



House of Representatives

General Assembly

File No. 513

February Session, 2002

Substitute House Bill No. 5769

House of Representatives, April 16, 2002

The Committee on Appropriations reported through REP. DYSON of the 94th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING THE PURCHASE OF ADDITIONAL CREDITED SERVICE IN THE TEACHERS' RETIREMENT SYSTEM, THE EXCESS EARNINGS ACCOUNT, THE EARLY RETIREMENT INCENTIVE PROGRAM, CREDIT FOR SERVICE WITH CERTAIN BARGAINING ORGANIZATIONS, REDUCTIONS IN THE NUMBER OF YEARS OF CREDITED SERVICE NEEDED FOR A NORMAL RETIREMENT BENEFIT, THE CONTRACTUAL NATURE OF MEMBERSHIP IN THE SYSTEM, AND THE PAYMENT OF HEALTH INSURANCE SUBSIDIES TO LOCAL SCHOOL DISTRICTS.

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

1 Section 1. Subsection (c) of section 10-183e of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective July*
3 *1, 2002*):

4 (c) Additional credited service must be purchased by a member (1)
5 [at] prior to the time of retirement, [or] (2) at the time a surviving
6 spouse elects benefits under the provisions of subsection (d) of section
7 10-183h, or (3) at the time benefits commence [under an optional
8 payment form pursuant to section 10-183j. Any purchase of service

9 shall be accomplished by the member paying to the board an amount
10 equal to one-half of the actuarial present value, determined according
11 to actuarial tables adopted by the board, of the difference between the
12 retirement benefit which the member is entitled to receive based upon
13 his or her service apart from such purchased service and the benefit
14 which he or she is entitled to receive including such service] as
15 provided under sections 10-183g, as amended by this act, and 10-183jj,
16 as amended by this act. Any purchase of such service shall be
17 accomplished by the member paying to the board an amount
18 determined on the basis of actuarial factors adopted by the board
19 which reflect the present value of one-half of the full actuarial cost of
20 the benefit increase that will be derived by the purchase of such
21 service. Such factors shall consider the member's age at the time of
22 purchase, actual or projected salary, and the earliest date on which the
23 member would be eligible for a normal retirement allowance.
24 Payments for additional credited service may be made in a lump sum
25 by transfer of funds from the member's accumulated one per cent
26 contributions withheld prior to July 1, 1989, with credited interest and
27 accumulated voluntary contributions with credited interest plus such
28 other amounts as may be required to complete the purchase.

29 Sec. 2. Subsection (m) of section 10-183g of the general statutes is
30 repealed and the following is substituted in lieu thereof (*Effective July*
31 *1, 2002*):

32 (m) If the plan actuaries have certified in accordance with
33 subsection (n) of this section that the amount of the [excess earnings
34 account] cost of living adjustment reserve account which is available
35 for payment of a cost of living allowance is insufficient to fund the full
36 amount determined under subsection (l) of this section, each person
37 eligible for an annual cost of living allowance under said subsection (l)
38 shall be eligible for a cost of living allowance reduced proportionately
39 to a percentage that is actuarially supported by the amount so
40 certified, in lieu of the cost of living allowance provided under said
41 subsection (l), provided no cost of living allowance shall exceed six per
42 cent and provided further, if the total return earned by the trustees on

43 the market value of the pension assets for the preceding fiscal year is
44 less than eight and one-half per cent, any cost of living allowance
45 granted shall not exceed one and one-half per cent.

46 Sec. 3. Subsection (n) of section 10-183g of the general statutes is
47 repealed and the following is substituted in lieu thereof (*Effective July*
48 *1, 2002*):

49 (n) To administer cost of living allowances provided under
50 subsections (l) and (m) of this section, there is established the [excess
51 earnings account] cost of living adjustment reserve account which shall
52 be a separate account established within the Teachers' Retirement
53 Fund. For the calendar year commencing January 1, 1995, and each
54 subsequent calendar year, the [excess earnings account] cost of living
55 adjustment reserve account shall be credited by an amount equal to
56 that portion of the total return earned by the trustees on the market
57 value of the pension assets for the preceding fiscal year which is a total
58 return in excess of eleven and one-half per cent. The [excess earnings
59 account] cost of living adjustment reserve account shall be reduced
60 each year by the actuarial value of any cost of living allowance
61 awarded. On May first, annually, the plan actuaries shall determine
62 how much of the [excess earnings account] cost of living adjustment
63 reserve account balance is available for payment of a cost of living
64 adjustment determined in accordance with the provisions of this
65 section and shall certify their determination to the trustees of the
66 Teachers' Retirement Fund. If the plan actuaries determine that there
67 are no funds available in the [excess earnings account] cost of living
68 adjustment reserve account for the payment of a cost of living
69 allowance, no cost of living allowance shall be paid.

