**PA 23-182**—HB 6930
*Finance, Revenue and Bonding Committee*

# AN ACT CONCERNING REVISIONS TO THE MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM, A DEFERRED RETIREMENT OPTION FOR PARTICIPATING MEMBERS AND THE DEVELOPMENT OF BEST PRACTICES FOR GOVERNANCE STRUCTURES OF MUNICIPAL RETIREMENT PLANS

**SUMMARY:** This act makes various changes in the statutes that govern the Connecticut Municipal Employees Retirement System (CMERS). Primarily, for CMERS members who retire on or after July 1, 2025, it does the following:

1. changes the range of potential cost of living adjustments (COLAs) to pension benefits, by increasing the maximum COLA from 6.0% to 7.5% and phasing out the 2.5% minimum COLA;
2. requires a minimum one-year waiting period for a retiree's first COLA; and
3. creates a pension incentive for CMERS members to continue working past age 60 with at least 30 years of service (or age 55 with 27 years of service for police and firefighters).

The act also (1) temporarily rescinds authorization for the State Retirement Commission to create a deferred retirement option plan (which, in practice, it has not created) for CMERS members, and reinstates this authority starting on July 1, 2025, and (2) requires all municipalities to give the state comptroller certain information about their retirement systems by September 1, 2023, and the comptroller and certain other state officials to prepare a report on the best practices for municipal retirement plans by July 1, 2024. It also codifies current practice for determining CMERS pension benefits and makes related minor, conforming, and technical changes.

EFFECTIVE DATE: Upon passage

## COST OF LIVING ADJUSTMENTS

By law, CMERS members who retire after January 1, 2002, receive annual COLAs depending on the change in the consumer price index for urban wage earners and clerical workers (CPI) over the preceding 12-month period. The COLA is calculated as 60% of the CPI increase for the first 6%, plus 75% of the CPI increase over 6%. The act maintains this method of calculating the COLA in the future within the limits of the new maximum and minimums it establishes.

Under prior law (which remains applicable for those who retire before July 1, 2025), the COLA must be at least 2.5% but no more than 6%, and the retiree received the first COLA starting on the first July 1 after they retire. For CMERS members who retire on or after July 1, 2025, the act increases the maximum COLA to 7.5% and creates a one-year minimum waiting period before the first annual

COLA becomes effective. More specifically, they will not receive this first COLA until the July 1 after they have completed 12 months of retirement (which means no COLA until the second July 1 after retirement).

The act also begins phasing out the minimum COLA for these retirees, annually lowering it based on retirement date, as shown in the table below.

**Minimum COLA Phase-Out Schedule**

| *Retirement Date* | *Minimum COLA* |
|---|---|
| July 1, 2025, through June 30, 2026 | 2.0% |
| July 1, 2026, through June 30, 2027 | 1.5% |
| July 1, 2027, through June 30, 2028 | 1.0% |
| July 1, 2028, through June 30, 2029 | 0.5% |

For members who retire on or after July 1, 2029, if the CPI increases by 2% or less over the preceding 12-month period, then the COLA must equal the CPI's percentage change. If the CPI increases by more than 2%, then the COLA must be the higher of either (1) 2% or (2) 60% of the increase for the first 6% plus 75% of the increase over 6%. The maximum annual COLA remains at 7.5%.

DEFINITIONS

By law, a CMERS member may retire and receive a normal pension benefit after 25 years of aggregate service in a participating municipality or after reaching age 55, with at least five years of continuous service or 15 years of aggregate service (CGS § 7-428). The act specifies that "aggregate service" is active service plus any other form of service a member obtains as allowed under CMERS law, and "active service" is service with a participating municipality for which the member made contributions to CMERS (neither term was defined in prior law).

BENEFITS UNDER EXISTING PRACTICE AND THE ACT

Under existing practice, and codified by the act, the normal pension benefit for a CMERS retiree depends on whether the retiree worked in a position covered by the Social Security Old Age and Survivors Insurance System. For retirees who are not covered by Social Security, the annual pension amount is generally calculated using a 2% pension multiplier (i.e., 2% of their final average salary (FAS, the average of their three highest-paid years) multiplied by their number of service years, prorated by month).

