

ARP Award Q & A TWO

This is the second question and answer document concerning the option of transferring from the Alternate Retirement Plan (ARP) to the State Employees Retirement System (SERS). Several answers below refer to the first Q & A document (Vol 1). For your convenience, we have copied the answer to question 12 below.

A12: The IRS will need to approve the use of any non-ARP funds. It is possible that they won't allow this at all, or that they will allow only use of other tax-favored money (such as 403(b) or 457 funds). Or it's possible they will allow you to purchase past service credit no matter what the source of these funds are. We will endeavor to provide more guidance as to the IRS's views as soon as we possibly can.

QUESTION		ANSWER
1	Will my retiree health insurance change if I change my retirement plan selection?	No
2	Can I purchase years of service with my American Fund (401K) money, as well as my ING money?	See Vol I, Q 12
3	I have been employed at UCONN full-time, <i>since July 2004</i> . I also have worked part-time (no benefits) at Eastern Connecticut State University, <i>since April 2004</i> . Can I add my years of service at ECSU toward my UCONN's years of service?	A maximum of year of service is available in a given year. So you can't add UCONN and ECSU time for the same time period. The total years service would begin with April, 2004.
4	If I switch to Tier II or Tier IIA and I died <i>before I cash my first pension check</i> , does my wife get some of this pension money for her lifetime?	Spousal eligibility under SERS begins when the employee becomes pension eligible (early or normal), or when the employee reaches 25 years of service, whichever is sooner (assuming no waiver of the spousal option has been signed). However, once you have elected to retire and a form of payment, continued payments are generally governed by the form of payment selected.
5	Would I be vested after 5 years of service under Tier II or Tier IIA? I have been employed at UCONN for 6 years 3 month?	Both Tier II and Tier IIA have 5 year vesting, but the five years are only those years which you perform after transfer into SERS and/or you purchase with your ARP account.
6	At what age / time of service is needed to collect my first pension check under Tier II or Tier IIA?	See the Relevant Summary Plan description at http://www.osc.state.ct.us/empret/ . The general rule for <i>normal retirement</i> is that one needs 25 SERS years of service to retire at age 60, 10 SERS years to retire at age 62, and 5 years to retire at age 70. There are different rules for early retirement, which results in lower benefits.
7	Where can I get a printed out of what the exact amount I would be getting in my pension check?	An exact amount could be given only if one knows the precise final average earnings, years of service, and retirement date, and age. Since final average earnings will change over time, only estimates will be available unless the employee was retiring immediately upon purchasing service.

8	No IRS penalties will apply, because we are rolling over monies to Tier II or Tier IIA. Correct?	Assuming this question refers only to the use of ARP funds, that's correct. IRS guidance is being solicited with respect to what happens if additional funds are needed. See Vol I, Q 12.
9	Cost of living is guaranteed in Tier II and Tier IIA? Correct?	The current pension agreement provides a guaranteed COLA of 2 ½ to 6% for anyone retiring before July 1, 2017.

10	<p>Will the Union and/or UConn Human Resources and/or a State Agency design and lead workshops (or hire someone) that cover the differences between Defined Benefit Plans vs. Defined Contribution Plans—in detail, using examples:</p> <ul style="list-style-type: none"> a. How are monthly benefits calculated for each plan?—what is the exact formula? Providing specific charts or models that can PROJECT monthly payments for individuals using the various variables. b. How eligibility is determined in each plan. Explain how years of service & age are used, especially in the defined benefit plans. Explain “magic numbers” (age + years of service) and how they work... c. Explain beneficiary options in each plan—how options differ in each plan. d. How inflation factors in...Are there cost-of-living increases in Tier II and Tier IIA?? e. Explain vesting with regard to Tier II and IIA. Explain what happens to Tier II/Tier IIA when you leave state service... 	<p>The Retirement Division is currently working on an on-line calculator that will help compare the ARP and SERS plans. There will be presentations by the Retirement Division scheduled on the campuses beginning in November, including a videotaped version which will be distributed to all members electronically. Various unions are also scheduling informational meetings on campuses.</p>
11	<p>We know ARP has an 8% employer contribution and a 5% employee contribution. If the state pension is fully funded what is the approximate state contribution (as a percentage) to each individual for Tier II and Tier IIA?</p>	<p>SERS is not fully funded, although the vast majority of the underfunding is attributed to Tier I. The normal costs to the state of providing Tier II benefits were 9.75% as of the last biennial actuarial valuation (for June, 2008), and were 4.7% for Tier IIA. The difference between the two – aside from the 2% contribution required of Tier IIA participants but no required of Tier II participants – is due to the difference in relative ages and years of service of the populations.</p>
12	<p>How will the buy-in work? (lots of details to be explained here)</p>	<p>See more specific Q&As. Much more specific details will be forthcoming</p>