70 Sec. 4. Subsection (e) of section 10-183jj of the general statutes is
71 repealed and the following is substituted in lieu thereof (*Effective July*
72 *1, 2002*):

73 (e) For each year of additional credited service purchased pursuant
74 to this section, the local or regional board of education shall pay an
75 amount specified by the Teachers' Retirement Board equal to the

76 actuarial present value, determined according to actuarial tables
77 adopted by the Teachers' Retirement Board, of the difference between
78 the retirement benefit which the member is entitled to receive based
79 upon [his or her] the member's service apart from such purchased
80 service and the benefit which [he or she] the member is entitled to
81 receive including such service. Payments shall be made in accordance
82 with rules adopted by the Teachers' Retirement Board. Such payments
83 must be received not later than thirty days following the date payment
84 is requested or interest shall be assessed from the date on which such
85 payment was due to the date on which such payment was received.
86 When a board of education purchases additional credited service for a
87 member pursuant to this section, the Teachers' Retirement Board shall
88 notify the member in writing. Payment for additional service credit
89 purchased pursuant to this section may be made in equal annual
90 installment payments, including interest, not to exceed the number of
91 years being purchased by the local or regional board of education. Late
92 payments and outstanding obligations from a prior year's purchase or
93 late payment of monthly mandatory contributions shall be paid in full
94 prior to the initiation of a new early retirement incentive plan or such
95 amounts shall be included as part of the cost of the new early
96 retirement incentive plan. Interest shall be assessed on installment
97 payments and late payments as provided by subsection (b) of section
98 10-183n. Any additional credited service purchased for any such
99 member shall be in addition to any credited service purchased
100 pursuant to section 10-183e, as amended by this act.

101 Sec. 5. Subsection (g) of section 10-183e of the general statutes is
102 repealed and the following is substituted in lieu thereof (*Effective July*
103 *1, 2002*):

104 (g) Any member who has been elected to a full-time or part-time
105 position in an organization which has been duly designated as the
106 teachers' representative or who has been elected to a full-time or part-
107 time position in [the] a state-wide, national or international bargaining
108 organization [with which the local bargaining organization is
109 affiliated, under the provisions of section 10-153b,] may, during the

110 time [he] such member so serves, continue [his] membership and may
111 make, or have made for [him] such member, payments of [his]
112 contributions for such time, provided the organization which such
113 [teacher] member represents shall pay the full actuarial cost that would
114 otherwise be incurred by the state for the time such [teacher] member
115 serves in excess of one year. If payment is made during such periods or
116 at any time before retirement, such member shall receive credit for
117 such service and shall be considered as serving as a public school
118 teacher in the state for the purpose of computing length of service, and
119 for the purpose of computing average annual salary, and shall be
120 considered by the retirement board as though [he] such member were
121 remaining in [his] such member's latest teaching position.

122 Sec. 6. Subsection (a) of section 10-183f of the general statutes is
123 repealed and the following is substituted in lieu thereof (*Effective July*
124 *1, 2002*):

125 (a) A member is eligible to receive a normal retirement benefit who
126 (1) has attained age sixty and has accumulated twenty years of
127 credited service in the public schools of Connecticut, or (2) has attained
128 any age, has accumulated at least twenty-five years of credited service
129 in the public schools of Connecticut, and has accumulated (A) as of
130 June 30, 2004, thirty-five years of credited service, [at least twenty-five
131 years of which are service in the public schools of Connecticut] (B) as
132 of July 1, 2004, to June 30, 2006, inclusive, thirty-four years of credited
133 service, (C) as of July 1, 2006, to June 30, 2008, inclusive, thirty-three
134 years of credited service, or (D) on and after July 1, 2008, thirty-two
135 years of credited service.

