STATE of CONNECTICUT

RETIREMENT SERVICES DIVISION

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

RETIREMENT SERVICES DIVISION MEMORANDUM 2021-03
July 2, 2021
TO THE HEADS OF ALL STATE AGENCIES

ATTENTION: All Human Resources and Payroll Officers
SUBJECT: Changes to Rules for Retirements After July 1, 2022

I. INTRODUCTION

The collective bargaining agreements known as "SEBAC 2011" and "SEBAC 2017" made changes to the terms of retirement for all state employees, including members of the State Employees Retirement System (also known as "**SERS**"). These changes (which this document will call the "**2022 Changes**") go into effect as of **July 1, 2022** (the "**Effective Date**"). This means they will apply to all Connecticut employees whose date of retirement is on or later than **August 1, 2022**.[1]

The 2022 Changes fall into three different categories:

- **Normal Retirement Age:** Changes to the "Normal Retirement Age" for members of Tiers II and IIA of SERS.
- **Cost-of-Living Adjustments (COLAs):** Changes to rules governing cost-of-living adjustments for SERS retirees.
- **Retiree Healthcare:** Changes to rules governing charges and reimbursements for retirees' healthcare and prescription drug coverage.

Many state employees have raised questions about 2022 Changes, especially:

1. Will these changes have a negative effect on my retirement?
2. If so, can I avoid that harm by retiring before the Effective Date?

There is no simple answer to these questions. It is possible to consider them in purely monetary terms: At the *end* of my retirement, will I have received more money from the state if I choose to

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[1] Because state employees must retire on the first day of a month that occurs *after* the termination of their employment, all employees who retire on or before July 1, 2022, will have terminated employment *before* the rules go into effect. In other words, the 2022 Changes will *not* apply to *any* employee who retires on or before July 1, 2022.

retire before the changes go into effect? But even that question requires a different answer for each employee, and some of the information that is needed for each answer—such as the amount of future changes to the cost of living, or how long the member's retirement will last—is beyond anyone's knowledge.

This memorandum will help you explain the 2022 Changes to employees who are planning their retirement by clarifying the following key facts:

1. The 2022 Changes will increase the amount deducted from the retirement benefits of certain employees to pay for state-provided retiree health insurance. It is important to note, however, that these deductions generally end when the employee and his or her spouse become eligible for Medicare. In other words, the effect of this change to current retirement rules will generally last for only a limited amount of time. The details regarding insurance costs are provided below.

2. The 2022 Changes with respect to the reimbursement of Medicare premiums will affect only certain high-income retirees.

3. The ultimate effect of the changes to cost-of-living adjustments cannot be predicted, because it will depend on future rates of inflation.

4. The changes to Normal Retirement Age will have an impact only on certain members of Tiers II and IIA. They should *not* affect the retirement planning of *most* SERS members, including:

    - members of Tiers I, III, and IV;
    - hazardous duty retirees of all tiers;
    - disability retirees of all tiers;
    - members who reach Normal Retirement Age before July 1, 2022; and
    - members who purchased the right to retire under the current Normal Retirement Age rules.

Taken together, what these facts show is that **only a very limited number of employees who were planning to retire *after* the Effective Date may gain a clear advantage by changing their retirement strategy**.

II. BASIC INFORMATION

To understand the 2022 Changes, it is necessary to understand both the processes created by the SEBAC agreements and certain basic structures of the state's benefits for retirees.

A. "Normal Retirement," "Early Retirement," and "Normal Retirement Age."

Each retirement plan in SERS (including the Hybrid Plans) specifies a certain age as "**Normal Retirement Age**." Normal Retirement Age is used to distinguish "Normal Retirement" from "Early Retirement."

- A SERS member has a "**Normal Retirement**" if he or she (i) satisfies the service requirements that make the member eligible for a retirement pension and (ii) elects to begin receiving that pension *at or after* reaching the member's "Normal Retirement Age."

- A member has an "**Early Retirement**" if he or she (i) satisfies the service requirements for a retirement pension and (ii) elects to begin receiving that pension *after* reaching the age of 55, but *before* reaching Normal Retirement Age.

