

STATE EMPLOYEES
RETIREMENT COMMISSION



MEDICAL EXAMINING BOARD
for DISABILITY RETIREMENT



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RETIREMENT SERVICES DIVISION
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RETIREMENT SERVICES DIVISION MEMORANDUM 2018-04

March 12, 2018

ATTENTION: Human Resources and Payroll Officers at Institutions of Higher Education

SUBJECT: **Alternate Retirement Program (ARP) transfers to the Hybrid Plan**

I. Background:

Allegations were made by higher education employees participating in the Alternate Retirement Program (ARP) that their respective institutions steered them toward participation in ARP and failed to properly advise them with regard to their retirement plan choices at the time of their participation election. These allegations culminated in the filings of grievances by SEBAC on behalf of the higher education members in ARP. The grievances progressed to arbitration, and on September 22, 2010, the SEBAC ARP Grievance Award (the "SAG Award") was issued.

The SAG Award provided that "all ARP members shall be given the one time opportunity to make their irrevocable choice to either remain in ARP or transfer to SERS." This opportunity was to be offered through December 31, 2010 with the new election to be effective January 1, 2011, but its implementation was delayed to allow the Retirement Commission to obtain rulings from the IRS as to the impact of the implementation of the SAG Award on the tax-qualified status of the affected plans. The State is in the process of obtaining an agreement with the IRS regarding the SAG Award and that its implementation will not adversely affect the tax-qualified status of the affected plans, and the Retirement Services Division has been tasked with implementing the SAG Award as soon as possible.

The information contained herein applies to those current or former higher education employees that are eligible to make a one-time irrevocable decision to transfer from ARP to the State Employees Retirement System (SERS) pursuant to the SAG Award.

The purpose of this memorandum is to provide an overview of the implementation of the SAG Award. The Retirement Services Division will issue additional guidance and memorandum addressing specific implementation issues over the next several months.

II. Eligible Population:

- a. **ALL ARP** members in higher education who were on active payroll on September 22, 2010. This includes individuals who were on active payroll on September 22, 2010 but retired on or after that date.
- b. **DOES** apply to such ARP members in higher education who were active employees on September 22, 2010 and have since separated from service.
- c. **DOES NOT** apply to anyone who terminated employment prior to September 22, 2010.
- d. **DOES NOT** apply to anyone who has already elected to transfer from ARP to HYBRID.

III. Irrevocable Choice(s) Under SAG Award:

- a. ARP members in higher education who were on active payroll on or before September 22, 2010 will have a **ninety (90) day window** to make this irrevocable election.
- b. ARP member choices under SAG award will be:
 - i. Remain in ARP; or
 - ii. Transfer from ARP to the Hybrid per the 2011 SEBAC Agreement as of the implementation date; or
 - iii. Participate in SERS on a prospective basis as of the implementation date; or
 - iv. Participate in SERS on a prospective basis as of the implementation date and purchase service credit for past service in ARP.
- c. **Transfer into Tier II or Tier IIA ONLY – Tier I is not an option**

IV. Purchase of Past Service Credit:

- a. The cost of purchasing years of service under SERS will be the actuarial cost of the SERS benefit attributable to such service, based on the member's age and highest one year of compensation.
- b. A member may not purchase more years of service under SERS than the number of years he/she has participated in ARP. In other words, service purchased

pursuant to the SAG Award cannot exceed the date-to-date service the member participated in ARP.

- c. ARP members who choose to purchase past service credit will be required to utilize the maximum amount of their non-encumbered ARP account at the time of the transfer to purchase years of service credit under SERS. Next, if a member's non-encumbered ARP account balance is less than the actuarial cost of his/her service such member may purchase the maximum amount of service that such non-encumbered ARP account balance would provide and shall be permitted to purchase additional service using his/her 403(b) plan or 457(b) plan account. Finally, the member may use any encumbered (TIAA Traditional Annuity) funds under ARP in situations where the member's non-encumbered ARP account balance is not sufficient to complete the service credit purchase.
- d. ARP members may use their ARP account and other state retirement accounts (403(b) and 457(b) accounts) **ONLY** for purchasing years of service. In addition, other pre-tax funds which have been rolled into these state retirement accounts may be used as well.
- e. ARP members may be permitted to purchase partial past service (i.e. only a portion of the member's ARP service) – however, as explained in Section IV.b. above, ARP members **WILL NOT** be permitted to purchase more years of service under SERS than the number of years he/she has participated in ARP.
- f. If a member's ARP account balance exceeds the actuarial cost to purchase all years of his/her ARP service under SERS, an amount equal to the actuarial cost will be transferred to SERS and any excess funds will remain in ARP.
- g. Fund value and costs are locked in on the date the irrevocable choice is made by a member, except that costs may vary if the earnings figures are changed. If the actual cost to purchase prior service credit as stated in the final invoice is 5% or more over the initial estimated invoice, the member will have the election to “opt out” of completing the service credit purchase. Any such difference between the estimated and final cost of the service purchase, however, will have no impact on the member's irrevocable choice to transfer from ARP to SERS.
- h. A principal-guaranteed fund will be established within the ARP to hold funds that will be used to purchase service in the Hybrid Plan or SERS Tier II or Tier IIA. Participants are encouraged to await announcement of that fund before liquidating current plan investments for that purpose.

