



# Senate

General Assembly

**File No. 724**

January Session, 2019

Substitute Senate Bill No. 882

*Senate, April 17, 2019*

The Committee on Planning and Development reported through SEN. CASSANO, S. of the 4th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

***AN ACT CONCERNING MUNICIPAL ARBITRATION AND THE MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM.***

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

1 Section 1. Subsections (a) and (b) of section 7-473c of the general  
2 statutes are repealed and the following is substituted in lieu thereof  
3 (*Effective July 1, 2019*):

4 (a) (1) The Labor Commissioner shall appoint a Neutral Arbitrator  
5 Selection Committee consisting of ten members, five of whom shall  
6 represent the interests of employees and employee organizations and  
7 five of whom shall represent the interests of municipal employers,  
8 provided one of the members representing the interests of municipal  
9 employers shall be a representative of the Connecticut Conference of  
10 Municipalities. The members of the selection committee shall serve for  
11 a term of four years. Arbitrators may be removed for good cause. [The]

12 (2) Before July 1, 2019, the selection committee shall appoint a panel

13 of neutral arbitrators consisting of not less than twenty impartial  
14 persons representing the interests of the public in general to serve as  
15 provided in this section. Each member of the panel shall be a resident  
16 of the state and shall be selected by a unanimous vote of the selection  
17 committee. The members of the panel shall serve for a term of two  
18 years, except that the term of any such member appointed before July  
19 1, 2019, shall terminate on said date.

20 (3) On and after July 1, 2019, the selection committee shall appoint a  
21 panel of neutral arbitrators consisting of not less than ten impartial  
22 persons representing the interests of the public in general to serve as  
23 provided in this section. Each member of the panel shall be a resident  
24 of the state and shall be selected by a unanimous vote of the selection  
25 committee. The members of the panel shall serve for a term of five  
26 years.

27 (b) (1) If neither the municipal employer nor the municipal  
28 employee organization has requested the arbitration services of the  
29 State Board of Mediation and Arbitration (A) within one hundred  
30 eighty days after the certification or recognition of a newly certified or  
31 recognized municipal employee organization required to commence  
32 negotiations pursuant to section 7-473a, or (B) within thirty days after  
33 the expiration of the current collective bargaining agreement, or within  
34 thirty days after the specified date for implementation of reopener  
35 provisions in an existing collective bargaining agreement, or within  
36 thirty days after the date the parties to an existing collective bargaining  
37 agreement commence negotiations to revise said agreement on any  
38 matter affecting wages, hours, and other conditions of employment,  
39 said board shall notify the municipal employer and municipal  
40 employee organization that one hundred eighty days have passed  
41 since the certification or recognition of the newly certified or  
42 recognized municipal employee organization, or that thirty days have  
43 passed since the specified date for implementation of reopener  
44 provisions in an existing agreement, or the date the parties  
45 commenced negotiations to revise an existing agreement on any matter  
46 affecting wages, hours and other conditions of employment or the

47 expiration of such collective bargaining agreement and that binding  
48 and final arbitration is now imposed on them, provided written  
49 notification of such imposition shall be sent by registered mail or  
50 certified mail, return receipt requested, to each party.

51 (2) Within ten days of receipt of the written notification required  
52 pursuant to subdivision (1) of this subsection, the chief executive  
53 officer of the municipal employer and the executive head of the  
54 municipal employee organization each shall select one member of the  
55 arbitration panel. Within five days of their appointment, the [two  
56 members of the arbitration panel] State Board of Mediation and  
57 Arbitration shall select a third member, who shall be an impartial  
58 representative of the interests of the public in general and who shall be  
59 selected at random from the panel of neutral arbitrators appointed  
60 pursuant to subsection (a) of this section. Such third member shall be  
61 the chairperson of the panel.

62 (3) In the event that the municipal employer or the municipal  
63 employee organization have not selected their respective members of  
64 the arbitration panel, [or the two members of the panel have not  
65 selected the third member,] the State Board of Mediation and  
66 Arbitration shall appoint such members as are needed to complete the  
67 panel, provided (A) the member or members so appointed are  
68 residents of this state, and (B) the selection of the third member of the  
69 panel by the State Board of Mediation and Arbitration shall be made at  
70 random from among the members of the panel of neutral arbitrators  
71 appointed pursuant to subsection (a) of this section.

