House of Representatives

File No. 786

General Assembly

January Session, 2001

(Reprint of File Nos. 58 and 740)

Substitute House Bill No. 6859
As Amended by House Amendment
Schedule "A"

Approved by the Legislative Commissioner
May 18, 2001

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:

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 Section 5-166a of the general statutes is repealed and the following is substituted in lieu thereof:

Any person who is appointed a judge of the Supreme Court or Superior Court, or, prior to July 1, 1978, was appointed to the Common Pleas, Circuit or Juvenile Court and who has, at the time of [his] appointment, at least ten years of state service to [his] <u>such person's</u> credit for purposes of the state employees retirement system may, at any time within twelve years after initial appointment as a judge to any of such courts, elect to remain, or, if [he] <u>such person</u> has withdrawn from said system, to be reinstated upon payment of contributions as provided in section 5-167, as a member of the state employees retirement system in lieu of participation in the benefits of sections 51-49 to 51-50b, inclusive, and 51-51, and to make contributions to the State Employees Retirement Fund based upon

[his] such person's salary as such judge and to receive credit for retirement purposes in said system for the period of service as such judge. Any contributions made under section 51-50b by any such judge prior to such election shall be transferred from the General Fund to the State Employees Retirement Fund and such judge shall be credited, for purposes of retirement under the state employees retirement system, with the period of [his] such person's service as a judge. The contributions to the state employees retirement system of any such person who does not elect to remain or be reinstated in the state employees retirement system during such twelve-year period or who, during such period, dies or indicates, in writing, [his] an intention not to remain or be reinstated in such system shall be refunded to such person or to [his] such person's named beneficiary or, if none, [his] such person's estate, as the case may be. Any such refunds processed on or after January 1, 2001, shall include interest credited in accordance with the provisions of subsection (b) of section 5-166. Notwithstanding the provisions of this chapter or chapter 872, any retired state employee who is appointed a judge and who resigns prior to retirement as a judge shall not receive a reduction in the amount of retirement income or retirement benefits that [he] such person would have received had [he] such person remained a retired state employee, including any cost of living allowance granted to retired state employees.

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

(a) When any full-time paid [policeman or fireman] police officer or firefighter who was covered by the provisions of this part dies, either before or after retirement, the surviving spouse of such [policeman or fireman] police officer or firefighter shall, until the death or remarriage of such spouse, receive out of the fund a monthly sum equal to [twenty-five] thirty per cent of the compensation of such [policeman or fireman] police officer or firefighter.

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

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

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

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

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

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

(NEW) (e) On and after January 1, 2002, the following formula shall be used for the purpose of calculating the monthly allowance of each member covered by the Old Age and Survivors Insurance System on the first of the month after such member becomes eligible for Social Security or until such member qualifies for a Social Security disability award, if earlier: One-twelfth of one and one-half per cent of such member's final average pay up to the breakpoint for the year in which such member separated from service plus two per cent of such member's final average pay in excess of the breakpoint for the year in which such member separated from service, multiplied by such member's years of retirement credit and fractions thereof. Such allowance shall be reduced in recognition of any optional form of retirement income elected in accordance with section 7-439g. For the purposes of this subsection, "breakpoint" has the same meaning as "year's breakpoint" in subsection (a) of section 5-192f.

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

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

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

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

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

(5) "Member" means any regular employee or elective officer receiving pay from a participating municipality, and any regular employee of a free public library **[**which**]** that receives part or all of its income from municipal appropriation, who has been included by such municipality in the pension plan as provided in section 7-427, but shall not include any person who customarily works less than twenty hours a week if such person entered employment after September 30, 1969, any police officer or firefighter who will attain the compulsory retirement age after less than **[**ten**]** five years of continuous service in fund B, any teacher who is eligible for membership in the state teachers retirement system, any person eligible for membership in any pension system established by or under the authority of any special act

or of a charter adopted under the provisions of chapter 99, or any person holding a position funded in whole or in part by the federal government as part of any public service employment program, on-the-job training program or work experience program, provided persons holding such federally funded positions on July 1, 1978, shall not be excluded from membership but may elect to receive a refund of their accumulated contributions without interest.

