally, the bill requires the Comptroller to make available to municipalities and their employees, the deferred compensation program provided to state employees. This will result in no cost to the state or municipalities as any administrative cost associated with this program are borne by the participants.

***Municipal Impact:***

The benefit enhancements provided in the bill will increase the total liabilities of the Municipal Employees Retirement System by \$30.1 million. Due to the existing overfunding in MERS, no additional funding will be required from participating municipalities to finance these benefit improvements. The most recent MERS valuation, prepared as of July 1, 1999, shows the system was overfunded by \$240.5 million. This is the result of actuarial liabilities of \$860 million and an actuarial value of assets of \$1.1 billion.

The bill also raises the monthly Policemen and Firemen Survivors’ Benefit Fund (PFSBF) survivor benefits for surviving spouses and eligible dependents by 20 percent. There is an increase in liability of \$2.9 million for PFSBF. The most recent valuation of PFSBF, prepared as of July 1, 1999, shows the system was overfunded by \$5.47 million. Due to the existing overfunding in PFSBF, no additional funding will be required from participating municipalities to finance the increased benefits.

**OLR Bill Analysis**

sHB 6859

***AN ACT ENHANCING BENEFITS IN THE POLICE OFFICER AND FIREFIGHTER'S SURVIVORS BENEFIT FUND AND THE MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM.***

**SUMMARY:**

This bill makes several changes in the Connecticut Municipal Employees' Retirement Fund (MERF) B. Specifically, it:

1. reduces the vesting period from 10 to five continuous years;
2. increases the monthly MERF benefit beginning January 1, 2002, for employees eligible to receive Social Security;
3. allows employees who take voluntary retirement to begin receiving a cost of living adjustment (COLA) on the first July 1 after their retirement instead of after turning age 65;
4. changes the COLA percentage and formula for those retiring on or after January 1, 2002, and those who retire before January 1, 2002 and are not 65 years of age; and
5. allows municipalities to pay employee contributions on a pre-tax basis beginning January 1, 2002.

The bill requires the comptroller to allow towns requesting to participate in the state's deferred compensation program to do so. The comptroller may establish terms and conditions for such participation. Under current law, towns may set up their own deferred compensation programs.

It also raises by 20% the monthly benefits from the Policemen and Firemen Survivors' Benefit Fund. The fund pays benefits to the surviving spouses and eligible dependents of municipal policemen

and firemen.

Finally, it allows judges who elect to withdraw from the State Employees Retirement Fund (SERS) to receive interest on their refunded SERS contributions beginning with refunds processed on and after January 1, 2001.

EFFECTIVE DATE: October 1, 2001

## **MERF**

### ***Vesting***

The bill reduces the vesting period from 10 to five years of continuous service. Currently, a police officer or firefighter who will reach his compulsory retirement age after less than 10 years of continuous service cannot be a member of MERF. To correspond with the reduction in the vesting period, the bill reduces the number of years such employees must be able to work from 10 to five years.

### ***Benefit Formula***

The bill changes the MERF benefit formula to increase benefits to employees who are eligible for Social Security. Currently, the formula is  $1\frac{1}{6}\%$  of final average pay (FAP) up to a Social Security earnings base (maximum of \$80,400 for 2001) plus 2% of FAP over the Social Security earning base multiplied by years of service. The new benefit formula is  $1\frac{1}{2}\%$  of FAP up to a breakpoint (\$32,400 for 2001) plus 2% of such member's FAP in excess of the breakpoint multiplied by years of service and fractions thereof.

For example, suppose a retiree receiving Social Security retired with 30 years of service, an FAP of \$40,000, a Social Security earnings base of \$35,000, and no optional form of retirement income. Under the current formula, his MERF benefit would be:  $[(1.167\% \times \$35,000) + (2.0\% \times \$5,000)] \times 30 = \$15,253.50$ . Under the new benefit formula, his MERF benefit would be  $[(1.5\% \times \$32,400) + (2.0\% \times \$7,600)] \times 30 = \$19,140$ .

## **COLA**

Currently, members who take regular retirement receive an annual 3% to 5% COLA beginning on the first July 1 following their 65<sup>th</sup> birthday. The increase is based on an annual actuarial determination of the yield in excess of what is needed to fund MERF.

The bill allows members retiring on or after January 1, 2002, to begin receiving a COLA on the first July 1 following their retirement date. The COLA ranges from 2.5 to 6% based on the following formula: 60% of any annual increase in the previous year's consumer price index (CPI) up to 6% plus 75% of any CPI increase over 6%.

The bill allows members who retire before January 1, 2002, and before they turn 65, to receive a COLA beginning July 1, 2002. For these retirees, the COLA is 2.5% annually until the first July 1 following the member's 65<sup>th</sup> birthday. On the first July 1 following the member's 65<sup>th</sup> birthday, the COLA reverts to the current COLA (3% to 5% based on an annual actuarial determination).

### ***Pre-Tax Basis***

The bill allows municipalities to "pick up" members' contributions and have those contributions treated as employer contributions for tax purposes. The employer may pick up the contribution by reducing the member's pay, offsetting the contribution against a future salary increase, or a combination of the two methods. The Retirement Commission must prescribe how municipalities can elect to have employee contributions treated in this manner.

## **BACKGROUND**

### ***Deferred Compensation Plan***

The state's deferred compensation plan allows state employees to save up to 25% of their taxable pay on a pre-tax basis. For 2001, the maximum is \$8,500. Employees may invest their contributions in any one of the plan's three financial services organizations.

### ***Legislative History***

The House referred this bill (File 58) to the Finance, Revenue and

Bonding Committee on March 29. On April 23, that committee reported it favorably without any change. On April 27, the House referred the bill to the Planning and Development Committee, which, on April 30, amended it to include a section on town participation in the state's deferred compensation program.

**COMMITTEE ACTION**

Labor and Public Employees Committee

Joint Favorable Substitute

Yea 14    Nay 0

Finance, Revenue and Bonding Committee

Joint Favorable Report

Yea 45    Nay 0

Planning and Development Committee

Joint Favorable Substitute

Yea 15    Nay 0