

Tier II Supplement to January 1, 2000 Summary Plan Description

The attached Summary Plan Description (SPD) is designed to assist members in better understanding their retirement plan. Our office is aware that the SPD for Tier II has not been updated since January 1, 2000. Our office will be updating this Summary Plan Description in the future; however, in the meantime the following information is meant to supplement and explain the most significant changes to the plan as a result of labor agreements over the last several years.

The State Employees Bargaining Agency Coalition (SEBAC) and the State negotiated and ratified changes that affect Retirement and Healthcare in 2009, 2011 and 2017. While the following is not a complete list of every change that resulted from the labor agreements mentioned above, the following is a summary of the most pertinent items that resulted from these agreements.

While the following information is meant to be helpful and informative, nothing contained in it should be considered a promise or contract. The applicable retirement statutes, regulations, and decided cases that construe them are the governing law. The Retirement Services Division reserves the right to revise, change or revoke without notice the information, rules and procedure detailed in the information below as well as future memorandums and summary plan descriptions.

This supplemental memo provides updated information for the following items in the Summary Plan Description:

- **Retirement Contributions** – Information on changes to the contributions members make to this plan.
- **Actual, Vesting and Credited Service**– Actual and Vesting Service are used to determine whether a member has the minimum service to be vested for future retirement benefits. Credited Service is used to calculate the actual monetary benefit.
- **Members Age** – used to determine the first date a member may begin to start collecting benefits.
- **Final Average Earnings (FAE) and Overtime** – one of the criteria used in the formula to calculate benefits.
- **Tier II Breakpoint** – one of the criteria used in the formula to calculate benefits.
- **Tier II Benefit Formula** – the formula used to calculate benefits.
- **Early Retirement Reduction** – the permanent reduction for those members who retire early (ie: Receive a benefit before Normal Retirement age).
- **Hazardous Duty Retirement** – A type of retirement for hazardous duty members who complete 20 years of service in approved hazardous duty positions.
- **Disability Retirement** – A type of retirement for members retiring under the SERS disability provisions
- **Survivor Benefit Payment Options** – One time irrevocable election a member must make at the time of retirement.
- **Cost Of Living (COLA)** – Formula change for retirements 11/1/2017 forward.
- **Health Insurance Eligibility** – retiree's access to health insurance changed.

Retirement Contributions:

Retirement Contributions changed as a result of the 2017 SEBAC agreement. All Tier II members will see a 2% increase in their retirement contributions. This is phased in as follows:

- 1.5% increase effective with the pay period that contains July 1, 2017.
- 0.5% increase effective with the pay period that contains July 1, 2019.

	<u>Prior to</u> <u>7/1/2017</u>	<u>Effective</u> <u>7/1/2017</u>	<u>Effective</u> <u>7/1/2019</u>
<u>Non-HazDuty</u>	0%	1.50%	2%
<u>HazDuty</u>	4%	5.50%	6%

- Due to delays between ratification and implementation of the 2017 SEBAC agreement, contributions were corrected on September 1, 2017. Members began paying “catch up” contributions in 2018 to correct the deficiency in retirement contributions between the payperiod that contained July 1, 2017 up to when contributions were corrected on September 1, 2017.

Vesting Service, Credited Service, and Actual State Service:

Monthly Benefit: NO CHANGE. The minimum service requirements to become vested for future monthly retirement benefits and the criteria used to calculate Vesting, Credited, and Actual state service have not changed for the retirement monetary benefit.

Health Insurance: The 2009, 2011, and 2017 SEBAC agreements made changes to Retiree health insurance eligibility calculations and the cost of monthly premium shares. See the Health Insurance section below for more information.

Members Age:

For members who retire **prior to 7/1/2022**, the ages for Early and Normal retirement age have not changed. See the attached summary plan description for this information.

For members who **retire 7/1/2022 or later**, Normal Retirement age increases by three years for service earned on and after 7/1/2011. Normal retirement age 60 becomes age 63 (members who have at least 25 years of service) and age 62 becomes age 65 (members who have less than 25 years of service and directly transition into retirement). However, there are some exceptions which include:

- Early retirement remains age 55. Members may still retire at age 55; however, the number of months they are retiring prior to Normal Retirement age may increase an additional 3 years (36 months) unless they are grandfathered (see note below).
- Vested Rights members who leave state service with at least 5 years of actual state service but less than 10 years of Vesting service continue to be first eligible for benefits the first of the month on or after their 65th birthday (Vested Rights Retirement).
- The change to Normal Retirement age only affects the portion of service credit earned on and after 7/1/2011. Service earned prior to 7/1/2011 continues to be calculated using age 60 for normal retirement provided the member had 25 (or more) years of service or age 62 if they have less than 25 years of service.

