

STATE EMPLOYEES
RETIREMENT COMMISSION



MUNICIPAL EMPLOYEES
RETIREMENT COMMISSION



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RETIREMENT SERVICES DIVISION MEMORANDUM

OCTOBER 3, 2025

ATTENTION: CMERS Participating and Prospective Entities

SUBJECT: CMERS Amendments

I. Introduction

During the 2025 legislative session, the Connecticut General Assembly enacted significant amendments to the Municipal Employees Retirement System (MERS). These changes, collectively known as *MERS 2.0*, establish a new hybrid retirement tier combining a defined benefit (DB) pension and a defined contribution (DC) account.

Importantly, the effective dates of MERS 2.0 vary depending on whether a municipality is new to MERS or an existing participant:

- **New Municipal Employers:** Any municipality that elects to join MERS on or after July 1, 2026, will automatically place all eligible employees into MERS 2.0.
- **Current Municipal Employers:** For municipalities already participating in MERS, MERS 2.0 will apply only to employees first hired on or after the later of:
 - July 1, 2027, or
 - The expiration of any collective bargaining agreement in effect on July 1, 2025.

Employees who are already covered under MERS before these dates will remain in the current plan. Their pension benefits and contributions will not be affected by MERS 2.0.

This memorandum provides an overview of the key features of MERS 2.0, explains how it differs from the current plan, and outlines the steps municipal employers should begin taking now to prepare.

II. What is MERS 2.0?

MERS 2.0 builds upon the current MERS structure but introduces important changes. Like the existing plan, it provides a defined benefit pension for employees who meet certain age and

service requirements. The major innovation is the addition of a defined contribution component, giving members both a guaranteed pension and an account that grows with contributions and investment returns.

Under this hybrid structure:

- Members will contribute to both the DB and DC plans.
- Employers will be required to match certain employee contributions to the DC plan.
- Retirement eligibility and benefit calculations will be based on new age, service, and pay definitions that are described below.

This new approach is designed to provide retirement security while aligning with modern workforce and compensation practices.

III. Compensation Categories

One of the most significant changes in MERS 2.0 is the introduction of new pay definitions. These categories will determine both how benefits are calculated and how contributions are made.

- **Base Pay** – a member’s salary, wages, or earnings.
- **Other Pay** – additional forms of compensation not included in Base Pay, such as overtime, bonuses, or other variable payments.
- **Regular Pay** – a member’s Base Pay plus certain predictable forms of compensation that will be identified by regulation.

These definitions are important in determining funding obligations and future benefits:

- **Defined Benefit (DB) Credit:** Only Regular Pay will be used to calculate pension benefits under MERS 2.0.
- **Defined Contribution (DC) Credit:** Both Regular Pay and Other Pay will be used to calculate required employee contributions to the DC Plan. Employers will be required to match the employee contributions that are based on the Other Pay portion.

Actions Required: Because of these new rules, participating towns must prepare to adjust their payroll and reporting practices.

Specifically, employers will need to:

- Track employee earnings using the new categories,
- Update payroll systems to reflect the changes,
- Report compensation in the proper categories, and
- Ensure contributions are made correctly to both DB and DC plans.

The Commission will issue additional reporting instructions as regulations are finalized, and the Retirement Services Division will provide municipalities with formal guidance and training

sessions. These resources are intended to help employers implement the new requirements smoothly and with as little disruption as possible.

IV. Effective Dates and Applicability

The effective date for MERS 2.0 will be different for new and current municipal employers.

- **New Entities:** For new employers joining MERS on or after July 1, 2026, all employees will participate under MERS 2.0 immediately. Employees of municipalities that joined or join MERS before that date will be covered under the current MERS rules.
- **New Employees of Existing Entities:** For current municipal employers, MERS 2.0 will apply only to those employees first hired on or after the later of [1] July 1, 2027, or [2] the expiration of any applicable collective bargaining agreement that is in effect on July 1, 2025. Employees hired before that date will continue under the current MERS plan.

Action Required: This staggered application means that new employers will encounter the new rules first, while current employers have more time to prepare for implementation. Municipalities should review their collective bargaining agreements now.

Over the next several months, the Retirement Services Division will coordinate with currently participating municipalities to confirm the relevant expiration dates and establish clear MERS 2.0 effective dates for each unit within the participating municipalities.

V. Employee Contributions

MERS 2.0 establishes a new contribution framework that differs significantly from the current MERS 1.0 rules. Under the existing plan, contribution rates depend on whether a position is covered by Social Security. Employees in positions covered by Social Security contribute 5.25% of total compensation, while those not covered contribute 8 percent. Benefit formulas are likewise tied to Social Security coverage. That framework will continue to apply for employees who remain in MERS 1.0. MERS 2.0 eliminates the Social Security distinction entirely, but, as explained below, it also creates a distinction between public safety employees and non-public safety employees.

Social Security Integration: Whether or not a position is covered under a municipality's Social Security agreement,¹ all new members of MERS 2.0 will contribute and accrue benefits under the new public safety and non-public safety structure. Social Security participation itself is unaffected. Municipalities that participate in Social Security will continue to do so, and MERS 2.0 members in those units will still contribute to Social Security, but their MERS contributions and benefits will no longer be calculated differently on that basis.

¹ A municipality's participation in Social Security is determined by its agreement under Section 218 of the federal Social Security Act. These agreements remain in force regardless of MERS 2.0 and continue to govern whether municipal employees must contribute to Social Security.