72 Sec. 2. Section 7-440 of the general statutes is repealed and the  
73 following is substituted in lieu thereof (*Effective July 1, 2019*):

74 (a) Each member shall contribute to the fund five per cent of his pay  
75 as to that portion of pay with respect to which contributions are not to  
76 be deducted under section 7-453 and two and one-quarter per cent as  
77 to that portion of pay with respect to which contributions are to be so  
78 deducted, to be deducted from such pay by the municipality and  
79 forwarded not less frequently than once a month to the Retirement

80 Commission to be credited to the fund.

81 (b) For the fiscal year beginning July 1, 2019, each member shall  
82 contribute to the fund six per cent of such member's pay as to that  
83 portion of pay with respect to which contributions are not to be  
84 deducted under section 7-453 and three and one-quarter per cent as to  
85 that portion of pay with respect to which contributions are to be so  
86 deducted from such pay by the municipality and forwarded not less  
87 frequently than once a month to the Retirement Commission to be  
88 credited to the fund.

89 (c) For the fiscal year beginning July 1, 2020, each member shall  
90 contribute to the fund seven per cent of such member's pay as to that  
91 portion of pay with respect to which contributions are not to be  
92 deducted under section 7-453 and four and one-quarter per cent as to  
93 that portion of pay with respect to which contributions are to be so  
94 deducted, to be deducted from such pay by the municipality and  
95 forwarded not less frequently than once a month to the Retirement  
96 Commission to be credited to the fund.

97 (d) For the fiscal year beginning July 1, 2021, each member shall  
98 contribute to the fund eight per cent of such member's pay as to that  
99 portion of pay with respect to which contributions are not to be  
100 deducted under section 7-453 and five and one-quarter per cent as to  
101 that portion of pay with respect to which contributions are to be so  
102 deducted from such pay by the municipality and forwarded not less  
103 frequently than once a month to the Retirement Commission to be  
104 credited to the fund.

105 (e) In the case of members serving with the armed forces of the  
106 United States in time of war, hostilities or national emergency or any  
107 acts incident thereto, as provided in section 7-434, the municipality  
108 shall forward to the Retirement Commission to be credited to the fund  
109 a like contribution on behalf of such member based upon his pay at the  
110 time of entering such service. Any member leaving the employment of  
111 the municipality before becoming eligible for retirement may  
112 withdraw on request to the Retirement Commission the total of all

113 contributions made by him, including contributions made to another  
114 system and transferred to the Municipal Employees' Retirement Fund  
115 under the provisions of section 7-442b, less any retroactive  
116 contributions payable by such member under section 7-453 to the Old  
117 Age and Survivors Insurance System which have been paid from the  
118 fund under the provisions of section 7-451, provided, if no request is  
119 made within ten years, such contributions shall revert to the fund. The  
120 withdrawal of contributions shall include interest credited from July 1,  
121 1983, or the first of the fiscal year following the date of actual  
122 contribution, whichever is later, to the first of the fiscal year coincident  
123 with or preceding the date the employee leaves municipal service.  
124 Such interest shall be credited at the rate of five per cent per year. In  
125 addition, for the partial year during which the employee leaves  
126 municipal service or withdraws his contributions, whichever is later,  
127 interest shall be credited at the rate of five-twelfths of one per cent  
128 multiplied by the full number of months completed during that year,  
129 such interest rate to be applied to the value of contributions including  
130 any prior interest credits as of the first day of that year. Any employee  
131 who withdraws his contributions from the fund and is subsequently  
132 reinstated shall not receive credit for service for such prior  
133 employment in the computation of his eventual retirement allowance  
134 unless the withdrawn contributions plus interest, if any, have been  
135 repaid with additional interest at a rate to be determined by the  
136 commission. Any municipality which has made contributions on  
137 behalf of any member serving in the armed forces who is not  
138 reemployed by the municipality within six months following the  
139 termination of such service, unless this period is further extended by  
140 reason of disability incurred in such service, shall be entitled to receive  
141 from the fund on application to the Retirement Commission the  
142 amount of such contributions. Any municipality which has made  
143 contributions in accordance with subsection (b) of section 7-436b on  
144 behalf of any member who leaves the employment of the municipality  
145 and withdraws from the municipal employees' retirement system  
146 before becoming eligible for retirement shall be entitled to receive from  
147 the fund on application to the Retirement Commission the amount of

