STATE EMPLOYEES
RETIREMENT COMMISSION

MEDICAL EXAMINING BOARD
for DISABILITY RETIREMENT

STATE OF CONNECTICUT
RETIREMENT SERVICES DIVISION
OFFICE *of the* STATE COMPTROLLER
55 Elm Street
Hartford, CT 06106
PHONE: (860) 702-3480 | FAX: (860) 702-3489

RETIREMENT SERVICES DIVISION MEMORANDUM 2019-05

November 26, 2019

TO THE HEADS OF ALL STATE AGENCIES

ATTENTION: All Human Resources and Payroll Officers
SUBJECT: Tier IV Summary Plan Description

This memorandum has two purposes: (1) to notify agencies that the summary plan description for Tier IV of the State Employees Retirement System ("**SERS**") is now available, and (2) to call your attention to some features of Tier IV that differ from other SERS plans.

I. INTRODUCTION

The 2017 SEBAC agreement created a new retirement plan in SERS, Tier IV. Membership in Tier IV is *mandatory* for *most* state employees, if they were **first hired on or after July 31, 2017**. Membership is *optional* for employees hired in a position that is defined by law as a state teacher or a professional staff member in higher education. Those employees must participate in a retirement plan, but they may choose to participate in any of Tier IV, the Hybrid Plan, the Alternate Retirement Program, or, in some cases, in the Teachers Retirement System.

A summary plan descriptions (SPDs) for the Tier IV plan is now available online, on the website of the Office of the State Comptroller (OSC), at **Tier IV Defined Benefit SPD**; **Tier IV Defined Contribution SPD**. The SPDs can also be accessed from the OSC website by clicking on "Employee Resources," then on "State Employees Retirement Information," and then on "Your Retirement Information." The website provides a printable version of the SPDs for agencies or employees who wish to have a hard copy.

II. HIGHLIGHTS OF THE TIER IV PLAN

Tier IV differs from previous SERS plans in significant ways. We encourage you to read the SPD in detail to learn about those differences. Among the most important differences are these:

A. Tier IV is a Combination Plan

Tier IV includes two different types of retirement plan: (i) a defined benefit plan (a "DB Plan"), which operates in much the same way as Tier III, and (ii) a defined contribution plan, which is governed by

Section 401(a) of the Internal Revenue Code (a "401(a) Plan"). Like Tier III members, members of Tier IV who meet the minimum age and service requirements will, at the time of their retirement, be eligible to receive retirement income and other benefits from the DB Plan. *In addition* to those benefits, vested members will receive their accrued contributions and investment earnings from the 401(a) Plan.[1]

1. Separate Contributions

Because Tier IV combines two different types of plan, members contribute in two different ways. First, most members contribute 5% of pensionable earnings to the DB Plan. Hazardous duty members contribute an additional 3% (for a total of 8%) while they are employed in hazardous duty positions.

It is important to note that the amount of this mandatory employee contribution to the DB Plan may be increased in the future, up to an additional 2% of income, based on the plan's financial needs.[2]

Separately, Tier IV members contribute an additional 1% of income to the 401(a) Plan; that contribution is matched by a 1% employer contribution from the State.

2. Defined Contribution Benefits

Tier IV members have a right to direct the investment of their funds in the 401(a) Plan, choosing from among several investment funds being offered by the Plan Administrator. The current Plan Administrator is Prudential. Members are therefore encouraged to research the investment options that Prudential is offering to them, and to choose the investment fund that best suits their individual goals. Members can contact Prudential, at 1-844-505-7283 or visit website www,ctdcp.com for more information about the investment funds that are available.

It is the responsibility of the individual member to advise Prudential of his or her investment election. Members who have not yet made an investment election will have their contributions made to the Prudential Goal Maker account.

In addition, members may also participate in optional deferred compensation 457 or 403B plans (the plan that is appropriate for their job title).

B. Tier IV Uses a New Benefits Formula

The basic benefit for retirees under Tiers II, IIA, and III is calculated under a formula that involves both (i) average salary and (ii) the amount by which the average salary exceeds a specific amount (the "breakpoint") for each calendar year. Tier IV uses a different formula to calculate retiree benefits. One of the differences is that the formula for calculating a Tier IV benefit does not involve a breakpoint. (A different formula, which is explained in Point II.e below, is used to calculate for hazardous duty benefits in Tier IV.)

