STATE *of* CONNECTICUT

RETIREMENT SERVICES DIVISION

RETIREMENT SERVICES DIVISION
OFFICE *of the* STATE COMPTROLLER
165 Capitol Ave.
Hartford, CT 06106

**RETIREMENT SERVICES DIVISION MEMORANDUM**

**JUNE 26, 2023**

**TO ALL MUNICIPALITIES PARTICIPATING IN THE MUNICIPAL EMPLOYEES RETIREMENT SYSTEM**

**ATTENTION: CMERS Participating Entities**

**SUBJECT: CMERS Amendments**

## I. Introduction

The Connecticut Municipal Employees Retirement System (CMERS) provides lifetime retirement benefits to employees of 160 government entities in 107 Connecticut cities and towns. It has 9,830 active members, and it pays benefits to 8,632 retirees.

In March 2023, Comptroller Sean Scanlon organized a working group, made up of representatives of both participating municipalities and municipal labor units. The working group was formed to address CMERS's serious financial problems:

- The plan now has an unfunded liability of $1.1 billion.
- The annual contributions municipal employers must make to the plan have increased dramatically, from an average of about 3% of payroll in 2001 to 25% of payroll in 2023.
- In just the last five years, the average employer contribution has increased by 75%.

The working group decided to focus on changes to CMERS that could lower its cost while, at the same time, offering members new opportunities to enhance their retirement benefits. The group proposed a series of measures that were adopted by the Legislature on June 7th and that Governor Lamont has indicated he will sign into law by the end of this month.

It is estimated that these changes will save the plan $740 million over the next 30 years.

**Please note: None of the changes is in effect today**. They will **begin** to affect CMERS employees on **July 1, 2025**.

This memorandum will explain the changes the state has adopted.

## II. Cost-of-Living Adjustments

CMERS provides annual cost-of-living adjustments (COLAs) to its retirement pensions. The purpose of these COLAs is to preserve the value of the retirement benefits that members earned during their active employment. COLAs prevent inflation from impairing the resources of retirees who depend on their pensions.

### A. Old COLA Rules

In 2001, CMERS rules were changed to adopt the following terms:

- A retiree's first COLA would be made on the first July 1 following his or her retirement.
- Each retiree would receive a *minimum* annual COLA of 2.5%.
- The *maximum* amount of any annual COLA would be 6%.
- Within the range from 2.5% to 6%, the amount of each COLA would be tied to the national rate of inflation, as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).
    - Each COLA would equal 60% of the CPI-W up to 6%, and 75% of the CPI-W over 6%.

### B. New COLA Rules

For CMERS members **who retire on or after July 1, 2025**, the following COLA rules will apply:

- A retiree's first COLA will be made on the first July 1 that falls at least 12 months after the date of retirement.
- Beginning July 1, 2025, the *minimum* COLA will be phased out over a period of five years. (This change is explained in the following section of this memorandum.)
- The *maximum* COLA will be *increased*, from 6% to 7.5%.
- For years in which the CPI-W is greater than 2%, the current formula will still apply.

### C. Phasing Out the Minimum COLA

The revision to the minimum COLA will work in this way:

- CMERS members who retire **on or before June 30, 2025**, will receive a minimum COLA of 2.5% for every year of their retirement.
- CMERS members who retire **on or after July 1, 2025, and on or before June 30, 2026**, will receive a minimum COLA of 2% for every year of their retirement.
- CMERS members who retire **on or after July 1, 2026, and on or before June 30, 2027**, will receive a minimum COLA of 1.5% for every year of their retirement.

- CMERS members who retire **on or after July 1, 2027, and on or before June 30, 2028**, will receive a minimum COLA of 1% for every year of their retirement.
- CMERS members who retire **on or after July 1, 2028, and on or before June 30, 2029**, will receive a minimum COLA of 0.5% for every year of their retirement.
- CMERS members who retire **on or after July 1, 2029,** will receive **no** minimum COLA during their retirement.

For **all** CMERS members who retire on or after July 1, 2025:

- If the CPI-W is 2% or less, the member will receive a COLA equal to the **greater** of either (i) the member's minimum COLA or (ii) the amount of the CPI-W.
- If the CPI-W is greater than 2%, the amount of each member's COLA will be between 2% and 7.5%.
  - Within that range, the amount of the COLA will be determined by the **same formula** that is currently in use.

### D. Key Features of the New Rules

- **All** retirees—including those who retire after July 1, 2029—will receive a COLA in **every** year in which inflation occurs.
- The increased maximum COLA goes into effect on July 1, 2025, and it provides increased protection against inflation.
  - The 2022 COLA was 6%. Under the new rules, it would have been 6.4%.
- Members who retire between July 1, 2025, and June 30, 2029, will still be guaranteed a minimum COLA for life.

## III. <u>Enhanced Incentives</u>

Effective July 1, 2025, experienced employees will be given new financial incentives to defer their retirement. Under one such incentive, additional years of active service will increase the amount of the member's retirement benefit at an accelerated rate. Under another, members will be able to accrue retirement benefits for up to five years of active employment.