A Normal Retirement differs from an Early Retirement, because pension amounts under the two types of retirement are calculated in different ways:

- Under a Normal Retirement, the monthly pension payable to a SERS member is calculated under a formula that this document will call the "**Normal Retirement Formula.**" The Normal Retirement Formula takes account of the member's years of credited service and pre-retirement compensation.

- Under an Early Retirement, the member's pension is calculated by (i) applying the Normal Retirement Formula, and then (ii) *reducing* whatever amount that formula produces.

The amount of the *reduction* for Early Retirement is a multiple of the number of months between (i) the member's date of retirement and (ii) the date on which the member will reach Normal Retirement Age. For members of Tiers II and IIA, special rules can make this a complex calculation. For *either* Tier, however, members can find out what the reduction will be for any given date of retirement by consulting the Estimator on the website of the Retirement Services Division (the "**RSD**"), at https://www.osc.ct.gov/empret/tier2summ/workshop/disclaimer.htm. Employees of agencies with access to the Core-CT Benefit Calculator can also use that Calculator.

B. Cost-of-Living Adjustments

Retired members of SERS (including Hybrid Plan members) receive annual cost-of-living adjustments (which this document will refer to as "**COLAs**") to their retirement pensions. The amount of each COLA is calculated under a formula that accounts for a percentage of the national rate of inflation for the 12-month period that precedes the adjustment. The rate of inflation is measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (also known as the "**CPI-W**"). However, SERS members who retire under the current rules receive a *minimum* COLA of 2%, even in years for which the formula would produce a smaller COLA.

Currently, the *first* COLA that a member may receive after his or her retirement is subject to two special rules. The first states that COLAs may be awarded *only* on January 1 or July 1 of each year.

The second rule states that a member does not become eligible to receive a COLA until *at least* nine months have elapsed after the member's retirement date. Depending on the member's date of retirement, therefore, a member must wait between nine and fourteen months to receive his or her first COLA. For example, a member who retires on April 1 is not eligible to receive an initial COLA until January 1 of the following year.

C. Costs of Retiree Health Insurance

Retired employees of the State of Connecticut who have satisfied the eligibility requirements to qualify for retiree healthcare and prescription coverage as a benefit may opt to enroll in medical and prescription coverage through the state's self-insured retiree health plan.[2] Eligible dependents of the retiree's family may also receive coverage through that plan.

Retired employees must pay *a portion* of the premium for the health and prescription coverage provided by the state's retiree health plan. The payments are made through deductions from the employees' retirement benefits (or billed directly to the retiree should they not receive a monthly pension benefit). The amount of a given employee's premium, and the percentage for which the employee is responsible, will depend on (i) the type of benefit plan the member has selected, (ii) the number of members of the employee's household who are covered, and (iii) their retirement status.

- Employees who have retired under a Normal Retirement are responsible for the following portions of their premiums: From 0% to 1.5% for hazardous duty retirees and retirees with 25 or more years of service; from 1.5% to 3% for all others. Under current premium rates, these percentages mean that employees must pay between $0 to $101.14 per month for retiree health insurance.

- Employees who have retired under an Early Retirement pay different percentages for their healthcare coverage. The percentage each employee must pay is the lesser of 25% of their monthly pension or a value based on a combination of the employee's years of service and his or her age at the time of retirement. These rates can be found in a "grid" that appears in Attachment C to the SEBAC 2011 agreement. A copy of that grid is attached to this memorandum as Appendix A.

When *any* Connecticut retiree becomes eligible for coverage under Medicare (either because the retiree has reached age 65, or because he or she has become eligible for Medicare due to SSDI), the enrollee is required to enroll in Medicare Parts A (hospital coverage) and B (doctor and outpatient services). The retiree is then transitioned into the state's custom group Medicare Advantage Plan, which is known as the "**MAPD.**" Employees who are Medicare-eligible at the time of their retirement are enrolled in the MAPD as of their retirement health enrollment date.

There is no charge for enrollment in the MAPD. When a retired employee is enrolled in the MAPD, premium charges for his or her coverage under the state's retiree health plan *will end*. If, at that time, the employee's dependents continue to be covered under the state's retiree health plan, deductions will be made to pay for coverage *only* for those dependents.