[1] Vesting requirements for the 401(a) Plan are discussed below.
[2] If the Tier IV plan suffers from a worse-than-projected financial performance in any calendar year, the plan calls for additional contributions to make up the lost revenues. These additional contributions are made in equal amounts by *both* the employee and the State, except that the employee's contribution may not exceed 2% of income.

Instead, the amount of each member's annual benefit is equal to:

.013 <u>TIMES</u> Average Salary
<u>TIMES</u>
Number of Years of Full-time Equivalent Credited Service

C. Tier IV Requirements for Vesting Service and Retirement Age

Each of the two components of the Tier IV plan has a different vesting requirement.

1. Vesting in the DB Plan

To be eligible for a retirement income benefit under Tier IV's DB Plan, members must complete at least ten (10) years of vesting service. A member who leaves state service with less than 10 years of vesting service may receive a refund of all the contributions to the DB Plan that have been credited to the member's account, plus interest.

It is important to note that the vesting requirement for retiree *health insurance* is *different* from the requirement for retirement income. Eligibility for retiree health insurance requires a minimum of fifteen (15) years of service, plus any additional health insurance requirements that must be met. Please refer to the Health Insurance Policy and Benefit Division with any questions regarding entitlement to retiree health insurance.

2. Vesting in the 401(a) Plan

Contributions made to the 401(a) Plan by the employee, together with any earnings on those contributions, are considered to be fully vested at all times. That is, employees obtain certain rights to the funds they contribute to the 401(a) Plan as soon as the funds are contributed, and regardless of future events.

Employer contributions to the 401(a) do not become vested until the employee has accrued three (3) years of vesting service. However, any non-vested portion of the 401(a) Plan can become fully vested, if the Tier IV member retires under either a normal or a disability retirement.

Thus, a member who leaves state service with fewer than ten years of vesting service will nevertheless receive a refund of all his or her contributions to the 401(a) Plan, together with investment earnings on those contributions. A member who leaves with three years or more of vesting service shall *also* receive a refund of the 1% employer contributions that have been made on the member's behalf, together with earnings on those employer contributions.

3. Retirement Age

Retirement ages for the DB Plan of Tier IV are identical to the ages for Tier III members. Please refer to the following chart:

	Age	Vesting Service
Early	58	at least 10 years
Normal	63	at least 25 years
Normal	65	at least 10 years but less 25

Members who retire under an early retirement are subject to the same reduction in the benefits payable under the DB Plan as are members of Tier III. That is, the retirement income benefit is calculated under the formula set forth above, but the amount is then permanently reduced by an early retirement reduction[3] each month that remains before the member turns 63 (for members with 25 years of vesting service) or 65 (for members with 10-25 years of service).

D. Average Salary Calculation

The calculation of Average Salary for Tier IV members differs from the way Average Salary is calculated in Tiers I, II, IIA, and III. All plans take account of a member's highest-paid years of credited service ("Average Salary Years"). Tiers I, II , and IIA calculate Average Salary on the basis of three (3) Average Salary Years. Tiers III and IV make the calculation on the basis of five (5) Average Salary Years.

In Tier IV, one of the limits on the amount of salary that may be credited to a single Average Salary Year has been eliminated. Additionally, Tier IV employs a new method for determining the amount of salary that was earned in any Average Salary Year.

1. No 150% Cap

In Tiers I through III, the amount of salary that counts towards a retirement benefit ("Includable Salary") for any single Average Salary Year is subject to two different limits. In both cases, the limit is based on a comparison between the employee's earnings during the Average Salary Year and his or her earnings in the two 12-month periods that immediately preceded that year (the "Measuring Years").

The first limit (the "130% Cap") provides that the amount of Includable Salary for any Average Salary Year may not exceed 130% of the average amount of Includable Salary that the employee earned in each of the two Measuring Years. Importantly, this calculation is performed without taking account of any mandatory overtime earnings in either of the Average Salary Years or the Measuring Years.

