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*Written
only*

February 25, 2013

To: Labor and Public Employees Committee of Connecticut State Legislature

Subj: HB 5533 – An Act Concerning Municipal Employee Retirement System
Contribution Rate

Thank you for the opportunity to place this testimony in the public record for consideration in favor of HB5533, An Act Concerning Municipal Employee Retirement System Contribution Rate even though I am not able to make the public hearing on this proposed Act on Tuesday February 26, 2013. I have been asked by the Chairman of the Waterford Board of Finance to make this testimony.

As part of my testimony I have included a copy of a letter that the Chairman of the Waterford Board of Finance has sent to our local legislators and to key members of the Legislature and the Executive Branch of State government regarding the Municipal Employee Retirement System (MERS) and the contribution of both the employer (Municipality) and the employee to the system.

The key changes the Waterford Board of Finance desires to see to the MERS are:

- 1) An increase to the employee percentage from the existing 2.25% of salary to a percentage equal to the employer's share. This increase could be phased in over a short period of time.
- 2) Remove overtime from the calculation of "pay for retirement purposes"
- 3) Change legislation so that municipal representation is required on the State Retirement Board.

From 1998 until 2006, although higher than the legislated employee contribution, the employer contribution was a reasonable 3% to 6% for general employees and 4% to 8% for Police and Fire employees. Since 2009 there has been a steady increase in the employer contribution so that in 2014 the employer contribution is 11.98% for general employees and 16.96% for police and fire employees. In actual dollars this has meant that the Pension contributions for Waterford have increased from \$1,753,214 in FY2009 to \$3,121,121 in FY2014 (about \$275,000 per year). The State Retirement Board generally states the reason for the large increase is the poor performance of the investment portfolio.

These annual increases have become too much for the Waterford taxpayer to afford without some contribution from the employee. The Town is investigating what steps are necessary to withdraw from MERS if this situation continues without any relief.

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In conclusion, I urge the committee and, ultimately, the General Assembly and the Governor, to approve HB5533 or SB00731 from the 2013 session or HB5400 from the 2012 session. A bill that gradually increases the employee contribution will be a significant step in improving the MERS. Adding the other two recommended changes to this bill would be even better.

Thank you for your attention to this testimony.

Sincerely,

John W. "Bill" Sheehan
Member, Waterford Board of Finance

Attachment:

Letter from Chairman, Waterford Board of Finance dtd December 12, 2012

FIFTEEN ROPE FERRY ROAD



WATERFORD, CT 06385-2886

December 12, 2012

The Honorable Elizabeth B. Ritter
Legislative Office Building
Room 3004
Hartford, CT 06106-1591

Dear Representative Ritter:

Over the past several years, the Town of Waterford has experienced a tremendous budgetary increase in the cost of providing retirement benefits as a member of the Municipal Employees Retirement System. The Waterford Board of Finance has been forced to grapple with funding these increases annually, sometimes at the expense of its service level.

Over the years, several issues were raised by the Board, not the least of which was the reason for the increase or the lack thereof, the timeliness of the notification of the annual increase (although this has subsequently been resolved), and that State appointed administrators are making recommendations to the legislative body to increase benefits, reduce vestment periods, and provide for buy-in of time not directly related to the Town's employment of the individual. All these actions are taken without municipal representation on the Board that's making these recommendations.

As history, in September of 2001, Connecticut municipalities were notified, after the fact, of the enactment by the legislature of Public Act No. 01-80 that basically changed the benefit allowance for MERS members covered by social security; and effective October 1, 2001, reduced the pension vestment period from ten years to five. There was a good deal of concern at that time of the financial impact this would have on the member municipalities. When the Clerk/Treasurer of the Waterford Retirement Commission called to address that Commission's concerns, she was assured that the fund had a healthy balance and could absorb the actuarially defined costs associated with these enhanced benefit level changes. And essentially in its first year of implementation, there was none.

Subsequently however, the following traces back Waterford's impacts since that time:

<u>FISCAL YEAR</u>	<u>SERVICE RATE POLICE & FIRE</u>	<u>SERVICE RATE GENERAL EMPLOYEES</u>	<u>EMPLOYEE RATE</u>
2004	04.25%	03.75%	02.25%
2005	05.25%	04.75%	02.25%
2006	07.75%	06.25%	02.25%
2007	08.00%	06.75%	02.25%
2008	08.00%	07.00%	02.25%
2009	08.25%	07.00%	02.25%
2010	09.75%	07.50%	02.25%
2011	13.75%	09.50%	02.25%
2012	16.37%	11.56%	02.25%
2013	16.65%	11.79%	02.25%

December 12, 2012

Page 2.

The resultant increases from FY04 to the present reflect a 291.8% increase in employer contribution for Police and Fire Personnel and a 214.4% increase for General Employees. In addition to that the administrative fee for both active employees and retirees has increased from \$90 per individual to \$115 per individual per year. Surprisingly, the benefited parties, the employees' share has not increased since the MERS was formed. This unusual burden on the tax payers to fund this benefit on top of paying 6.2% of salary to FICA and another 1.45% of salary for Medicare has strained municipal budgets.

Lastly, the Waterford Board of Finance would like to express its displeasure over the fact that the entities most deeply affected by the recommendations to the legislature involving benefit enhancements or even review and comment on the actuarial assumptions being used to fund the MERS plan, have no representation at the State level. Our Board feels strongly that municipal fringe benefits should align to those in the private sector, especially since municipal employees' wages are now equal to or better than those in the private sector.

We feel the burden of fully-funding MERS is not the sole responsibility of the taxpayer. We would urge a change in the legislation to allow for increasing the employee share to a level commensurate to the benefit derived. Additionally, we are of the opinion that overtime should not be included as "pay" when determining Final Average Pay.

In summary, the Waterford Board of Finance would like you to advocate on its behalf for the following;

- 1) Initiate legislation to increase the employee percentage from the existing 2.25% of salary to a percentage equal to that of the employer's share. Perhaps this could be phased in over a short period of time.
- 2) Remove overtime from the calculation of "pay for retirement purposes"
- 3) Advocate for municipal representation on the State Retirement Board

As Chairman of the Waterford Board of Finance, I am soliciting your support in promoting the three requests mentioned above. We feel strongly that municipal representation on the State Retirement Commission will lend an informative perspective to the decision-makers---the State Legislature.

Your consideration of this request will be greatly appreciated.

Respectfully,


Ronald R. Fedor, Chairman
Waterford Board of Finance *Ras*

Enclosure

RRF:rab

Cc: Daniel M. Steward, First Selectman
Kevin Brunelle, Chairman, Retirement Commission
Thomas J. Dembek, Moderator, Representative Town Meeting
Richard F. Mucke, Majority Party Leader, RTM
Andrea F. Kanfer, Minority Party Leader, RTM