Retirees who are covered by Social Security also receive a pension using a 2% multiplier if they retire before they become eligible for Social Security benefits (at age 62) and are not receiving Social Security disability benefits (prior law did not explicitly require this.) However, once such a retiree becomes eligible for Social Security benefits at age 62, starts receiving disability benefits, or retires at age 62 or older, their CMERS pension is calculated as 1.5% of their FAS up to the "breakpoint" salary for the year they retired, plus 2% of their FAS above the

breakpoint, multiplied by their service years, prorated by month. By law, the "breakpoint" is $117,200 in 2023 (i.e., $10,700 increased by 6% each year since 1982 and rounded to the nearest one hundred dollars).

(Prior law specified a different calculation, which in practice had not been used for years.)

## INCENTIVE TO WORK PAST AGE 60

For CMERS members who retire on or after July 1, 2025, the act creates an incentive to continue working after reaching age 60 and completing 30 years of service (i.e., 60/30), or age 55 with 27 years of active service (i.e., 55/27) for members of a paid municipal fire department or regular members of a paid municipal police department. This incentive generally allows these members to increase their pension multiplier by 0.2% for each extra year worked.

Under the act, those retirees who are not covered by Social Security receive 2.2% (rather than 2.0%) of their FAS for each extra year (i.e., past 60/30 or 55/27) that they continue working for the municipality, prorated by month.

Those retirees who are covered by Social Security, but not yet eligible for benefits or receiving disability benefits, also receive 2.2% of their FAS for each extra year worked. But once they become eligible for Social Security benefits, or receive disability benefits, they receive 1.7% (rather than 1.5%) of their FAS up to the breakpoint, plus 2.2% (rather than 2.0%) of their FAS above the breakpoint for each extra year, prorated by month.

## DEFERRED RETIREMENT OPTION PLAN

In general, a deferred retirement option plan (DROP) is an arrangement under which an employee continues working even though they are eligible to retire and receive pension benefits. But instead of having the continued compensation and additional years of service counted toward the pension benefit, the employer deposits funds into a separate DROP account during each year of the continued employment, which earns interest or investment earnings, and is paid to the employee upon retirement instead of the increased pension amount.

Since July 1, 2000, prior law allowed the retirement commission to create a DROP and set how it could be adopted by municipalities participating in CMERS (in practice, the commission has not done this). The act rescinds this authority and then generally reinstates it starting on July 1, 2025, by allowing the commission to create a DROP and set how it would be offered to CMERS members. The act eliminates the provision that gave CMERS member towns the option of adopting a DROP.

As under prior law, the newly offered plan must (1) allow pension-eligible CMERS members to choose to participate; (2) include a fixed time period for member participation, up to five years, and a specified interest rate credit for member accounts; and (3) have all of its other provisions determined by the commission, as long as the CMERS consulting actuary certifies that its structure has no anticipated impact that would increase municipal contribution rates to

CMERS.

The act also requires the retirement commission, within four years after creating the DROP, to (1) obtain an evaluation of the plan from the consulting actuary and (2) review and assess the evaluation to determine the plan's cost to the pension fund. After receiving the evaluation, the commission may discontinue the plan.

## BEST PRACTICES REPORT

The act requires each municipality, by September 1, 2023, to give the state comptroller the following information for each retirement plan the municipality offers:

1. a statement of whether the municipality has formally adopted an investment policy statement;
2. summary plan documents for the previous five fiscal years, but not for years when there were no changes to the plan or documents;
3. the five most recent actuarial valuations;
4. the form and governance structure of the municipal entity, if any, that manages or oversees the plan;
5. whether the municipality uses a third-party advisor or administrator to manage or oversee the plan; and
6. the estimated fees the municipality paid in each of the five previous fiscal years for investments under the plan.

The comptroller determines how the municipalities must provide this information.

The act requires the comptroller, state treasurer, and Office of Policy and Management secretary to jointly develop best practices for the governance structures of municipal retirement plans. By July 1, 2024, they must jointly submit a report to the Finance, Revenue and Bonding and Planning and Development committees. The report must at least include (1) a summary of the current governance structures and management arrangements municipalities use for their retirement plans and the estimated fees they pay for investments under the plans; (2) the best practices they develop and any recommendations for legislative changes to help municipalities implement the best practices; and (3) recommendations on how the state can partner with municipalities to improve managing municipal retirement plans, reduce their investment fees, and increase their rate of return.