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[2] This rule applies to all retirees that have satisfied the eligibility requirements to qualify for retiree healthcare and prescription coverage as a benefit, including such members of the Alternate Retirement Program (ARP) and Hybrid Plan members of SERS.

While Connecticut does not charge Medicare members for the MAPD, the *federal* government charges a premium for Medicare Part B. Certain high-income retirees must also pay an additional monthly premium for Parts B and D. (Part D provides prescription drug coverage.) This additional premium is known as the "Income-Related Monthly Adjustment Amount," or the "**IRMAA**."

After an enrolled member of the state retiree health plan provides proof of his or her enrollment in Medicare, and after the amount of the retiree's Medicare premiums has been verified, the state will *reimburse* the retiree for the entire amount he or she pays in premiums to Medicare—both the standard premium for Part B *and* any IRMAA for Parts B and D.

D. The Effective Date

In thinking about the 2022 Changes, it is important to keep *two dates* in mind.

- The *rule changes* go into effect on **July 1, 2022** (the "**Effective Date**").
- These rule changes will *apply to SERS members* who retire on or after **August 1, 2022**.

Because state employees must retire on the first day of a month that occurs *after* the termination of their employment, all employees who retire on or before July 1, 2022, will have terminated employment *before* the rules go into effect.

The earliest retirement date for employees who terminate their employment *after* the rules go into effect will be August 1, 2022. With one limited exception, *every* employee who retires on or after August 1, 2022, will be subject to the 2022 Changes.

The exception is for members of Tier II and IIA who purchased "grandfathering" rights (as explained below). These employees are exempt from a change to Normal Retirement Age. Please note, however, that "grandfathered" employees are *not* exempt from the changes relating to health insurance and COLAs.

It is also important to observe that each of the 2022 Changes has a distinctive set of rules, and some of them will *not* affect every retiree. The discussions below explain which members each change will and will not affect.

III. THE 2022 CHANGES AFFECT HEALTH INSURANCE CHARGES AND REIMBURSEMENTS

The 2022 Changes will affect the cost of retiree health insurance in two different ways.

A. Health Insurance Premiums.

The first change is a change to the portion of the premium for state-provided health insurance that must be paid (through deductions) by retirees who (i) have taken a Normal Retirement and (ii) are not yet eligible for Medicare.

These retirees currently contribute to the cost of their insurance (as well as coverage for enrolled dependents) at the following rates: from 0% to 1.5% for hazardous duty retirees and retirees with 25 or more years of service; from 1.5% to 3% for all others.

For employees who retire under a Normal Retirement **on or after August 1, 2022**, and who are not yet eligible for Medicare, these rates will be: 3% for hazardous duty retirees and 5% for all others.

Please take note of the following important facts about this change:

- The percentages cited above are percentages of employees' insurance premiums, *not* of the employees' retirement income. As explained above, retirees currently pay between $0 to $101.14 per month for retiree health insurance. Based on the full premium rates in place as of July 1, 2021, the range would be $32.70 to $168.58 per month.

- The 2022 Changes *will not* affect the percentages of premium that must be paid by employees under Early Retirement. The rates listed on Appendix A will remain in effect *after* July 1, 2022.

- The effect of this change on any given retiree is *temporary*. Once a retiree and their enrolled dependents have enrolled in Medicare, they are transitioned to the MAPD, and he or she stops paying premiums for his or her state-sponsored retiree health insurance. (If a retiree or their enrolled dependents remain on the state's non-Medicare medical and prescription coverage, the retiree will continue paying only for *their* coverage.)

  In other words, this change has no effect on most employees who are Medicare-eligible at the time they retire. For all other employees, the effect should end when (i) the retiree either reaches age 65 or becomes eligible for Medicare as a result of receiving SSDI, and (ii) anyone else on the policy either becomes Medicare-eligible or ages out of coverage.

B. Medicare Reimbursement.

Under current rules, a retired Connecticut employee and/or dependent(s) who has become eligible for Medicare must enroll in Medicare. After the retiree provides proof of enrollment in Medicare for themselves and/or their enrolled dependent(s) the applicable Medicare premiums have been verified, the state will *reimburse* the retiree for the entire amount he or she pays in premiums to Medicare—both the standard premium for Part B *and* any IRMAA for Parts B and D. If the retiree's spouse is enrolled in Medicare, the state will also reimburse the spouse's Medicare premiums.