148 such contributions. In case of the death of a member before retirement,  
 149 who has not elected a retirement income option in accordance with the  
 150 provisions of this part or who has made such election but has not  
 151 completed the age and service requirements that would permit him to  
 152 retire on his own application, or after retirement without having made  
 153 such election, or in case of the death of the survivor of a member who  
 154 has made such election and his spouse after a retirement allowance has  
 155 become payable, his contributions to the fund plus such five per cent  
 156 interest, if any, less any retirement allowance paid to him or his  
 157 spouse, and less any retroactive contributions paid by such member to  
 158 the Old Age and Survivors Insurance System which have been paid  
 159 from the fund under the provisions of section 7-451, shall be paid from  
 160 the fund on the order of the Retirement Commission to the beneficiary  
 161 or beneficiaries, if any, named by such member. If no named  
 162 beneficiaries survive the member, or the survivor of the member and  
 163 his spouse, payment shall be made to the executors or administrators  
 164 of such member or his spouse, as the case may be, except that, if the  
 165 amount is less than five hundred dollars, the refund may be made, at  
 166 the option of the Retirement Commission, in accordance with the  
 167 terms of section 45a-273.

168       Sec. 3. (*Effective July 1, 2019*) Not later than December 1, 2019, the  
 169 Connecticut Advisory Commission on Intergovernmental Relations  
 170 established pursuant to section 2-79a of the general statutes, in  
 171 consultation with the Connecticut State Employees Retirement  
 172 Commission established pursuant to section 5-155a of the general  
 173 statutes, shall submit a report to the Secretary of the Office of Policy  
 174 and Management. Such report shall contain recommendations  
 175 concerning the addition of a new municipal employees' retirement  
 176 system membership tier modeled after the state employees retirement  
 177 system.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2019</i>	7-473c(a) and (b)

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Sec. 2	<i>July 1, 2019</i>	7-440
Sec. 3	<i>July 1, 2019</i>	New section

**PD**      *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 20 \$	FY 21 \$
Municipalities Participating in the Connecticut Municipal Employees' Retirement System (CMERS)	Savings	See Below	Approximately \$14.1 million

**Explanation**

**Section 1** of the bill does not result in a fiscal impact to the Labor Department as it is administrative in nature.

**Section 2** of the bill results in savings to municipalities participating in the Connecticut Municipal Employee Retirement System (CMERS) by increasing the employee share of the pension contribution by 3% over three years (1% per year starting in FY 20) after which contributions revert to current law. Total savings in CMERS employer contributions are estimated to be \$6.8 million in FY 20; \$14.2 million in FY 21; and \$21.9 million in FY 22 when fully phased in compared to current law.<sup>1</sup> The employer contribution rates for FY 20 were established in June 30, 2018 valuation, therefore savings will not be realized by municipalities until FY 21 unless a revised June 30, 2018 valuation is issued. The savings for FY 21 will be reflected in the employer contribution rate reported for FY 21 in the June 30, 2019

<sup>1</sup> Based the most recent available CMERS actuarial valuation as of July 30, 2018. Assumes total contribution rate and benefit structure remain constant.



valuation. The savings in FY 22 will be reflected in the employer contribution rate reported for FY 22 in the June 30, 2020 valuation.

The retirement system currently has 10,096 active members (5,874 with social security and 4,222 without social security).

**Section 3** is not anticipated to result in a fiscal impact to the state or municipalities as the Connecticut State Employees' Retirement System has the expertise to make the recommendations specified in the bill.

***The Out Years***

The annualized ongoing fiscal impact reflected in section 2 ends in FY 22, when employee contribution rates revert back to current law. The future impact will be reflected in increased employer contribution rates presented in future CMERS actuarial valuations.

