

**TESTIMONY OF THE TOWN OF HAMDEN TO RAISED BILL NO. 6931: "AN ACT CONCERNING NEW MUNICIPAL EMPLOYEES AND THE MUNICIPAL EMPLOYEES RETIREMENT SYSTEM"**

Members of the Labor and Public Employees Committee, my name is Scott Jackson and I am the Mayor for the Town of Hamden.

We agree with the intent of Raised Bill No. 6931: "to lessen financial burdens on municipalities by providing defined benefit contribution plans for new-hire employees."

Pension costs are one of the most significant economic issues facing the Town of Hamden. Employees hired pre-2007 (Police and Fire employees) and pre-2009 (Civilian employees) are enrolled in the Town's Defined Benefit Retirement Plan. The Retirement Plan is among the worst-funded plans in the country. Based on the July 1, 2014 Valuation, the Plan is 10.33% funded, with approximately \$46.8 million in assets and an unfunded liability over \$405 million dollars. To improve the funded status of the Retirement Plan, the Town recently issued \$125 million in pension obligation bonds. The Town has also committed to ramping up its contributions to the Plan significantly over the next 5 years. Employee contributions and pension plan design will be addressed in upcoming collective bargaining negotiations in 2015 and 2017.

Police and Fire employees hired since 2007 and Civilian employees hired since 2009 have been automatically enrolled in the Connecticut Municipal Employees Retirement System (CMERS). While CMERS presents an improved financial option to the above Retirement Plan, the Town is concerned about long-term costs associated with continued participation in CMERS. Hamden's annual contributions to CMERS are expected to increase from \$1 million in 2015 to nearly \$20 million by 2040. We believe the more fiscally prudent approach would be to enroll new employees in a Town-provided, and funded, defined contribution plan. This "pay as you go" approach would allow the Town to eventually obtain full control over its pension obligations.

However, the State Retirement Commission has informed municipalities that they cannot opt out of CMERS for new-hire employees. Therefore, we ask the Committee to consider legislation allowing municipalities to opt out of CMERS for new-hire employees if certain conditions are met: namely, the municipality requires a defined contribution plan for new employees.

Instead of enrolling new employees into CMERS, Hamden and other municipalities would automatically enroll new hires into a defined contribution plan. For represented employees, the terms of the defined contribution plan would be negotiated between the municipality and the applicable bargaining unit representative. If no agreement was reached through collective bargaining, new employees would go into CMERS. Non-represented employees would be enrolled in the defined contribution plan.

This approach benefits municipalities and the labor organizations representing municipal employees. The cost of the defined contribution plan would be less than the cost of placing new employees in CMERS and provide the parties with more flexibility at the bargaining table. In exchange for a defined contribution plan, which would allow a municipality to control and accurately project its long-term pension costs, a union could potentially gain wage, insurance or other economic benefits for the bargaining unit as a whole. This approach also benefits the State of Connecticut, as ultimately CMERS would be responsible for making pension payments to a smaller number of municipal employees.

We have already agreed to this concept with six bargaining units represented by the American Federation of State, County and Municipal Employees (AFSCME) and the United Public Service Employees Union (UPSEU). During collective bargaining negotiations in 2013, the Town, ASFCME and UPSEU reached six new labor agreements that include the below provision:

Subject to CMERS and/or legislative approval, employees hired on or after July 1, 2017 shall not be eligible to participate in the Hamden Employees Retirement Plan or in the Connecticut Municipal Employees Retirement System. In lieu of participation in these retirement plans, employees shall participate in the Town's 457(b) Deferred Compensation Plan, with the Town making annual contributions equal to 6% of the participant's base wages. New employees shall enroll within the first thirty (30) days of their employment. The participant must contribute a minimum of 5% of his/her base salary to the plan, but can also voluntarily contribute up to the maximum limits permitted by the Internal Revenue Service Code governing this plan. Current participants of the Hamden Employees Retirement Plan or the Connecticut Municipal Employees Retirement Plan will be allowed to participate in the Deferred Compensation Plan, but the Town will not make any contributions on their behalf.

As you can see, Hamden and its unions agreed to a defined contribution plan subject to CMERS and/or legislative approval.

We ask that the Committee support the intent of Raised Bill No. 6931 and allow CMERS-participating municipalities to offer defined contribution retirement plans to new employees.