House of Representatives

General Assembly

File No. 221

February Session, 2012

Substitute House Bill No. 5400

House of Representatives, April 2, 2012

The Committee on Labor and Public Employees reported through REP. ZALASKI of the 81st Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING THE MUNICIPAL EMPLOYEE RETIREMENT SYSTEM CONTRIBUTION RATE.

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

Section 1. Section 7-440 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2012*):

(a) Each member shall contribute to the fund:

(1) (A) Prior to January 1, 2013, five per cent, (B) on and after January 1, 2013, six per cent, and (C) on and after January 1, 2015, seven and three-quarters per cent of his or her pay as to that portion of pay with respect to which contributions are not to be deducted under section 7-453; and

(2) (A) Prior to January 1, 2013, two and one-quarter per cent, (B) on and after January 1, 2013, three and one-quarter per cent, (C) on and after January 1, 2014, four and one-quarter per cent, and (D) on and after January 1, 2015, five per cent as to that portion of pay with

respect to which contributions are to be so deducted, to be deducted from such pay by the municipality and forwarded not less frequently than once a month to the Retirement Commission to be credited to the fund.

(3) In the case of **[**members**]** a member serving with the armed forces of the United States in time of war, hostilities or national emergency or any acts incident thereto, as provided in section 7-434, the municipality shall forward to the Retirement Commission the contribution required for such member under subdivisions (1) and (2) of this subsection to be credited to the fund **[**a like contribution**]** on behalf of such member based upon his or her pay at the time of entering such service.

(b) (1) Any member leaving the employment of the municipality before becoming eligible for retirement may withdraw on request to the Retirement Commission the total of all contributions made by him or her, including contributions made to another system and transferred to the Municipal Employees' Retirement Fund under the provisions of section 7-442b, less any retroactive contributions payable by such member under section 7-453 to the Old Age and Survivors Insurance System which have been paid from the fund under the provisions of section 7-451, provided, if no request is made within **[**ten**]** five years, such contributions shall revert to the fund. The withdrawal of contributions shall include interest credited from July 1, 1983, or the first of the fiscal year following the date of actual contribution, whichever is later, to the first of the fiscal year coincident with or preceding the date the employee leaves municipal service. Such interest shall be credited at the rate of five per cent per year. In addition, for the partial year during which the employee leaves municipal service or withdraws his or her contributions, whichever is later, interest shall be credited at the rate of five-twelfths of one per cent multiplied by the full number of months completed during that year, such interest rate to be applied to the value of contributions including any prior interest credits as of the first day of that year.

(2) Any employee who withdraws his or her contributions from the fund and is subsequently reinstated shall not receive credit for service for such prior employment in the computation of his eventual retirement allowance unless the withdrawn contributions plus interest, if any, have been repaid with additional interest at a rate to be determined by the commission.

(3) Any municipality which has made contributions on behalf of any member serving in the armed forces who is not reemployed by the municipality within six months following the termination of such service, unless this period is further extended by reason of disability incurred in such service, shall be entitled to receive from the fund on application to the Retirement Commission the amount of [such] his or her contributions. Any municipality which has made contributions in accordance with subsection (b) of section 7-436b on behalf of any member who leaves the employment of the municipality and withdraws from the municipal employees' retirement system before becoming eligible for retirement shall be entitled to receive from the fund on application to the Retirement Commission the amount of such contributions.

(4) In case of the death of a member before retirement, who has not elected a retirement income option in accordance with the provisions of this part or who has made such election but has not completed the age and service requirements that would permit him or her to retire on his or her own application, or after retirement without having made such election, or in case of the death of the survivor of a member who has made such election and his or her spouse after a retirement allowance has become payable, his or her contributions to the fund plus such five per cent interest, if any, less any retirement allowance paid to him or her or his or her spouse, and less any retroactive contributions paid by such member to the Old Age and Survivors Insurance System which have been paid from the fund under the provisions of section 7-451, shall be paid from the fund on the order of the Retirement Commission to the beneficiary or beneficiaries, if any, named by such member. If no named beneficiaries survive the

member, or the survivor of the member and his or her spouse, payment shall be made to the executors or administrators of such member or his or her spouse, as the case may be, except that, if the amount is less than five hundred dollars, the refund may be made, at the option of the Retirement Commission, in accordance with the terms of section 45a-273.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*October 1, 2012*	7-440

LAB *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact: None

Municipal Impact:

Municipalities	Effect	FY 13 $	FY 14 $
Municipalities participating in the Connecticut Municipal Employee Retirement System (CMERS)	Savings	$2.1 million	$5.3 million