V. Salary Anomalies:

- a. If a member believes an anomalous high year of salary has been calculated, the member must work through their union and/or the Office of Labor Relations, to request a determination that a different lower year should be used to calculate the cost to purchase past service.
- b. Given the 90 day election period, all salary anomaly determinations must be resolved no later than **September 1, 2018.**
- c. Members requesting a salary anomaly determination, therefore, should submit any such request as early in the process as possible but no later than **August 1, 2018.**

VI. Bridging and Category I Determinations:

- a. Members with prior SERS service, who believe they should have remained in SERS and were improperly placed in ARP can petition for a review of their retirement plan placement (Category I). Members must work through their Union and/or the Office of Labor Relations to resolve Category 1 determinations.
- b. For all other members with prior SERS service, the applicable Tier II and IIA SERS provisions (i.e. permanent break and unpaid leave rules) will be used to determine the amount of SERS credit granted for any such any such service.
- c. Given the 90 day election period, all determinations for Category I determinations must be resolved no later than **September 1, 2018.**
- d. Members requesting a Category I determination, therefore, should submit any such request as early in the process as possible but no later than **August 1, 2018.**

VII. SEBAC 2011 - “Grandfathering” Retirement Age:

- a. Prior to the SEBAC 2011 Agreement, the Normal Retirement Age for Tier II and Tier IIA non-hazardous duty members was 60 with 25 years of service or 62 with 10 years of service.
 - i. Pursuant to the SEBAC 2011 Agreement, those ages changed for all employees not retired by July 1, 2022 who had not already attained their Normal Retirement Age.
 - ii. For affected employees, the Normal Retirement Age changed to 63 with 25 years of service or age 65 with 10 years of service.

- b. The SEBAC 2011 Agreement included a provision for a one time irrevocable option to enable affected members to grandfather their Normal Retirement Age as long as they pay the full actuarial cost for this benefit (“Grandfathering”).
- c. Individuals that elect to transfer pursuant to the SAG Award, who would have been eligible for Grandfathering had they been in SERS (i.e. hired before 7/1/2011 and were not eligible for normal retirement before 7/1/2022) will also be afforded a one-time Grandfathering option. However, the existing figures used to establish the cost of Grandfathering are based upon a July 1, 2013 purchase date.
- d. Therefore, any individuals that elect to transfer pursuant to the SAG Award will be required to pay any additional Grandfathering retroactively to July 1, 2013.
- e. Individuals that elect to transfer pursuant to the SAG Award but do not elect the Grandfathering option and/or do not pay the required Grandfathering contributions will be subject to the Normal Retirement Age established in the SEBAC 2011 Agreement.

VIII. Election Period:

a. September 14, 2018 – December 14, 2018

- i. Eligible ARP members in higher education who were on active payroll on September 22, 2010 will have this ninety (90) day window to make their irrevocable election.

IX. Implementation Date:

a. January 18, 2019 – Implementation Date

- i. This is the date that the irrevocable choice made by the member will take effect with respect to the transfer from ARP to Hybrid or SERS.

X. OSC Responsibilities:

- a. OSC will generate and provide the highest year of compensation that will be used to calculate the cost to transfer and will provide that information to the respective agencies.
- b. OSC will facilitate information sessions and provide the necessary forms to effectuate the election of a transfer.
- c. OSC will communicate directly with the employees regarding the estimate and final invoice for the purchase of service credit.

XI. Agency Responsibilities:

- a.** Agency will receive a list of employees who are eligible to elect to transfer pursuant to the SAG Award from the Office of the State Comptroller and the Agency will verify that the list is accurate to the best of their knowledge.
- b.** Agency will provide the Office of the State Comptroller with years of service for each member on their respective lists by **June 1, 2018.**
- c.** Agency will coordinate with the Office of the State Comptroller to schedule informational sessions for employees who are eligible to elect to transfer pursuant to the SAG Award.
- d.** Agency will meet with their employees to fill out the required election form to effectuate the change in the employees plan membership and/or service credit purchase.

Please submit any questions regarding the information provided herein in writing to the following e-mail address OSC.SAGQuestions@ct.gov.

Very truly yours,

STATE EMPLOYEES RETIREMENT
COMMISSION
KEVIN LEMBO, SECRETARY EX OFFICIO

BY:

John Herrington, Director
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JH/cn