### A. Increased "Multiplier"

The amount of a CMERS pension is calculated by multiplying the average of the annual compensation the member received during his or her three highest-paid years of active service (the member's "Final Average Pay") by the number of the member's years of aggregate service. The result is then multiplied by a percentage, known as a "multiplier": either (i) 2% or (ii) 1.5% if the member is over the age of 62 or receiving Social Security benefits.

Beginning on July 1, 2025, CMERS will apply a different, larger multiplier for certain periods of service that occur late in a member's career: either 2.2% or 1.7% if the member is over age 62.

The new, higher multipliers will apply to any period of service occurring after an employee has reached one of the following thresholds:

- Age 60, with 30 years of aggregate service
- Age 57, with 27 years of active service as a paid police officer or firefighter

Members who have reached these thresholds are eligible to retire on a full, normal retirement. But if a 60-year-old employee with 30 years of aggregate service chooses to defer retirement for two years, those two years will add more to the amount of the employee's ultimate pension than any other two-year period of the member's career.

The increase in the total amount the member will receive over the full course of his or her retirement may be significant.

### B. The "DROP": A Deferred Retirement Option Plan

As of July 1, 2025, the State Employees Retirement Commission will be authorized to offer a deferred retirement option plan (DROP) to members of CMERS. As explained below, a DROP is a program under which a plan will pay retirement benefits to members who remain actively employed, and who are continuing to receive their full salaries.

*The Commission has not yet adopted this plan*, but the Comptroller's working group has proposed a set of terms for it.

Under the proposal, certain employees who are eligible to retire on or after July 1, 2025, could elect to continue working at full salary for anywhere up to five years. During that period of continued employment:

- CMERS would also pay the employees' full pension benefits, based on the date each employee enters the DROP.
- The pension benefits would be paid into an interest-bearing account.
- After two years in the DROP, contributions to CMERS would no longer be deducted from the employee's salary.
- When the member leaves municipal employment, the account balance would either be paid to the employee in a lump sum or rolled over into a tax-deferred account, such as an IRA.

Under the proposal, employees who satisfy any of the following criteria on or after July 1, 2025, will be eligible to enter the DROP:

- Age 60, with 30 years of aggregate service
- Age 62, with 5 years of aggregate service
- Age 55, with 25 years of active service as a paid police officer or firefighter

- Age 57, with 5 years of active service as a paid police officer or firefighter
- 30 years of active service as a paid police officer or firefighter, regardless of age

## IV. <u>Other Changes and Possible Changes to CMERS</u>

The working group's proposals and the amended CMERS statutes also provide for additional changes and possible changes:

- CMERS's unfunded actuarial accrued liability (UAAL) will be re-amortized, from 17 years to 25 years. Under current rules, actuaries calculate the cost of the plan's outstanding obligations under the assumption that plan must be fully funded by 2040. By extending that schedule an additional 8 years, the plan will reduce the current cost of the plan.

- The governance structure of CMERS will be changed. CMERS currently has one representative who is a member of the State Employees Retirement Commission. The working group has proposed adding a subcommittee to the Commission that will be concerned exclusively with CMERS matters.

- The amended statutes require municipalities that *do not* currently participate in CMERS to provide information about their pension practices to the Comptroller. The Comptroller and the working group will use this information to develop additional ideas about ways to improve CMERS.

- Finally, the working group will continue to explore and discuss ways to improve CMERS benefits and to make the plan more secure financially. It is possible that the group will consider creating a new "tier" to CMERS, but, as of this date, no such plan has been formulated.

## V. <u>Conclusion</u>

The changes that will begin on July 1, 2025, are already causing anxiety to CMERS members. Much of that anxiety is based on misconceptions.

1. <u>Under the new rules, CMERS members are not "losing" their COLAs</u>.

- The guaranteed minimum COLAs are being phased out over five years.
- Every CMERS member who retires on or before June 30, 2029, will receive a guaranteed minimum COLA in some amount.
- Even without a guaranteed minimum, **every** CMERS retiree will receive a COLA in every year in which there is inflation.
- Beginning July 1, 2025, the *maximum* COLA will be *higher*.
  - Thus, the new rules provide *increased* protection against inflation.

2. For most members, the new incentives will more than offset any reduction in COLAs.

    - In most cases, the increase to the base amount of a member's pension will be more valuable over the course of a retirement than a guaranteed minimum COLA.

3. Municipal employers will see immediate savings.

    - By reducing the cost of CMERS, these changes will free up funds with which participating towns can hire more employees or offer additional benefits.

4. More information is available.

    - The Retirement Services Division will help CMERS members review their potential benefits under a range of different scenarios.
    - The Division will be organizing a variety of educational resources and events between now and July 2025.

Concerned members may also contact the division, at osc.generalinfocmers@ct.gov or (860) 702-3480.

Very truly yours,

By: John Herrington

John Herrington, Director
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