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

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

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

Any member of fund B separated from the service of the municipality by which [he] the member is employed, except for cause, after completing at least [ten] five years of continuous service but before reaching the voluntary retirement age, shall be entitled to a retirement allowance upon reaching the voluntary retirement age; provided, at the option of the member, the retirement allowance may commence on the date of such separation and be payable in such an amount as may be determined by the Retirement Commission to be the actuarial equivalent of the retirement allowance that would have been payable except for the election of such option.

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

(a) Any member of fund B of the municipal employees' retirement system, who, prior to [his] such member's date of employment with a municipality [which] that is participating in said fund B, served in any branch of the armed forces of the United States during the times set forth in section 27-103 shall be credited with the period of such service to the extent that [he] such member makes contributions to said fund for all or any part of the period of such service, except that any veteran who becomes a member on or after October 1, 1984, shall not receive credit for such war service if [he] such member has received or is entitled to receive any retirement allowance for the same years of service from the federal government. Such contributions shall be computed at a rate of two per cent of [his] such member's first year's salary as such employee, with interest at five per cent per annum, payable within one year of such employment, or on or before January 1, 1992, whichever is later, provided such contributions are made prior to [his] the date of retirement. The period of such service for which contributions to said fund are made shall be counted for the purpose of computing the amount of [his] such member's retirement allowance, provided such member shall have completed [ten] five years of continuous service or fifteen years of active aggregate service with a participating municipality or shall be retired prior thereto due to disability incurred in the course of [his] employment. Any member who purchases credit pursuant to this section and who later receives a retirement allowance for permanent and total disability under this part shall, upon [his] written request, be refunded all such contributions paid under this section, provided such military service credit did not serve to increase the amount of disability retirement benefits for which [he] such member was eligible.

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

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

(a) The state or any political subdivision of the state may, by contract, agree with any employee to defer, in whole or in part, any portion of such employee's compensation and may subsequently, with the consent of the employee, contract for, purchase or otherwise procure, for the purpose of funding a deferred compensation program for such employee, (1) an investment savings account, (2) a fixed or variable life insurance or annuity contract from any life underwriter licensed by this state who represents an insurance company licensed to contract business in this state, or (3) a beneficial interest in an investment trust established by an organization of public employers, the assets of which are managed by a not-for-profit organization registered as an investment advisor under applicable federal statutes and regulations, from an entity registered as a broker-dealer under statutes and regulations of the state governing the sale of securities, provided the employee shall be furnished prior to purchase with disclosures substantially comparable to the disclosures required under the Securities Act of 1933 and the Investment Company Act of 1940 for the sale of similar nonexempt products.

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

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

(d) For the purposes of this section: "Employee" means any person, whether appointed, or elected, including members of the General Assembly, or under contract, providing services for the state or a political subdivision, for which compensation is paid; and "investment savings account" means a savings account in a state bank and trust company, national banking association, mutual savings bank, savings and loan association or federal savings and loan association or a share account in a credit union or federal credit union established to receive the deferred compensation of a state employee under the deferred compensation plan established by the State Comptroller or the officer designated by a political subdivision pursuant to this section.

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

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

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

Sec. 11. Section 7-464a of the general statutes is repealed and the following is substituted in lieu thereof:

(a) Any city, town or other political subdivision of the state may, by contract, agree with any employee to defer, in whole or in part, any portion of such employee's compensation and may subsequently, with the consent of the employee, contract for, purchase or otherwise procure, for the purpose of funding a deferred compensation program for such employee, (1) an investment savings account, (2) a fixed or variable life insurance or annuity contract from any life underwriter licensed by this state who represents an insurance company licensed to contract business in this state, or (3) a beneficial interest in an investment trust established by an organization of public employers, the assets of which are managed by a not-for-profit organization registered as an investment advisor under applicable federal statutes and regulations, from an entity registered as a broker-dealer under statutes and regulations of the state governing the sale of securities, provided the employee shall be furnished prior to purchase with disclosures substantially comparable to the disclosures required under the Securities Act of 1933 and the Investment Company Act of 1940 for the sale of similar nonexempt products.