Effective **July 1, 2022**, retirees will continue to be reimbursed fully for the standard premium for Part B. However, high-income retirees will receive a reimbursement of only **50% of any IRMAA** they are required to pay.

Please note, however, that only employees whose income is above a certain threshold amount must pay the IRMAA. The federal government adjusts that threshold amount each year. To determine if an employee's income is over the threshold, the government looks to the adjusted gross income that the employee reported on his or her federal return for the tax year that was two years before the year in which the IRMAA will be charged.

For example, an enrollee's adjusted gross income for 2019 was used to determine if the employee had to pay an IRMAA in 2021. In 2021, individuals who reported an adjusted gross income for 2019 of **$88,000 or more**, and couples who reported income of **$176,000 or more**, were required to pay the IRMAA.

The amount of the IRMAA varies, based on an enrollee's income over the threshold amount. For 2021, IRMAAs ranged from $71.70 per month, for those whose income was equal to the threshold amount, to $433.50 per month, for the highest earners. Because those who retire on or after August 1, 2022, will be reimbursed for only 50% of their IRMAAs, any such enrollee who reported income over the 2022 threshold for the relevant tax year would *not* be reimbursed for payments ranging from $35.85 to $216.75 per month under current rates.

IV. THE 2022 CHANGES AFFECT RETIREES' COLAS

The 2022 Changes will also make two changes to the way COLAs are awarded to SERS retirees.

A. No Minimum COLA

Under current rules, the amount of a retiree's COLA is calculated under a formula that accounts for a percentage of any increase in the CPI-W for the preceding year, but which *guarantees* an annual COLA of *at least* two percent. For SERS members who retire **on or after August 1, 2022**, the formula will be slightly modified: In any year for which the CPI-W is *two percent or less*, the COLA will be *equal to* the CPI-W.

In other words, SERS retirees will no longer be guaranteed an annual COLA of at least two percent in years for which inflation is low. However, retirees will still receive a COLA in *every* year for which there is *any* measurable inflation. And when the rate of inflation is greater than two percent, retirees will receive the same COLA that is paid to members who retire on or before the Effective Date.

B. At Least One COLA After 30 Months

As discussed above, a SERS member who retires today will not be eligible to receive a COLA until *at least* nine months have elapsed from the member's retirement date. Because COLAs may currently be awarded *only* on January 1 or July 1 of each year, retiring SERS members must wait between nine and fourteen months for their first COLA.

As a result of the 2022 Changes, any SERS member who retires after the Effective Date will receive his or her first COLA *thirty months* after the member's date of retirement. Additionally, COLAs will no longer be limited to January and July. Therefore, *every* member who retires after the Effective Date will be eligible to receive his or her first COLA after exactly thirty months of retirement.[3]

Although members who retire after the Effective Date must wait longer to receive a first COLA, the impact of this change is potentially softened by another rule. If a member retires on or after August 1, 2022, and if the rate of inflation, as measured by the CPI-W, is higher than 5.5% per year for the first 18 months of the member's retirement, then the member will receive **two COLAs** on the date that is thirty months after retirement. The extra COLA will be calculated on the basis of the CPI-W for that initial, 18-month period of high inflation.

V. NEW NORMAL RETIREMENT AGE FOR TIERS II AND IIA

Under current rules, the Normal Retirement Age for members of Tiers II and IIA of SERS is age **62—**except that it is age **60** for members with 25 or more years of vesting service. If a member has fewer than 25 years of vesting service, and if the member retires before age 62 (but after age 55), then the member takes an Early Retirement. In that case, the member's pension will be calculated by making an age-based reduction to the amount produced by the Normal Retirement Formula.

For some members of Tiers II and IIA who retire on or after August 1, 2022, the Normal Retirement Age will change: to **65** for most members, and to **63** for members with 25 or more years of vesting service. Some members of Tiers II and IIA will not be subject to this change, however, because they purchased the right to have the current rules apply to them *after* the Effective Date. This transaction is known as "grandfathering." With few exceptions, no employees have been eligible to "grandfather" after 2013.[4]

As discussed above, Normal Retirement Age determines whether a SERS member's retirement counts as a Normal Retirement or as an Early Retirement. That, in turn, determines (i) whether the member's pension will reflect an Early Retirement reduction, and (ii) whether the member will pay an Early Retirement rate (*i.e.*, the rates listed on Appendix A to this memorandum) for retiree health coverage.