- Members who are Grandfathered under the old rules are not subject to this change: Members are grandfathered if they meet one of the following:
 - They met the Normal Retirement Age and service requirement prior to 7/1/2022; or
 - For those members who would not meet the current Normal retirement requirements before 7/1/2022, when provided the opportunity they elected to pay an additional retirement contribution so that the new ages would not apply to them. This was a one-time irrevocable election that most members had to elect in 2013. Members who elected to pay this contribution will continue to pay this as long they are in state service or until/unless they work to the new retirement age (or qualify for a hazardous duty retirement if applicable). For those who continue to work to the new retirement age (or retire under a hazardous duty retirement), they will be entitled to a future refund of the additional contributions (without interest).

The information above was a summary of changes contained in the 2011 SEBAC agreement and memorialized in 2013 Retirement Division memoranda.

Final Average Earnings (FAE):

In addition to the description already provided in the Summary Plan Description, please include the following updates to FAE:

As a result of the 2011 SEBAC agreement, OVERTIME EARNINGS are subject to a cap. Specifically, when calculating a member’s average salary no one year’s earnings, commencing July 1, 2014 forward, can be greater than 150% of the average of the two preceding two years when including mandatory overtime. The 130% cap is still applicable when no O.T. exists.

The IRS also imposes a maximum compensation limit. No one year’s average salary may exceed the IRS compensation limit for any given year. Please refer to **IRS Section 401(a)(17)**

Tier II Breakpoint:

The attached summary plan description explains the “breakpoint” and shows the breakpoints through the year 2009.

The breakpoint increases 6% each year, rounded to the nearest \$100 **subject to a cap.**

Specifically, **the breakpoint is limited to the 35-year average wage base announced annually by the Social Security Administration.** As you will note in the table below, 2015 was the first year the breakpoint was “capped.” Future breakpoints will always be the lower of the 6% annual increasing breakpoint OR the 35-year average of the Social Security Taxable wage base.

	6% Annual	35 year Avg.	Lower Answer
Calendar Year	Increase	Soc Security	Is The Breakpoint

2011	\$ 58,100.00	\$ 61,891.00	\$ 58,100.00
2012	\$ 61,600.00	\$ 64,566.00	\$ 61,600.00
2013	\$ 65,300.00	\$ 67,309.00	\$ 65,300.00
2014	\$ 69,200.00	\$ 69,997.00	\$ 69,200.00
2015	\$ 73,400.00	\$ 72,643.00	\$ 72,643.00
2016	\$ 77,800.00	\$ 75,180.00	\$ 75,180.00
2017	\$ 82,500.00	\$ 77,889.00	\$ 77,889.00
2018	\$ 87,500.00	\$ 80,537.00	\$ 80,537.00

Since each year's breakpoint now relies on the Social Security Taxable Wage base (which has not yet been announced for the next calendar year), we cannot project forward what future year's breakpoints will be. However, since it has been capped the breakpoint has been historically increasing around 3.5% a year. It's important to note that this could increase or decrease dependent on the annual wage base released by Social Security. The real breakpoint will be calculated at the time the member retires.

Tier II Benefit Formula:

The following benefit formula change is for members who had service on and after 7/1/2013:

Your basic annual retirement benefit equals (Normal Retirement):

one and two-fifths percent (.014)	X	average salary <u>up to</u> the year's breakpoint
PLUS		
one and five-sixths percent (.0183)	X	average salary <u>above</u> of the year's breakpoint
TIMES		
years of credited service to a maximum of 35 years		
AND		
one and five-eighths percent (.01625)	X	average salary
TIMES		
years of credited service over 35 years		

For members who had no service on or after 7/1/2013, use the old formula contained in the attached summary plan description.

The formula above for service on and after 7/1/2013 was released on January 21, 2014 after negotiations were first initiated in the 2011 SEBAC agreement. (see [Office of Labor Relations General Notice 2014-05](#)).

Lastly, Internal Revenue Code, Section 415(b) imposes limits on the amount of retirement benefit that an individual can receive. The allowable monthly benefit is based on the retiree's age when they retire. The IRS evaluates these limits on an annual basis. In 2018 the annual limit was \$220,000 for a 62 year old (\$138,200 for a 55 year old).

Early Retirement Reduction:

The Early Retirement Reduction has changed for all members who retire after October 1, 2011.

The early retirement factor increased to 6% (previously 3% in the attached Summary Plan Description). Use 0.005 for each month (previously used .0025 per month prior to the change) the member retires early.

This change was a result of the 2011 SEBAC agreement.

The Early Retirement is permanent. The base monthly retirement amount does not increase when a member reaches normal retirement age.

