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)