Structure of Contributions: MERS 2.0 establishes three categories of required contributions. Each category treats general employees and public safety employees differently, reflecting the higher contribution and benefit levels traditionally applied to police and fire positions.

- **Defined Benefit (DB) Pension Contributions:** These contributions fund the pension benefit, which is calculated only on Regular Pay.
 - General Employees: 5 % of Regular Pay
 - Public Safety Employees: 8 % of Regular Pay
- **Universal DC Contribution:** All employees will contribute a small, uniform amount to the DC plan. This ensures that every member, regardless of job classification or earnings pattern, builds at least a modest supplemental retirement account.
 - General Employees: 0.25 % of all pay (employee-only, no employer match)
 - Public Safety Employees: 0.25 % of all pay (employee-only, no employer match)

Please note: “all pay” includes both Regular Pay and Other Pay.

- **MERS 2.0 Variable Pay DC Contributions with Employer Match:** These contributions are required **only** for employees who participate in MERS 2.0. They ensure that variable earnings, such as overtime or bonuses, which are excluded from the DB pension calculation for purposes of MERS 2.0, still generate a meaningful retirement benefit through the DC plan. Both employees and employers contribute, and the employer is required to match the employee contribution on this pay.
 - General Employees: 5 % of Other Pay, with employer match
 - Public Safety Employees: 8 % of Other Pay, with employer match

Contribution Table			
Contribution Type	General Employees	Public Safety Employees	Employer Match
Defined Benefit (DB) Pension	5% of Regular Pay	8% of Regular Pay	None
Universal DC Contribution	0.25% of all pay (employee-only)	0.25% of all pay (employee-only)	None
Variable Pay DC Contribution	5% of Other Pay	8% of Other Pay	Dollar-for-dollar match on employee contribution

VI. Retirement Eligibility

MERS 2.0 establishes new rules for when members may begin collecting retirement benefits. Under MERS 1.0, a member can qualify for normal retirement either (i) at age 55 with the required service (5 years of continuous service or 15 years of aggregate service), or (ii) at any age with 25 years of service. A member with only 5 years of service could also retire at any age, although the benefit will be reduced.

MERS 2.0 removes this “any age with 5 years” option. Under the new rules, a member must be at least age 55 to collect benefits, unless they have completed a full career of service that entitles them to retire earlier (30 years of service for general employees or 25 years of service for public safety employees). Members who complete five years of service will still be vested in the system, but their vested benefit cannot be collected until they reach age 55.

Retirement Eligibility Chart (MERS 2.0)		
Employee Type	Normal Retirement Eligibility	Early Retirement (Vested Right)
<u>General Employees:</u>	Age 65 with ≥ 5 years of service -OR- any age with 30 years of service	Age 55 with ≥ 5 years but fewer than 30 years of service (reduced benefit)
<u>Public Safety Employees:</u>	Age 55 with ≥ 5 years of service -OR- any age with 25 years of service	N/A

VII. Benefit Calculation

Under MERS 1.0 rules, retirement income is calculated using multiple variables, including Social Security coverage, breakpoints, and age-62 reductions.

MERS 2.0 simplifies this process:

- Benefits are calculated using a flat percentage multiplier applied to Average Pay.
- Average Pay = average Regular Pay over the five highest-paid years.

- The benefit multiplier is set by employee type:
 - General Employees: 1.8% of Average Pay for each year of credited service.
 - Public Safety Employees: 2.2% of Average Pay for each year of credited service.

Breakpoints, Social Security coordination, and age-62 adjustments will not apply to the calculation of MERS 2.0 benefits.

VIII. Next Steps for Employers

- Identify participating departments with collective bargaining agreements in effect on July 1, 2025 that extend beyond July 1, 2027, and report expiration dates to the Retirement Services Division.
- Begin planning for payroll adjustments to reflect the new contribution rates and pay categories.
- Prepare for expanded reporting responsibilities to ensure DB and DC contributions are made on the correct types of pay.
- Anticipate further guidance from the Commission once implementing regulations are finalized.

IX. Conclusion

MERS 2.0 represents a major change to the retirement system for municipal employees. By preparing now, towns can ensure a smooth transition when the new tier takes effect. The Retirement Services Division will continue to provide updates and additional guidance as the Commission adopts implementing regulations.

FAQs:

1. Does MERS 2.0 affect current employees who are already in MERS?

No. If you are already participating in MERS before the MERS 2.0 effective date, you will remain under the current plan rules. Your benefits and contributions will not change because of MERS 2.0.

2. Who will be covered by MERS 2.0?

New Entities: MERS 2.0 will apply to all employees for entities that join on or after July 1, 2026.

Existing Entities: MERS 2.0 will only apply to new employees who first join MERS on or after the later of either (i) July 1, 2027, or (ii) the expiration of any applicable collective bargaining agreement that is in effect on July 1, 2025.

3. What is different about MERS 2.0?

MERS 2.0 introduces a hybrid structure: a pension (defined benefit) plus a 401(k)-style account (defined contribution) to which both employees and their employer will contribute. It also uses new pay definitions (Base Pay, Other Pay, and Regular Pay) that determine which income is used for pension calculations and which income generates contributions to the 401(k)-style plan.

4. What will employers need to do differently?

Towns will have new responsibilities to track employee pay in the new categories, report the information accurately to the Retirement Services Division, and make contributions to both the pension and the 401(k)-style account based on those categories. Further instructions will be issued by the Commission once regulations are finalized.