**OLR Bill Analysis****sSB 882*****AN ACT CONCERNING MUNICIPAL ARBITRATION AND THE MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM.*****SUMMARY**

Starting July 1, 2019, this bill increases the required employee contribution rate for participants in the Municipal Employee Retirement System (MERS) by 1% a year for three fiscal years for a total increase of 3%. After FY 22, which is the third year of the increase, the contribution rates revert to the rates under current law. (MERS is a statewide pension system administered by the State Retirement Commission that municipalities can opt into by agreeing to meet certain financial requirements.)

The bill also requires the State Board of Mediation and Arbitration (SBMA) to randomly select the third arbitrator, who must be impartial, to complete the three-person arbitration panel for municipal employee contract arbitration. Under current law, the first two arbitrators, one chosen by the municipal employer and the other by the employee union, must agree on and choose the third arbitrator, who also serves as panel chairperson.

Finally, the bill requires the Advisory Commission on Intergovernmental Relations (ACIR) to report recommendations on adding a new tier to MERS that is modeled after the multi-tiered State Employees Retirement System to the Office of Policy and Management (OPM) secretary by December 1, 2019. ACIR must submit the report in consultation with the State Employees Retirement Commission.

EFFECTIVE DATE: July 1, 2019

**RETIREMENT CONTRIBUTION INCREASES**

The bill increases the MERS employee contributions over three fiscal years, as shown in Table 1.

**Table1: MERS-Required Contribution Increases under the Bill**

	Current law	7/1/19 - 6/30/20	7/1/20 - 6/30/21	7/1/21- 6/30/22
Portion of Pay Subject to Social Security Tax	2.25%	3.25%	4.25%	5.25%
Portion of Pay Not Subject to Social Security Tax	5%	6%	7%	8%

As under current law, the bill requires the contributions to be deducted by the municipality and forwarded to the retirement commission at least once a month to be credited to the municipal retirement fund.

After FY 22, which is the third year of the increase, the contribution rates revert to the rates under current law.

### ***Effects on Participants***

These changes' effect on a MERS participant depends on the participant's salary and whether he or she pays Social Security taxes (see BACKGROUND).

For participants 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 8% in FY 22. For participants covered by Social Security but making less than Social Security's taxable income limit (currently \$132,900), contributions gradually increase from 2.25% to 5.25% in FY 22 because all of their pay is subject to Social Security tax. Participants with salaries exceeding the Social Security 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 5.25%, and a second for the portion of their salary above the limit, which the bill increases from 5% to 8%.

## **MUNICIPAL ARBITRATION**

Under current municipal collective bargaining law, when negotiations for a contract go to arbitration, each side selects an arbitrator, and they have five days to jointly agree on a third, impartial arbitrator from the list of impartial arbitrators to complete the three-person arbitration panel. The bill requires the SBMA to randomly select the third arbitrator, who must be impartial, to complete the three-person panel within five days.

Under current law, the Neutral Arbitrator Selection Committee, appointed by the labor commissioner, appoints at least 20 impartial arbitrators representing the public's general interests to serve two-year terms. The bill instead requires, starting July 1, 2019, the selection committee to appoint at least 10 impartial arbitrators to serve for five-year terms. As under current law, the arbitrators must be state residents chosen by the selection committee's unanimous vote.

The bill states that the term of any arbitrator appointed before July 1, 2019, will expire on that date.

## **BACKGROUND**

### ***Social Security***

Social Security, which provides old-age, survivors, and disability insurance programs, limits the amount of earnings subject to taxation for a given year. This limit is revised each year depending upon changes in the national average wage index. For 2019 the limit is \$132,900 (for 2018 it had been \$128,400).

Social Security requires employers and employees to each contribute an amount equal to 6.2% of the employees' pay up to the limit on the earnings subject to taxation.

### ***Related Bills***

SB 1072, favorably reported by the Planning and Development Committee, modifies ACIR's mandate and membership and expands its reporting requirements to include an annual work plan.

HB 7192, favorably reported by the Planning and Development Committee, includes all the provisions of SB 1072 and authorizes ACIR to annually recommend to the OPM secretary proposals for regional efficiencies.

**COMMITTEE ACTION**

Planning and Development Committee

Joint Favorable Substitute

Yea 19 Nay 2 (03/29/2019)