136 Sec. 7. Section 10-183c of the general statutes is repealed and the
137 following is substituted in lieu thereof (*Effective July 1, 2003*):

138 The Connecticut teachers' retirement system is established to
139 provide retirement and other benefits for teachers, their survivors and
140 beneficiaries. The rights of the members of the teachers' retirement
141 system are contractual in nature. Such members have a contractual
142 right, which is legally enforceable.

143 Sec. 8. Section 10-183t of the general statutes is amended by adding
144 subsection (e) as follows (*Effective July 1, 2002*):

145 (NEW) (e) Effective January 1, 2004, and annually thereafter, the
146 maximum subsidy payment made in accordance with the provisions of
147 subsection (b) of this section, for retired members and their spouses or
148 surviving spouses who are enrolled in their local school district's
149 health plan, shall be adjusted based on the cost of living index for the
150 national consumer price index for urban wage earners and clerical
151 workers, (CPI-W), for medical care, for the twelve-month period
152 ending on the last day of the preceding August.

This act shall take effect as follows:	
Section 1	<i>July 1, 2002</i>
Sec. 2	<i>July 1, 2002</i>
Sec. 3	<i>July 1, 2002</i>
Sec. 4	<i>July 1, 2002</i>
Sec. 5	<i>July 1, 2002</i>
Sec. 6	<i>July 1, 2002</i>
Sec. 7	<i>July 1, 2003</i>
Sec. 8	<i>July 1, 2002</i>

APP 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:

OFA Fiscal Note

State Impact:

Fund-Type	Agency Affected	Current FY \$	FY 03 \$	FY 04 \$
GF - See Below	Teachers' Retirement Bd.	-	Significant	Significant

Note: GF=General Fund

Municipal Impact: Potential Savings

Explanation

State Impact

Sections 6 - 8 of the bill have significant fiscal impact and are described below:

Section 6 reduces the number of years of service for a normal retirement from 35 to 32 years in FY 2008-09. This results in benefit increases to those members who under the bill will be able to retiree with an unreduced benefit before 35 years of service. The associated benefit enhancements result in an increase to the unfunded liability of the Teachers' Retirement System (TRS) and increase the state's annual contribution to the TRS. The following cost information was provided by the system's actuary :

In FY 2002-03, the increase to the unfunded liability due to this provision is estimated at \$89.6 million and the increase in the state contribution is \$10.1 million (.35% of projected member payroll) . By the time the 32 years is in effect in FY 2008-09, the unfunded liability will have increased to \$ 103.9 million and the increase in the state's contribution will be \$13.6 million (.35% of projected member payroll).

To the extent that lowering the years of service increases the number of

retirees, there would also be increased costs to the state funded retired teachers' health insurance accounts and the TRB Health Insurance Fund. Based upon the current subsidy, an additional 1,000 retirees would increase the total annual cost by \$1.3 million.

Section 7 makes membership in TRS a contractual obligation, effective FY 04, which is anticipated to prevent future under funding of TRS. This would eliminate the associated increases the unfunded liability of the system which result in increased state contributions.

Section 8 establishes a cost of living adjustment (cola) to the municipal health insurance subsidy received by TRS members enrolled in their local school district's health plan. The current subsidy is fixed at \$110 per individual per month. Under the bill, the cola is based upon the consumer price index for urban wage earners and clerical workers (CPI-W), for medical care which was 4.1% in February, 2002. The cola, which is effective January 1, 2004, results in a ½ year impact in FY 2003-04 of \$426,000 (\$106,500 GF (25%) , \$319,500 Health Insurance Fund(75%)). The full year cumulative cola cost in FY 05 is estimated to be \$1.8 million (\$450,000 GF, and \$1.4 million Health Insurance Fund). The Health Insurance Fund is projected to be in a deficit position by FY 05 based upon projections of benefits that did not include a cola.

No funding was provided in sHB5019, the Appropriations Act as favorable reported by the Appropriations Committee, for the benefit enhancements provided in sections 6 and 8.

While sections 1-5 do not have any fiscal impact their effect is described below:

Section 1 allows for the purchase of additional credited service in the Teachers' Retirement System (TRS) to the time of retirement. Since the bill specifies that members must pay the Teachers' Retirement Board (TRB) an amount determined on the basis of actuarial factors adopted by the TRB which reflect the present value of ½ the full actuarial cost of the benefit increase there is no fiscal impact associated with this change in the timing of the payment.

