



House of Representatives

General Assembly

File No. 202

January Session, 2013

Substitute House Bill No. 5533

House of Representatives, March 27, 2013

The Committee on Labor and Public Employees reported through REP. TERCYAK of the 26th 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:

1 Section 1. Section 7-440 of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective October 1, 2013*):

3 (a) Each member shall contribute to the fund:

4 (1) (A) Prior to January 1, 2014, five per cent, (B) on and after
5 January 1, 2014, six per cent, and (C) on and after January 1, 2016,
6 seven and three-quarters per cent of his or her pay as to that portion of
7 pay with respect to which contributions are not to be deducted under
8 section 7-453; and

9 (2) (A) Prior to January 1, 2014, two and one-quarter per cent, (B) on
10 and after January 1, 2014, three and one-quarter per cent, (C) on and
11 after January 1, 2015, four and one-quarter per cent, and (D) on and
12 after January 1, 2016, five per cent as to that portion of pay with

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

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

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

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

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

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

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

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>October 1, 2013</i>	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 14 \$	FY 15 \$
Municipalities participating in the Connecticut Municipal Employee Retirement System (CMERS)	Savings	\$2.3 million	\$5.9 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 \$2.3 million in FY 14 and \$5.9 million in FY 15.¹

The bill increases the required contribution for participants covered by Social Security from 2.25% to 3.25% on January 1, 2014, to 4.25% on January 1, 2015, and to 5.00% on January 1, 2016. For participants who are not covered by Social Security, the bill increases the required contribution from 5.00% to 6.00% on January 1, 2014, and to 7.75% on January 1, 2016. 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 5.00% 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.

¹ Based on payroll data provided in the July 1, 2012 CMERS actuarial valuation. Assumes total contribution rate and benefit structure remain constant.

There are currently 191 participating employers in CMERS. The retirement system currently has 8,711 active members (5,041 with social security and 3,670 without social security).

Background

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 of 2.25% for employees with social security and 5.00% for employees without social security; has remained unchanged since CMERS was established in 1947.

For employees covered by social security, the employer contribution for regular employees increased from 3.75% in FY 00 to 11.79% in FY 13 and for hazardous duty employees increased from 7.50% in FY 00 to 16.65% in FY 13. For employees not covered by social security,³ the employer contribution for regular employees increased from 4.50% to 13.00% for regular employees and from 5.75% to 16.01% for hazardous duty employees during the same time period. The employer-employee contribution ratio is currently 84% employer/16% employee for regular employees and 88% employer/12% employee for hazardous duty employees.

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.

Based on the July 1, 2012 CMERS actuarial valuation, the system had a funded ratio of 85.03%.

The Out Years

Total savings are estimated to be \$9.8 million in FY 16 and \$12.6 million in FY 17. The annualized ongoing fiscal impact would continue into the future subject to future valuations and analysis of the plan's experience including but not limited to payroll growth, benefits, and investment returns.

Sources: CMERS Website and Actuarial Valuations

OLR Bill Analysis**sHB 5533****AN ACT CONCERNING THE MUNICIPAL EMPLOYEE RETIREMENT SYSTEM CONTRIBUTION RATE.****SUMMARY:**

Starting January 1, 2014, this bill increases the contribution rate for employees who belong to the state's Municipal Employee Retirement System (MERS) and reduces the amount of time in which they can withdraw their contributions if they leave the system before retiring. MERS is a statewide pension system for municipal employees that municipalities can opt into by agreeing to meet specified financial requirements. It is administered by the state retirement commission.

CONTRIBUTION INCREASES

Under current law, MERS participants must contribute 5% of the portion of their pay that is not subject to Social Security tax and 2.25% of the portion of their pay that is subject to the tax. Table 1 shows how the bill increases these contributions over the next three years.

Table 1. MERS Contribution Increases Under the Bill

	Portion of pay subject to Social Security tax	Portion of pay not subject to Social Security tax
Contributions under current law	2.25%	5%
Contributions starting 1/1/2014 under the bill	3.25%	6%
Contributions starting 1/1/2015 under the bill	4.25%	6%
Contributions starting 1/1/2016 under the bill	5%	7.75%

How these changes will affect MERS participant's will depend on the participant's salary and whether he or she is covered by Social Security. For participants who are not covered by Social Security, and

whose pay is thus not subject to Social Security taxes, the bill gradually increases contributions from their current 5% of pay to 7.75% in 2016.

Under the bill, participants who are covered by Social Security but make less than Social Security's taxable income limit (currently \$113,700) will have their contributions gradually increase from 2.25% to 5% in 2016 because all of their pay is subject to Social Security tax. Participants with incomes over this limit pay two contribution rates, one for the portion of their salary subject to Social Security tax, which the bill increases from 2.25% to 5%, and a second for the portion of their salary above the limit (thus not subject to Social Security tax), which the bill increases from 5% to 7.75%.

WITHDRAWAL PERIOD

When a MERS participant leaves municipal employment before 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, when the bill becomes effective. It is unclear if such a participant would have a property right to the funds otherwise reverting to the system.

EFFECTIVE DATE: October 1, 2013

COMMITTEE ACTION

Labor and Public Employees Committee

Joint Favorable Substitute

Yea 9 Nay 2 (03/14/2013)