State of Connecticut

Retirement Services Division

Retirement Services Division
Office of the State Comptroller
165 Capitol Ave.
Hartford, CT 06106

RETIREMENT SERVICES DIVISION MEMORANDUM 2023-01

May 9, 2023

TO ALL HEADS OF STATE AGENCIES

ATTENTION: **All Personnel and Payroll Officers**

SUBJECT: **State Employee Retirement Plan (SERS) Tier IV "Shortfall Contributions"**

The following information concerns the retirement contributions made by members of the **Tier IV** retirement plan. Members of Tier IV are those employees who were hired after June 30, 2017, and who participate in the State Employees Retirement System (SERS). As explained below, the retirement contributions of Tier IV members will increase by 2% for the pay period that includes July 1, 2023, and for the remaining pay periods in that fiscal year.

I. Why Tier IV Employee Contributions are Increasing

A. SEBAC 2017

This increase is mandated by the terms of an agreement between the State Employees Bargaining Coalition (SEBAC) and the State of Connecticut, known as "SEBAC 2017." SEBAC 2017 helped the State resolve certain financial issues while preserving public services. It did so, in part, by making changes to employee pension and health care benefits, especially for employees who were hired after the agreement went into effect.

One of those changes relates to the performance of investments in the State Employees Retirement Fund—the fund from which retirement benefits are paid. Each year, actuaries calculate the total cost of the plan's current and future obligations to its members. The fund relies on three sources of income to cover the anticipated cost of employee pensions. First, employees contribute a fixed percentage of their compensation to the fund. (For most members of Tier IV, the required contribution is five percent. Hazardous Duty members and members of the Hybrid Plan contribute eight percent of their gross pay.) Second, the fund receives income by investing fund assets. Finally, the State contributes the difference between the anticipated cost of the plan's obligations and the revenue produced by employee contributions and investments.

The performance of the fund's investments is evaluated at the end of each fiscal year. When the fund's investments fail to perform as expected, the State must make a larger contribution to cover the anticipated costs. Under SEBAC 2017, members of Tier IV must now "shar[e] … the risk of [such] adverse plan performance." That is, when the fund's investment income fails to meet expectations, Tier IV members must help make up for that shortfall by making a larger contribution to the plan for the next fiscal year.

Thus, the usual contributions made by Tier IV employees may be increased—by a maximum of two percent per fiscal year—if the fund's investments have underperformed in the prior calendar year.

B. The Fund has Underperformed

The "benchmark" for the performance of plan investments, which was determined through negotiations between the State and SEBAC, is annual growth of 6.9%. For calendar year 2022, the actual performance of the pension fund's investments was -10.85%. Under the risk-sharing formula in SEBAC 2017, the amount by which the fund's actual performance fell below the 6.9% performance benchmark triggers employee risk sharing at the maximum amount of two percent.

Therefore, beginning with the pay period that includes July 1, 2023, members of the Tier IV retirement plan will be required to contribute an additional two percent of their gross earnings—a total of seven percent for most employees, and 10 percent for Hazardous Duty employees and Hybrid Plan members. Bi-weekly employees will make the increased contributions for a total of 26 pay periods. Semi-monthly employees will make increased contributions in 24 pay periods, and monthly employees will do so in a total of 12 pay periods.

Tier IV members will also continue to contribute an additional one percent of their gross earnings to the Tier IV Defined Contribution Plan.[1]

Tier IV members will stop paying the two-percent increase at the end of this fiscal year. The fund's performance will be re-evaluated at the close of this *calendar* year, and decisions about any adjustment of employee contributions for the fiscal year 2023-24 will be made at that time.

II. Implementing the Increased Contributions

A. Automatic Implementation of Shortfall Deduction Codes for Existing Employees

For current employees in Tier IV, no action on the part of your agency is necessary to implement the increased contributions. Current Tier IV employees—including Hazardous Duty and Hybrid Plan employees—already have Tier 4 Series Retirement Deductions coded in CORE-CT. CORE-CT will now update those employees with the new Tier 4 Shortfall Deductions.

For example, if the employee has the following Tier 4 Deductions—"Employee shares-RSERS4, RSERDC" and "Employer shares-RSERDR, RSERER"— then, in addition to those, the employee will now have two new Tier 4 Shortfall Deductions—"Employee share R4SHTF" and "Employer share R4SFER."

[1] Members of the Tier 4S plan will continue to pay two percent of their gross earnings to the Tier IV Defined Contribution Plan.

Agency Payroll personnel will be able to see the new Tier 4 Shortfall Deductions, which will correspond to the employees' current Tier 4 series Retirement Deductions, on the employees' "Create General Deductions" page. The chart below reflects the corresponding deductions.

Tier 4 Retirement Deduction Codes and Corresponding
New Tier 4 Shortfall Retirement Deduction Codes:

Current Tier 4 Series Retirement Deductions	Current Tier 4 Series Description	NEW Tier 4 Shortfall Deductions	Tier 4 Shortfall Deduction Short Description	Tier 4 Shortfall Deduction Long Description
RSER4	SER Tier 4	R4SHTF	SERT4SFall	SERS Tier 4 Shortfall
RS4HZ	Sers4 HZD	R4HZSF	SER4HZSFal	SERS Tier 4 HZ Shortfall
RSER4S	SERTier4S	RS4SSF	SER4SFall	SERS Tier 4S ShortFall
RSHYC	SRHy4-8%	R4HYSF	SERHYSFal	SERS Hybrid T4 ShortFall
RSERER	ERSersRet	R4SFER	ERSERT4SF	Employer SERS T4S ShortFall
RHAZER	ERSersHaz	R4HSER	ERSERHZSF	Employer SERSHzDty ShortFall

B. Agencies Must Set Up Shortfall Deduction Codes for New Enrolled Tier IV Members

For ***new*** employees in Tier IV, ***Agency Payroll*** will have to update the employees with the new Shortfall Deductions. Specifically, you will have to insert the new codes for the following Tier IV members:

- All Bi-Weekly, Special Bi-Weekly, and Semi-Monthly employees who are added to the payroll after close of business on July 10, 2023.

- All Monthly employees who are added to the payroll after close of business on June 12, 2023.

If you have any questions concerning these changes, please feel free to contact the Retirement Services Division at (860) 702-3480.

Very truly yours,

By:

John Herrington,
Retirement Services Division