Hazardous Duty Retirement:

There has been no change to the minimum service requirement (20 years in hazardous duty positions) and no change to the mathematical formula used to calculate a hazardous duty retirement. However, there has been a change to retirement contributions (see retirement contribution section above) and a cap on overtime used in the average salary (see average salary section above). It is also important to note that as a qualified plan, the benefit amount payable is also limited by rules imposed by the IRS.

Internal Revenue Code, Section 415(b) imposes limits on the amount of retirement benefit that an individual can receive. The allowable monthly benefit is based on the retiree's age when they retire. Since hazardous duty members may retire at any age once completing twenty years in approved hazardous duty positions, some members may find themselves limited by this federal regulation. More information may be found in the Hazardous Duty Workshop and Hazardous Duty Benefit Estimator on the Comptroller's website.

Disability Retirement:

Since the publication of the attached Summary Plan Description, effective April 27, 2012 there was an update to the 'Regulations of Connecticut state Agencies' which included the addition of timelines for the filing of a Disability Retirement Claim:

Deadline to apply for Disability Retirement: Members must apply for Disability Retirement within 24 months of their last day of paid employment. Applications received after this date may not be accepted.

Deadline to appeal a decision of the Medical Examining Board: A member shall have one calendar year from the date of the Board's decision of denial to see reconsideration

of said decision. If a member does not seek reconsideration of a denied decision within one calendar year, the Board's initial decision of denial will stand.

The attached Summary Plan Description provides the definition for Disability Retirement, any minimum service requirements, and the calculation for the monetary benefit.

There has been no change in the fact that Disability Retirement continues to be offset/adjusted for additional monies a member might receive from any type of Social Security, Workers' Compensation, and Outside Job Earnings.

It is important to note that the 2017 SEBAC agreement required that all Disability Retirees apply for Social Security Disability. Members are required to apply for Social Security Disability within two years of their receipt of a State Disability Retirement Benefit. Members who retired prior to the 2017 SEBAC agreement will also be required to apply for Social Security Disability. As per the agreement, if a member is denied Social Security Disability benefits, the Retirement Division may also require a retiree to appeal a Social Security Disability Denial if in their opinion the denial seemed inappropriate. The agreement also states that no retiree shall be required to sustain any additional cost to apply for Social Security Benefits; in those situations where the Retirement Division required the retiree to appeal their Social Security Decision, the Division shall assist the retiree in filing the appeal at no cost.

The 2017 SEBAC agreement reserved the right for both SEBAC and the State to continue negotiations on the offset calculations for Disability Retirement. The attached Summary Plan Description provides information on the offsets for any type of Social Security, Workers' Compensation, and Outside Job earnings. Due to the fact the parties reserved the right to further negotiate changes to these offsets in the future; our office reserves the right to impose any changes without notice as it becomes necessary to comply with any outcome of negotiations between SEBAC and the State.

Survivor Options:

There are no changes to the Survivor Option Elections. It is important to be aware that the IRS imposes a limitation on a survivor that is more than ten years younger than the retiree. Specifically, the attached Summary Plan Description does not mention that if you choose a 100% survivor option for a non-spouse who is more than 10 years younger than you, IRS provisions may further limit the monthly amount payable to your named contingent annuitant after your death. (See 26 C.F.R. § 1.401(a)(9)-6).

Cost of Living Increase (COLA):

The 2011 SEBAC agreement changed the minimum and maximum COLA. Any retiree with a retirement date of November 1, 2011 through June 30, 2022, the minimum COLA is 2% and the maximum is 7.5%.

The 2017 SEBAC agreement changes the COLA for anyone with a retirement date of July 1, 2022 or later. The following is the wording from the 2017 SEBAC agreement:

The revised Cost of Living Adjustment (COLA) for eligible employees retiring 7/1/22 or later shall be based on a formula which uses the annual increase of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the twelve-month period prior to the effective date of the COLA.

Where such Index increases 2% or less, the COLA will be the actual increase in the CPI-W, if any.

Where the CPI-W increases by more than 2%, there will be a minimum COLA increase of 2% and a maximum COLA increase of 7.5%. Within this range, the COLA will be calculated based on 60% of the annual increase of the CPI-W up to 6%, and 75% of the annual increase in the CPI-W over 6%.

The CPI-W shall be defined as that utilized by the Social Security Administration as of June 29, 1996.