Because the Normal Retirement Age for Tiers II and IIA will change as of the Effective Date, members of those Tiers who retire on or after August 1, 2022, and who wish to avoid the pension reduction associated with Early Retirement, will have to wait longer before they retire.

Please note, however, that Normal Retirement Age for Tiers II and IIA ***will not change for purposes of calculating amounts due for retiree health coverage.*** To the extent the rates on Appendix A apply to any member of Tier II or IIA who retires on or after August 1, 2022, the rates will be calculated ***as if*** the ***current*** Normal Retirement Age still applied.[5]

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[3] Please note that in order to qualify for an annual SERS COLA, a member must complete at least 10 years of actual state service or transition directly into retirement.
[4] *See* Retirement Services Division Memoranda 2013-10 (Jan. 8, 2013) and 2013-02A (March 20, 2013).
[5] Likewise, for those members of the Alternate Retirement Program (ARP) that are subject to the rates listed on Appendix A, there will be no change to the Normal Retirement Ages used to determine the applicable rate.

Please also take note of the following important facts about these changes:

- The change to Normal Retirement Age **does not** affect **any** of the following:

  - members of Tiers I, III, and IV;
  - hazardous duty retirees of all tiers;
  - disability retirees of all tiers;
  - SERS members who reach Normal Retirement Age before July 1, 2022; and members who "grandfathered," by purchasing the right to retire under the current Normal Retirement Age rules.

- If a "grandfathered" member of Tier II or IIA chooses to retire after the Effective Date, but after also having reached the *new* Normal Retirement Age, then the member may receive a refund of the amount he or she paid for the right to "grandfather."

VI. CONCLUSION

Each of the 2022 Changes potentially affects the amount certain employees will receive from the state over the course of their retirement. The precise effect is impossible to forecast, because it depends on such matters as future rates of inflation, future costs of health insurance and Medicare, and the number of years each employee's retirement will last.

Equally important, the amount the state pays to employees should be only one of several considerations in retirement planning. Each employee should also give consideration to how long he or she wants to continue working; how he or she wants to spend the next few years; where the employee wants to live; what other obligations he or she has; and whether he or she will have additional sources of income in retirement. These are deeply personal questions, but each employee should be encouraged to consider them.

Questions regarding the information provided herein may be sent to the Retirement Services Division by email, at osc.rsd@ct.gov.

Very truly yours,

By:

John Herrington, Director
Retirement Services Division

Appendix A

Cost of Retiree Health Insurance "Grid"
From 2011 SEBAC Agreement

Attachment C -- Health Care Premiums for Certain Early Retirees

	Yrs Early	5	4	3	2	1
Years of Service	15	40.00%	32.00%	24.00%	16.00%	8.00%
	16	37.00%	29.60%	22.20%	14.80%	7.40%
	17	34.00%	27.20%	20.40%	13.60%	6.80%
	18	31.00%	24.80%	18.60%	12.40%	6.20%
	19	28.00%	22.40%	16.80%	11.20%	5.60%
	20	25.00%	20.00%	15.00%	10.00%	5.00%
	21	22.00%	17.60%	13.20%	8.80%	4.40%
	22	19.00%	15.20%	11.40%	7.60%	3.80%
	23	16.00%	12.80%	9.60%	6.40%	3.20%
	24	13.00%	10.40%	7.80%	5.20%	2.60%
	25	10.00%	8.00%	6.00%	4.00%	2.00%

Note 1: Actual healthcare premium percentages are prorated by months. If fewer than 15 years of service, use 15. If over 25, use 25. If more than 5 years early, use 5.

Note 2: The premium for any given employee will be capped at 25% of the person's actual pension benefit, except that the person's actual benefit will be prorated for employees who are less than full-time. No early retirement health care premium will be charged for any employee who has 25 years of service as of July 1, 2011 who retires before July 1, 2013