The second limit (the "150% Cap") provides that the amount of Includable Salary for an Average Salary Year—*including* any Includable Salary that has been paid for overtime—may not be greater than 150% of the average amount of Includable Salary (*including* overtime) that the employee earned in each of the Measuring Years.

[3] The current early retirement reduction is one half of one percent for each month a member retires prior to their Normal retirement age.

There is no 150% Cap in Tier IV. For Tier IV members, only the 130% Cap applies.

2. Calculating Average Salary in Tier IV

In Tier IV, base salary and overtime earnings are treated as separate components of Average Salary. Thus, the first step in calculating Average Salary in Tier IV is to calculate the average amount of the member's *base salary* in each of his or her five years of highest base salary ("**Base Salary Average**"). The next step is to determine the total number of the member's overtime hours over his or her last 25 years of service, and to divide that number by 25 ("**Overtime Hours Average**"). If the member served in overtime-eligible positions for fewer than 25 years, then the Overtime Hours Average is calculated by dividing the total number of overtime hours by the member's total years of service in overtime-eligible positions.

The Overtime Hours Average is multiplied by the average amount of the member's *hourly* salary in each of the five years that are used to calculate the Base Salary Average ("**Hourly Base Rate**"). However, the product of the Overtime Hours Average and the Hourly Base Rate ("**Overtime Salary Average**") is capped at 60% of the Base Salary Average ("**60% Cap**").

Thus, the Average Salary for Tier IV is calculated as follows:

Base Salary Average (subject to the 130% cap)

<u>PLUS</u>

Overtime Salary Average (subject to the 60% Cap)

<u>EQUALS</u>

Average Salary

E. Hazardous Duty Retirement Changes

Members of Tiers, I, II, and IIA may retire at any age, if they have completed at least 20 years of actual service while a hazardous duty member. Tier III members with 20 years of hazardous duty service may retire at age 50.

Tier IV has different requirements. Tier IV members who are employed in job titles recognized as creditable towards a hazardous duty retirement may retire at any age under the hazardous duty retirement provisions only after they have completed **twenty-five (25) years** in approved hazardous duty positions.

The formula for calculating the benefit percentage for hazardous duty is the same as in other plans. Assuming a member worked full-time in hazardous duty positions for the entirety of his or her career, the member would be entitled to a benefit of sixty percent (60%) of his or her Final Average Earnings (FAE). Please note that members who had part-time service during their careers would receive a different percentage, proportionate to the schedule they actually worked.

The formula remains as follows:

2.5% times hazardous duty service to a maximum of 20 years
PLUS
2% times hazardous duty and non-hazardous duty service in excess of 20 years
EQUALS
PERCENTAGE OF ENTITLEMENT
TIMES
Final Average Earnings
EQUALS
Annual Benefit[4]

Hazardous duty members in Tier IV also participate in the 401(a) Plan, and they enjoy the same investment options that were discussed earlier.

F. Higher Education Employees

Members who were first hired in agencies of Higher Education on or after July 31, 2017, may participate in Tier IV, but, unlike employees of other agencies, they may choose, in the alternative, to participate in the Hybrid Plan[5] or the Alternate Retirement Program (ARP).[6]

III. CONCLUSION

We encourage agencies to review the new summary plan descriptions, CO-931 enrollment forms, and other retirement information now available on the Office of the State Comptroller's website, and we welcome any suggestions about how to help SERS members and the agencies that employ them better understand the retirement system. Questions or suggestions may be sent to the Retirement Services Division by email, at osc.rsd@po.state.ct.us.

---

[4] The retirement benefit is also subject to IRS 415 benefit limitations.
[5] Information about the Hybrid Plan is available on the OSC website, at https://www.osc.ct.gov/empret/hybridspd/hybridplan.htm.
[6] Information about ARP is available on the OSC website, at https://www.osc.ct.gov/empret/arpinfo/ARPPlanDoc2012Amend.pdf

It is the responsibility of each state agency to advise employees of this information, to provide them with a printed copy of the summary plan descriptions, and to provide them with a copy of their signed CO-931 enrollment form.

Very truly yours,

STATE EMPLOYEES RETIREMENT COMMISSION
KEVIN LEMBO, SECRETARY EX OFFICIO

BY:

John Herrington, Director
Retirement Services Division