Post 6/30/22 Retirees shall receive their first COLA effective 30 months after retirement, and annually thereafter. The first COLA is:

- A standard annual COLA as described in paragraph above; and*
- If during the retiree's first 18 months of retirement, the CPI-W goes up more than an annualized 5.5% an additional COLA shall be paid. The additional COLA is computed using the above formula, minus 2.5%, multiplied by 1.5 (to cover the 18 month or 1.5 year delay).*

Health Insurance:

The 2009, 2011, and 2017 SEBAC agreements made changes to the eligibility requirements to both receive Retiree Health Insurance benefits and the cost for those benefits. The following is only a brief summary of the most significant changes involving health insurance. Please refer to the SEBAC agreements and Healthcare Policy and Benefit Services Division memorandums for additional information.

Minimum Service Requirement for Health Insurance:

The minimum service requirement necessary to qualify for benefits is different depending on when you were hired and how many years of actual service you had on certain dates.

The measurement of “actual” state service for health insurance is not the same in retirement. For example: Accrued vacation time paid at termination counts as Actual state service for the monetary retirement benefit only. Health insurance does not include vacation payouts when calculating actual state service. Alternatively, prior military service does not count as actual state service for retirement purposes but does count as actual state service for health insurance eligibility. **In situations where a member plans to leave State service after fulfilling only the minimum service requirements, it is suggested they first confirm their retiree health insurance eligibility requirements with a representative of the Healthcare Policy and Benefit Services Division.**

Retirees age 62 or older and less 10 years of State Service:

The 2009 SEBAC agreement tightened the rules for those who could collect health insurance prior to having ten years of Actual State service. As the attached Summary Plan Description explains, a Tier II member who has reached age sixty-two or older and directly transitions into retirement, may receive a monetary benefit. This benefit might also provide health insurance if the member met the minimum health insurance requirements. Depending on a member's service and age when the 2009 agreement was passed, some members were grandfathered in. As a result of this agreement, employees first hired on or after 7/1/1997 and retiring under a Normal Retirement at age 62 with at least 5 years of Actual state service but less than 10 years of state service:

- Will only qualify for health insurance provided they are making a direct transition into retirement, were actively employed by the state no later than April 21, 2009, and were at least age 52 as of July 1, 2009.
- Those who were hired prior to 7/1/97 are not subject to this rule change.
- The above rule only applies to those attempting to retire prior to ten years of state service. There are different rules for those who have 10 or more years of service.

Early Retirement:

If a member is retiring under an Early Retirement, their monthly health insurance premiums are calculated by their age at retirement and number of months they are retiring early. This "grid" was created in the 2011 SEBAC agreement. Early retirees will pay the health insurance Grid until they reach their Normal Retirement age based on how many years of service they had when they retired.

Normal Retirement (or Early Retiree who reaches Normal Retirement age):

As defined by the 2017 SEBAC agreement, if a member retires with less than twenty-five years of service, once they reach Normal Retirement age they will pay a higher retiree health insurance premium than those employees retiring with twenty-five or more years of service. For retirement dates between 11/1/17 and 6/1/2022: Non-hazardous duty retirees with less than twenty five years of service pay a 1.5% increased premium share. This does not affect members retiring with twenty-five or more years or retiring under a hazardous duty retirement.

For retirement dates 7/1/2022 forward: Non-hazardous duty retirees will pay 5% more premium share when they reach Normal Retirement age (including those with twenty-five or more years of service). Hazardous duty retirees will pay a 3% premium share.

Health Enhancement Program: (HEP)

The 2011 SEBAC agreement introduced a new program to enhance member's abilities to make the most informed decisions regarding their health. This same program continues in retirement and health insurance premiums increase for those members and dependents that are not participating or not compliant.

Medicare (age 65 or older):

The 2017 SEBAC agreement changed retiree healthcare for those retirees who have reached Medicare Age. Medicare eligible retirees must still enroll in Medicare parts A and B. They will then be enrolled in a State-sponsored Medicare Advantage Plan. They will receive a new Medicare Advantage card to use for all doctor visits as well as their prescriptions.

Prior to 7/1/2022, while Medicare Part A currently has no cost, Medicare recipients must pay for Medicare Part B. The state currently reimburses retirees (and their Medicare eligible dependents) for their standard Medicare Part B Premiums. For those subject to a higher premium, members are asked to forward their Income Related Monthly Adjustment Amount (IRMAA) letter each year to the Retiree Health Insurance Unit so the proper reimbursement rate can be included in their monthly retirement check.

Effective 7/1/2022 and later, the state will only reimburse half the additional cost that is above the standard premium imposed by Medicare for Part B coverage.

In Conclusion

We hope the above information is helpful in understanding the negotiated changes to the Tier II retirement plan. For additional information that members may also find helpful for future retirement planning, please refer to information provided on the Comptroller's website. This information can be found at: <http://www.osc.ct.gov/rbsd/retirement/stateretire.htm>