OLR Bill Analysis

sHB 7276 (as amended by House "A")*

AN ACT CONCERNING THE MUNICIPAL EMPLOYEES RETIREMENT SYSTEM.

SUMMARY

This bill creates a new benefit tier in the Connecticut Municipal Employees Retirement System (CMERS; see BACKGROUND) named MERS 2.0 and sets its parameters. It generally requires CMERS-participating municipalities to enroll in MERS 2.0 anyone who first becomes eligible for CMERS membership on or after July 1, 2027. However, if the person's position is covered by a collective bargaining agreement that was in effect on July 1, 2027, the municipality must enroll the person when the agreement expires. It allows any nonparticipating municipality to enroll in MERS 2.0 on the later of July 1, 2026, or the expiration date of an applicable collective bargaining agreement that was in effect on July 1, 2026. After the municipality enrolls in MERS 2.0, anyone who first becomes eligible there must be enrolled in MERS 2.0.

The bill also requires the Connecticut Municipal Employees Retirement Commission (CMERC; see BACKGROUND), by July 1, 2026, to create and administer a MERS defined contribution retirement plan. It requires all CMERS members to contribute 0.25% of their pay to the plan and MERS 2.0 members to contribute an additional 5% of their "other pay" (for regular employers) or 8% of their "other pay" (for public safety employees). ("Other pay" includes overtime pay, bonuses, and any other employee compensation other than regular pay.) It also requires CMERS-participating municipalities to make matching contributions for their MERS 2.0 members.

The bill authorizes CMERC to set up and implement an annuity plan as an alternative to CMERS for nonparticipating municipalities, subject to certain requirements.

Lastly, the bill changes the service criteria used to determine a retired state employee's eligibility for certain life insurance benefits.

*House Amendment "A" principally:

1. adds the state employee retiree life insurance provision;

2. expands the compensation excluded from MERS 2.0 employee contribution calculations to include bonuses and any other compensation other than regular pay;

3. clarifies that once a nonparticipating municipality enrolls in MERS 2.0, anyone who first becomes eligible there must also be enrolled; and

4. eliminates provisions directing members' defined contribution retirement plan contributions to the Connecticut Municipal Employees Retirement Fund.

EFFECTIVE DATE: Upon passage, except the state employee retiree life insurance provision is effective July 1, 2025.

§ 1 — MERS 2.0

Employee Contributions

Under the bill, MERS 2.0 members must contribute (1) 5% of their regular pay (for regular employees) or (2) 8% of their regular pay (for public safety employees). An employee's "regular pay" is his or her "base pay" plus other predictable ongoing compensation (other than overtime pay), as determined under regulations adopted by CMERC. "Base pay" includes annual salary, wages, or earnings, but not (1) other pay; (2) any workers' compensation payments received; and (3) payouts for accrued vacation time, sick leave, or compensatory time. "Public safety employees" are uniformed members of a municipality's paid fire department or regular members of its paid police department.

Vesting Period and Normal Retirement

Under the bill, participating MERS 2.0 members are eligible for retirement benefits (i.e. are vested) if they complete five years of continuous service or 15 years of active aggregate service in a participating municipality. “Active service” is service with a participating municipality for which the member made the required contributions to MERS 2.0, as described below. As under existing law, “aggregate service” includes both (1) active service and (2) any other form of service for which the member has purchased credit as allowed under the law. “Continuous service” is generally active service as a member or, under certain conditions, before becoming a member.

Under the bill, regular vested members are generally eligible for full retirement benefits once they (1) have 30 years of aggregate service in a participating municipality or (2) are age 65 and have five years of continuous service. However, vested members who are public safety employees are eligible once they (1) have 25 years of aggregate service in a participating municipality or (2) are age 55 and have five years of continuous service.

Early Retirement

The bill generally allows MERS 2.0 members, other than public safety employees, who are separated from their employment with the municipality to elect to receive early retirement benefits on or after reaching age 55 if they (1) have at least five years of continuous service but less than 30 years of aggregate service and (2) have not reached age 65. These employees are not eligible, however, if they were separated from their employment for cause. CMERC must determine the early retirement benefit amount as the actuarial equivalent of the member’s full retirement allowance (presumably, reduced to reflect the member’s age).

Retirement Benefit Calculation

Under the bill, a member’s monthly retirement benefit is calculated as a percentage of his or her “average annual pay” (i.e. average regular pay during his or her five highest-paid years of active service). Specifically, it equals 12 monthly installments of (1) 1.8% of average annual pay for regular members or (2) 2.2% of average annual pay for public safety members, multiplied by the member’s months of aggregate service.