Explanation

The bill results in savings to municipalities participating in the Connecticut Municipal Employee Retirement System (CMERS), as it increases the employee share of the pension contribution. Total savings in CMERS employer contributions are estimated to be $2.1 million in FY 13 and $5.3 million in FY 14.[1]

The bill increases the required contribution for participants covered by Social Security from 2.25% to 3.25% on January 1, 2013, to 4.25% on January 1, 2014, and to 5.00% on January 1, 2015. For participants who are not covered by Social Security, the bill increases the required contribution from 5% to 6% on January 1, 2013, and to 7.75% on January 1, 2015. The bill also reduces the amount of time (from 10 years to 5 years) in which an employee can withdraw his or her contributions, plus 5% annual interest, if leaving the system before retiring. The fund would experience an additional savings to the extent that any former municipal employee's contributions revert to the system.

Background

[1] Based on payroll data provided in the last full CMERS actuarial valuation as of July 1, 2008. Assumes total contribution rate remains constant.

The CMERS contribution rate for participating municipal employers has steadily increased over the past decade. These increases are due in part to benefit enhancements as well as actuarial experience.[2] The employee contribution rate has remained unchanged since CMERS was established in 1947.

For employees covered by social security, the employer share for regular employees increased from 37% in FY 02 to 70% in FY 12 and for hazardous duty employees increased from 35% in FY 02 to 75% in FY 12. For employees not covered by social security,[3] the employer share for regular employees increased from 55% to 84% for regular employees and from 63% to 88% for hazardous duty employees during the same time period.

Increasing CMERS contribution rates have taken larger shares of town budgets. For example, between FY 04 and FY 12, the Town of Redding's contribution to CMERS went from 1.75% ($159,000) to 4% ($526,000) of the town's operating budget. Between FY 03 and FY 12, the Town of Weston's CMERS contributions increased from 2.44% ($228,400) to 6.98% ($782,000) of the town's operating budget.

Based on the October 2011 "roll forward" update[4] to the CMERS actuarial valuation, the system had a funded ratio of 88.32%.

The Out Years

Total savings are estimated to be $8.9 million CMERS employer

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[2] PA 01-80 changed the benefit allowance for members covered by social security and reduced the pension vestment period from ten years to five years.

[3] About one-fourth of public employees do not pay Social Security taxes on the earnings from their government jobs. Historically, Social Security did not require coverage of government employment because some government employers had their own retirement systems. In addition, there was concern over the question of the federal government's right to impose a tax on state governments. Nevertheless, these workers may still be eligible for Social Security benefits through their spouses' or their own earnings from other covered employment.

For non-covered CMERS employees, a portion of their pensions constitutes replacement for Social Security. Therefore, in theory, the retirement benefits payable under these governmental plans could be described as being made up of two parts; (1) actual pension, and (2) "hypothetical" social security.

[4] In lieu of a full valuation (the next to be completed as of July 1, 2012), this update rolled forward the system's liabilities, membership data, provisions, actuarial assumptions and methods from the previous year, and using updated asset information, determined the funding requirement and the funded status of the system.

contributions in FY 15. The annualized ongoing fiscal impact would continue into the future subject to actuarial experience.

Sources: CMERS website and actuarial valuations

OLR Bill Analysis
sHB 5400

AN ACT CONCERNING THE MUNICIPAL EMPLOYEE RETIREMENT SYSTEM CONTRIBUTION RATE.

SUMMARY:

This bill increases the contribution rate for employees who belong to the Connecticut Municipal Employee Retirement System (CMERS) and reduces the amount of time in which they can withdraw their contributions if they leave the system before retiring.

Under current law, CMERS participants contribute 2.25% of their pay if they will receive Social Security retirement benefits and 5% if they will not. The bill increases the required contribution for participants covered by Social Security to 3.25% on January 1, 2013, 4.25% on January 1, 2014, and 5.00% on January 1, 2015. For participants who are not covered by Social Security, the bill increases the required contribution to 6% on January 1, 2013, and to 7.75% on January 1, 2015.

When a CMERS participant leaves municipal employment prior to becoming eligible to retire, current law gives the participant up to 10 years to withdraw his or her contributions, plus 5% annual interest. After 10 years, the funds revert to the system. Under the bill, the participant has five years to withdraw his or her contributions and interest before they revert to the system. The bill does not specify how this change will affect a former participant's funds that have been left in the system for more than five years but less than 10 years at the time the bill becomes effective.

CMERS, administered by the state retirement commission, is a statewide pension system for municipal employees that municipalities can opt into by agreeing to meet specified financial requirements.

EFFECTIVE DATE: October 1, 2012

COMMITTEE ACTION

Labor and Public Employees Committee

Joint Favorable Substitute
Yea 8 Nay 1 (03/20/2012)