STATE EMPLOYEES
RETIREMENT COMMISSION

MEDICAL EXAMINING BOARD
*for* DISABILITY RETIREMENT

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RETIREMENT SERVICES DIVISION MEMORANDUM 2019-04

November 22, 2019

TO THE HEADS OF ALL STATE AGENCIES

ATTENTION: All Human Resources and Payroll Officers
SUBJECT: 150% Limit on Average Salary

We recently received a request from one agency's Human Resources office to clarify an important rule that affects the potential retirement income of most state employees. The purpose of this memorandum is to remind all human resources and payroll officers about that rule.

## <u>The 130% Cap and the 150% Cap</u>

All plans within the State Employees Retirement System (**"SERS"**) provide for the payment of a retirement income benefit to eligible retirees. The amount of that benefit is determined by several factors. One factor is the average amount of the employee's salary during certain selected 12-month periods (**"Average Salary Years**"). In Tiers III and IV, the member's retirement benefit is based on the average of his or her salary during each of five Average Salary Years. In Tiers, I, II, and IIA, the benefit is based on the average of three such years.

The "salary" that counts towards a retirement benefit in any Average Salary Year (**"Includable Salary")** may consist (subject to certain exceptions) of all payments that the employee received from the state during that 12-month period, and from which any mandatory retirement contributions were made—including certain payments for overtime.

### 1. The 130% Cap: A Limit that Excludes Mandatory Overtime

Since 1986, the total amount of Includable Salary for any Average Salary Year has been subject to a limit, known as the **"130% Cap."** Under the 130% Cap, the amount of Includable Salary credited to any one Average Salary Year may not exceed 130% of the average amount of Includable Salary that the employee earned in each of the two 12-month periods which immediately preceded that year (the **"Measuring Years").** This calculation is performed without taking account of any mandatory overtime earnings in any of the Average Salary Years or the Measuring Years.

### 2. The 150% Cap: A Limit that Includes Overtime Earnings

The 2011 SEBAC Agreement added a *second* possible limit on the salary that may be credited to any Average Salary Year. This second limit (the **"150% Cap"**) is applied in much the same manner as the 130% Cap, requiring a comparison of the Includable Salary earned during an Average Salary Year with the Includable Salary earned during the two preceding Measuring Years.

The primary difference between the 130% and 150% Caps is that the 150% Cap serves as a limit on all forms of Includable Salary, including all overtime earnings (whether mandatory or otherwise). In other words, mandatory overtime, along with every other form of Includable Salary, is taken into account in the calculations that are involved in applying the 150% Cap.

The 150% Cap further differs from the 130% Cap, in the following ways:

- it applies only to Average Salary Years that began after July 1, 2016; and
- it does *not* apply to members of Tier IV.

**How the 150% Cap Works**

1. **The 150% Cap Applies Only to Certain Average Salary Years and Only to Certain Plans**

The 2011 SEBAC Agreement provided that the 150% Cap would "take effect" on July 1, 2014. The parties to the 2011 SEBAC Agreement subsequently interpreted that agreement to mean that the first Measuring Years that could be used for purposes of the 150% Cap were the years beginning on July 1, 2014, and July 1, 2015. Thus, the earliest Average Salary Year which could be affected by the 150% Cap is the 12-month period beginning on July 1, 2016. In short, **the 150% Cap limits Includable Salary only for those Average Salary Years that began on or after July 1, 2016.**

Additionally, the 150% Cap applies only to members of Tiers I, II, IIA, III.[1] It *does not* apply to members of Tier IV.[2]

2. **Applying the 150% Cap**

As noted, the 150% Cap serves as a limit to all forms of Includable Salary, including all overtime earnings (regardless of whether the overtime is mandatory).

To determine the amount that may be credited to any given Average Salary Year, it is necessary to calculate the average amount of total Includable Salary for each of the two preceding Measuring Years (the **"Measuring Years Average"**). The amount of Includable Salary credited to the Average Salary Year may not be greater than 150% of that Measuring Years Average.

In other words, any Includable Salary that the employee received in an Average Salary Year, and which was in excess of 150% of his or her Measuring Years Average, must not be included in the calculation of average salary that is used to determine the employee's retirement benefit.

3. **The 130% Cap Still Applies**

Please remember that the 150% Cap did not replace the 130% Cap; the salary for any given Average Salary Year must be tested against *both* limits.

[1] The 150% Cap also applies to hybrid plans in Tiers II, IIA, and III. It does not apply to members of the Tier IV Hybrid plan.
[2] Tier IV members are subject to a new average salary computation, which accounts for a Tier IV member's annual overtime hours averaged over a 25-year period.

- The total amount of the employee's Includable Salary, *exclusive of overtime*, may not exceed 130% of the employee's average annual Includable Salary (excluding overtime) for the two 12-month periods which immediately preceded the Average Salary Year.

- *Additionally*, for any Average Salary Year, the total amount of the employee's Includable Salary (including overtime) may not exceed 150% of the employee's Measuring Years Average.

If you have any questions concerning this rule, please raise them with the Retirement Services Division by email, at osc.rsd@po.state.ct.us.

It is the responsibility of each state agency to advise employees of this information.

STATE EMPLOYEES RETIREMENT COMMISSION
KEVIN LEMBO, SECRETARY EX OFFICIO

BY:

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