This change in timing of the purchases will have a significant, positive administrative impact on the Teachers' Retirement Board as an agency. Since 85% of teachers retire on July 1st, this small agency must process a very large volume of service purchases by mid-August.

Sections 2 and 3 rename the excess earning account the cost of living adjustment reserve account. This change was requested by the TRB to more accurately reflect the use of the account and has no fiscal impact.

Section 4 codifies the TRB rules regarding payments for early retirement incentive plans by boards of education.

Section 5 allows an elected teachers' representative in a state-wide, national or international bargaining organization to receive credit for such service. There is no fiscal impact associated with this provision because the full actuarial cost incurred by the state must be paid to the TRB.

Municipal Impact

To the extent that lowering the years of service for a normal retirement increases the number of retirees, municipalities will experience additional savings that cannot be determined at this time. Since municipalities bear none of the costs associated with TRS, they experience all of the savings associated with the salary differential (approx. \$32,000) between a retiring teacher and a beginning teacher.

OFA Bill Analysis

sHB 5769

AN ACT CONCERNING THE PURCHASE OF ADDITIONAL CREDITED SERVICE IN THE TEACHERS' RETIREMENT SYSTEM, THE EXCESS EARNINGS ACCOUNT, THE EARLY RETIREMENT INCENTIVE PROGRAM, CREDIT FOR SERVICE WITH CERTAIN BARGAINING ORGANIZATIONS, REDUCTIONS IN THE NUMBER OF YEARS OF CREDITED SERVICE NEEDED FOR A NORMAL RETIREMENT BENEFIT, THE CONTRACTUAL NATURE OF MEMBERSHIP IN THE SYSTEM, AND THE PAYMENT OF HEALTH INSURANCE SUBSIDIES TO LOCAL SCHOOL DISTRICTS.

SUMMARY:

This bill:

1. allows for the purchase of additional credited service in the Teachers' Retirement System (TRS) prior to the time of retirement;
2. re-names the excess earning account the cost of living adjustment reserve account;
3. establishes payment dates and interest charges for additional credited service purchased on behalf of a member by a board of education under an early retirement incentive program;
4. allows an elected teachers' representative in a state-wide, national or international bargaining organization to receive credit for such service if the full actuarial cost incurred by the state is paid to the Teachers' Retirement Board (TRB);
5. reduces the years of service for a normal retirement to 34 years in FY 2002-05, to 33 years in FY 2006-07 and to 32 years in FY 2008-09;
6. makes the rights of the members of the TRS contractual in nature; and
7. establishes a cost of living adjustment (COLA) to the municipal health insurance subsidy paid to retirees and their spouses under the TRS.

TEACHERS RETIREMENT SYSTEM
Additional Credited Service

The TRS allows for the purchase of 14 types of additional credited service delineated in CGS 10-183e. The bill allows members to make the purchase of service prior to retirement. Members must pay the TRB an amount determined on the basis of actuarial factors adopted by the TRB which reflect the present value of 1/2 of the full actuarial cost of the benefit increase that will be gained by the purchase. Under current law additional credited service must be purchased at the time of retirement.

Normal Retirement

The bill lowers the years of service required for a normal retirement benefit in a phase-down from the current 35 years to 32 years in FY 2008-09. Under current law, normal retirement benefits are received with 35 years of service regardless of age or with 20 years of service at age 60. The normal retirement benefit formula is:

$$2\% \times \text{Years of Service} \times \text{Final Average Salary}.$$

Municipal Health Insurance Subsidy

The bill establishes a cost of living adjustment (COLA) on the monthly health insurance subsidy retirees and their spouses receive under the TRS. Under current law, retirees who have health insurance coverage through their last employing board of education receive a flat \$110 per month/per person subsidy to offset the cost of this coverage. The subsidy is funded from two sources: 1) 25% is from the state appropriation to the municipal health insurance account under the TRB and 2) 75% is from the Health Insurance Fund which is funded by 1% contributions of active teachers.

EFFECTIVE DATE: July 1, 2002; except Section 7 which is July 1, 2003

COMMITTEE ACTION

Appropriations Committee

Joint Favorable Substitute

Yea 32 Nay 17

