OFFICE OF LEGISLATIVE RESEARCH
Objective Research for Connecticut's Legislature

ResearchReport

SEBAC 2017 and the 2022 Retirement Wave

By: John D. Moran, Principal Analyst, and
Anthony Naples, Associate Budget Analyst
December 29, 2020 | 2020-R-0347

Issue

This report (1) explains why state officials are anticipating a wave of state employee retirements before July 1, 2022, the date when changes to state employee retirement benefits take effect, and (2) uses historical data to provide an estimate of how many employees may retire before July 1, 2022. It also describes steps the state is taking to prepare for the retirements.

Summary

The 2017 SEBAC agreement included many changes to state employee retirement benefits (SEBAC is the employee bargaining coalition that represents the overwhelming majority of unionized state employees in negotiations over their pension and health insurance benefits). Some of the changes specifically affect benefits for those who retire on or after July 1, 2022, and could encourage many to retire before then. The biggest change is eliminating the minimum annual cost of living adjustment (COLA) for pension benefits and delaying a retiree's first COLA until 30 months after retirement. The agreement also changed the health insurance premium share for retirees who are not covered by Medicare. (The 2011 SEBAC agreement may be an additional factor that encourages retirements. It also contains provisions that take effect for those who retire after July 1, 2022, in particular requiring employees to work an additional three years to qualify for a normal retirement.)

According to the Office of the State Comptroller, as of November 19, 2020, there were 13,066 state employees (full- and part-time) who are eligible for normal or early retirement before July 1, 2022. (This data does not include Alternate Retirement Program members, who work primarily in higher education.) In the past, similar changes to retirement benefits have led to a surge in

retirements before the changes became effective. If this pattern reoccurs at a similar rate, the state can expect over 20% of eligible employees to retire between July 2021 and July 2022.

In response to this, the state has contracted with a consultant to help prepare recommendations aimed at (1) reducing the negative impacts of a large number of retirements and (2) improving the state's ability to deliver key services.

SEBAC Changes to Benefits for Those Retiring on or After July 1, 2022

COLAs

For employees who retire on or after July 1, 2022, the 2017 SEBAC agreement eliminates the minimum annual COLA and delays the first COLA until 30 months after retirement. But current employees who retire before that date will receive an annual COLA of at least 2% with no 30-month waiting period. These changes are described in an actuarial valuation of the state employee retirement system.

The new COLA is based on increases in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W)). If the CPI-W increases 2% or less in the previous year, then the COLA will be the same percentage as the increase. If the CPI-W increases between 2% and 3.33%, the COLA will be 2%. And if the CPI-W increases more than 3.33%, the COLA will be 60% of the annual increase up to 6%, plus 75% of the annual increase above 6%. In any event, the COLA maximum is 7.5%.

Furthermore, those retiring on or after July 1, 2022, will not receive a COLA for the first 30 months of their retirement, while those who retire before then receive annual COLAs. (But the agreement provides for an additional COLA in month 31 if the CPI-W increase exceeds an annualized rate of 5.5% during the retiree's initial 18-month period of receiving retirement benefits,)

Health Care Insurance Contributions

SEBAC 2017 also made changes to the health care contributions for the following groups of employees who retire on or after July 1, 2022:

1. for non-Medicare covered retirees, it establishes a 3% insurance premium share for hazardous duty retirees and a 5% premium share for non-hazardous duty retirees, and

2. for Medicare-covered retirees, it continues to provide reimbursement for the full standard Medicare Part B premium but reduces the reimbursement to half of any additional Medicare charges on high earners.

Possible Impact of Benefit Changes to Retirements

In the past, similar planned changes to retirement benefits have triggered waves of retirements before the changes take place. For example, the 2011 SEBAC agreement made changes that affected those who retired after October 1, 2011. This included a decrease in the minimum COLA from 2.5% to 2% and increased the early retirement penalty from 3% to 6% of the retirement benefit.

In the year prior to the effective date of the 2011 SEBAC agreement changes, approximately 21% of those eligible for early or normal retirement decided to retire from state service, according to data from the Office of Policy and Management (OPM). If the state experienced the same retirement rates due to the July 1, 2022, change, there could be approximately 2,700 retirements in the preceding year (i.e., 13,066 eligible employees X .21 = 2,743).

The table below shows how the 2011 take-rate – the rate at which eligible employees opt to retire – compares to a 10-year average. Retirements are for executive branch employees and shown in two categories, “early” and “normal” retirement.

Retirement Take-Rates Prior to Benefit Changes, Executive Branch

Calendar Year	Event	Early Retirement	Normal Retirement
2011	SEBAC Changes	10.6%	31.3%
2008-2018	10-year Average	7.3%	23.2%
	Difference	**3.3%**	**8.1%**

State Steps to Prepare for the Retirements

On September 25, 2020, Governor Lamont announced that his administration had hired the Boston Consulting Group to study the state’s workforce efficiency and organizational design to prepare the state for a significant number of anticipated state employee retirements by 2022. The group must prepare the study and make recommendations to the governor and the General Assembly by February 2021.

In a written announcement the governor’s office stated, “The goal of the project is to generate recommendations about how best to mitigate the risk of the potential retirements and use the opportunity to modernize and improve how state government provides its critical services to Connecticut residents while reducing cost." The statement noted that as many as 25% of the current state employee workforce may be eligible to retire.

OPM and the Department of Administrative Services will oversee the study.

JM:kc