(b) The officer designated by the chief executive officer of any city, town or other political subdivision is authorized to enter into such contractual agreements with employees of the city, town or other political subdivision, as the case may be, on behalf of the city, town or political subdivision to defer any portion of that employee's compensation.

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

(d) For the purposes of this section: "Employee" means any person, whether appointed, elected or under contract, providing services for the city, town or other political subdivision, for which compensation is paid; and "investment savings account" means a savings account in a state bank and trust company, national banking association, mutual savings bank, savings and loan association or federal savings and loan association or a share account in a credit union or federal credit union established to receive the deferred compensation of a municipal employee under the deferred compensation plan established by the officer designated by a city, town or other political subdivision pursuant to this section.

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

(f) Any city, town or other political subdivision of the state may, by contract, elect to participate in the deferred compensation program for state employees as authorized under subsection (g) of section 5-264a, as amended by this act. The deferred compensation funds associated with the participation by such city, town or political subdivision in the deferred compensation program for state employees may be invested in any of the funding vehicles authorized for such program under section 5-264a, as amended by this act.

Sec. 12. Subsection (a) of section 5-192f of the general statutes is repealed and the following is substituted in lieu thereof:

(a) "Year's breakpoint" means, with respect to the calendar year in which occurs a member's last severance from service date, ten thousand seven hundred dollars increased by six per cent each year after 1982, rounded to the nearest multiple of one hundred dollars. [The year's breakpoint for years prior to 2000 shall be:

T1	1982	$10,700
T2	1983	11,300
T3	1984	12,000
T4	1985	12,700
T5	1986	13,500
T6	1987	14,300
T7	1988	15,200

T8	1989	16,100
T9	1990	17,100
T10	1991	18,100
T11	1992	19,200
T12	1993	20,400
T13	1994	21,600
T14	1995	22,900
T15	1996	24,300
T16	1997	25,800
T17	1998	27,300
T18	1999	28,900]

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:

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 as amended 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.

In addition, judges already vested in the State Employees Retirement System (SERS) are allowed to elect to withdraw from SERS and 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 as amended 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).

The bill as amended allows municipalities to elect to participate in the deferred compensation program offered 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. Finally, a provision in the bill as amended makes a technical change to the state employees retirement statute that will result in no cost.

Municipal Impact:

The benefit enhancements provided in the bill as amended 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.

Also, the monthly Policemen and Firemen Survivors' Benefit Fund (PFSBF) survivor benefits for surviving spouses and eligible dependents are raised 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.

House "A" makes a change in the provision (of file no. 740) allowing any municipality to elect to participate in the deferred compensation program offered to state employees. It also makes a technical change to the state employees retirement statute. Both provisions as referenced above will result in no cost to the state.

OLR Amended Bill Analysis
sHB 6859 (as amended by House "A")*

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 B (MERF). 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 allows towns the option to participate, by contract, in the state's deferred compensation program. The comptroller must allow towns to participate, but 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.

*House Amendment "A" authorizes towns to participate in the state's deferred compensation program and eliminates obsolete language.

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 $1\ ^1/_6$% 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 $1\ ^1/_2$% 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% x $35,000) + (2.0% x $5,000)] x 30 = $15,253.50. Under the new benefit formula, his MERF benefit would be [(1.5% x $32,400) + (2.0% x $7,600)] x 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^{th} 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^{th} birthday. On the first July 1 following the member's 65^{th} 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 town participation in the state's deferred compensation program. On May 15, the House referred the bill (File 740) to the Judiciary Committee, which, on May 16, favorably reported it without any change.

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

Judiciary Committee

Joint Favorable Report
Yea 35 Nay 0