The bill also specifies how to calculate a member's average annual pay for any year in which (1) he or she held more than one position or (2) the regular pay for his or her position changed. Specifically, the regular pay for each position the member held during the year must be multiplied by the fraction of the year for which he or she held the position and then added together.

Applicable CMERS Provisions

With certain exceptions, the bill subjects MERS 2.0 to existing CMERS requirements in the same way and with the same force and effect as if those requirements had been fully incorporated in the bill. If any provision conflicts, the bill's provisions supersede with respect to MERS 2.0.

Additionally, the bill explicitly applies the following existing CMERS provisions to also cover MERS 2.0 members:

1. eligibility for disability retirement and a disability retirement benefit for qualifying members with at least 10 years of continuous service;

2. survivors' benefits for firefighters and police killed in the line of duty;

3. spousal benefits for employees who die during active employment; and

4. annual cost of living adjustments (COLAs) for retirees, including those for retirements on or after July 1, 2029 (i.e. where the minimum COLA is tied to inflation in years where inflation increases by 2% or less).

§ 2 — DEFINED CONTRIBUTION PLAN

The bill requires CMERC to create a defined contribution retirement plan by July 1, 2026. CMERC must administer the plan and may (1) make deposits or payments to the plan, subject to its terms and (2) contract with a private entity for the plan's consolidated billing or other administrative services. Under the bill, municipalities must make payroll deductions for each member of the MERS defined contribution plan, as specified under the bill.

§ 3 — ANNUITY PLAN

To establish the annuity plan, the bill requires CMERC's eight appointed trustees who represent either employee or employer interests to unanimously approve it. Once established, CMERC must set the process for nonparticipating municipalities to adopt the plan. Any municipality participating in CMERS on the date the annuity plan is implemented is ineligible to participate.

The plan must give municipalities the option of transferring to it any previously adopted defined contribution plan's accounts and assets. Municipalities that adopt the plan must make payroll deductions for each member.

The state comptroller must administer the plan and may:

1. enter into contracts on the state's behalf with plan members to defer any portion of the member's compensation from the municipality;

2. make deposits or payments to the plan, subject to its terms; and

3. contract with a private entity for the plan's consolidated billing or other administrative services.

§ 4 — STATE EMPLOYEE RETIREE LIFE INSURANCE

By law, state employees who participate in the state-sponsored group life insurance plan qualify for continued "paid-up" coverage under the policy when they retire from state service. Under current law, those employees receive coverage for 50% of the amount of life insurance they were insured for immediately before retiring, if they retire with at least 25 years of "state service," which is occupying for pay any office or position or employment in the service of the state, but not its local governmental subdivisions.

For those employees who retire on or after July 1, 2025, the bill instead requires 25 years of “credited state service,” which is service for which the employee or other eligible person was eligible to participate in a state-sponsored retirement system other than the Teachers’ Retirement System or CMERS. As under current law, (1) those with enough credited state service receive coverage for 50% of the amount of life insurance they were insured for immediately before retiring; (2) those with less than 25 years of credited state service receive a proportionate amount of life insurance coverage, rounded to the nearest $100; (3) the coverage must be for at least $10,000; and (4) the retiree cannot be required to pay for the insurance.

BACKGROUND

CMERC

Established in 2024, CMERC administers MERS and the Policemen and Firemen Survivors’ Benefit Fund as the successor to the State Employees Retirement Commission for these purposes. It consists of 13 members: the state treasurer and comptroller, who serve as ex-officio, nonvoting members; eight members appointed by the governor (four who represent labor and four who represent government employers); two members appointed by the comptroller; and a neutral chairperson appointed by the governor.

CMERS

Under existing law, CMERS does not make a distinction between public safety members and general members. All current CMERS members generally:

1. must contribute 5.25% of their total compensation (including overtime) subject to Social Security taxes and 8% of their total compensation not subject to Social Security taxes;

2. become vested after five years of continuous service or 15 years of aggregate service;

3. qualify for full retirement benefits after (a) reaching age 55 with either five years of continuous service or 15 years of aggregate service or (b) 25 years of aggregate service with no minimum age

requirement; and

4. have their pension benefit calculated as their years of service, multiplied by their final average salary (the average salary, including overtime, of their three highest-paid years), multiplied by a multiplier that depends on whether the member is covered by Social Security (for covered members the multiplier is 1.5% of salary up to the breakpoint + 2% of salary over the breakpoint; for members not covered by Social Security the multiplier is 2%).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 52 Nay 0 (04/24/2025)