13	<p>Just info on the pension itself the formula for when you can collect.</p> <p>a. Do they take your highest 3 years?</p> <p>b. How much of a percentage of your pay do you get?</p>	<p>See the Relevant Summary Plan description at http://www.osc.state.ct.us/empret/.</p> <p>a. Tier II and IIA average the three highest years of earnings (called “Final Average Earnings”), which each year in general subject to a cap that generally limits earnings to no more than 130% of prior year’s earnings.</p> <p>b. Generally for the first 35 years of service, benefits are 1 and 1/3% time years of service time final average earnings, plus an additional ½% time those years of service for final average earnings above the breakpoint for the year of retirement. Years 35 or over are calculated at a flat 1.625% time years of service times Final Average Earnings.</p>
14	<p>Looking over the breakpoints it appears to go up by 6% per year. Is that true? If so the typical 3% salary increase will quickly yield an income well below the breakpoint.</p>	<p>On the question of why the breakpoint goes up by 6%, rather than by the average salary increase, or the overall cost of living, you'd have to put yourself back in time to 1981 when Tier 2 was created. At the time, inflationary salary increases were routinely in the double digits, and the 6% increase in breakpoint appeared moderate. While this is no longer true today, there is a cap on the increase in the breakpoint. The agreement states that “<u>The breakpoint for any particular year shall not exceed average covered earnings for social security purposes for an individual attaining age 65 in that year and assuming a full 35 years of coverage under the social security systems.</u>” So when estimating benefits for someone whose retirement is a number of years away, we use the presumed 6% increase in the breakpoint, knowing it may <i>understate</i> the person’s actual benefit, since it may be capped at a lower number before the person actually retires. This is unavoidable, since it is impossible to know in advance whether the cap will be hit in any given year. The cap has not been reached in any year so far, and as of today, the Tier II/IIA breakpoint is \$54,800 per year.</p>
15	<p>Do you receive an annual or monthly statement in the Pension System?</p>	<p>Annual</p>

16	Does your pension continue going to your spouse if you die?	In general, most employees select a spousal option, which reduces the monthly pension during the employee's life, but provides a pension for the spouse if the employee predeceases him/her. For the rules covering the spousal option, see the Relevant Summary Plan description at http://www.osc.state.ct.us/empret/ .
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17	How does a defined benefit pension work - what do we get and when?	This is a very general question. For a general description, see the Relevant Summary Plan description at http://www.osc.state.ct.us/empret/ . In general, defined benefit plans provide that subject to their rules and regulations, participant receive a “defined benefit” upon retiring -- meaning a pension the amount of which is set by predetermined rules (like age, years of service, and final average earnings). This contrasts with a defined contribution plan, like the ARP plan, where the contributions are predetermined, but the benefits produced by the contributions are dependent on individual performance in the stock market or other investment vehicles, the particular status of the portfolio at the actual time of retirement, and the selection of and performance of the benefit vehicle chosen by the employee upon retirement.
18	Does this include employees in management?	This benefit can only be extended under CGS §5-200(p) by the Commissioner of DAS with the approval of the Secretary of OPM. As of this date, the benefit has not yet been extended to employees who are in units that are not covered by collective bargaining.
19	Ten years from now, can the state make changes to the rules of the plans?	The current pension agreement will expire in on June 30, 2017, and its successor will be the product of negotiation by the state and the coalition of unions (SEBAC), and if necessary binding arbitration. That process may produce changes in the rules governing employees who retire after that date. The parties have never approved retroactively lowering the value of vested pension benefits (in other words, changing the rules for years already worked). Indeed, the State has never sought to do so. The Coalition’s legal position remains that a retroactive diminution of already earned pension benefits would not only be wrong, it would be unlawful under the state and federal constitutions.
20	If the state goes under, where does our money come from?	The pension agreement is backed not only by the money in the trust fund, but by the full faith and credit of the State of Connecticut, and by the Contracts Clause of the United States Constitution.
21	If people have less than 10 years and lose job, what happens to the pension entitlement?	Pension benefits are vested after 5 years. Prior to that, employees who leave may have a return of their contributions, but do not receive a pension.

22	<p>If there are any funds left in the ING – ARP account after the “buy-in” to SERS, what will happen to those funds with respect to the IRS? Since the ING account will no longer be ARP, will it have be converted to an IRA? Can the funds be transferred/rolled over to an existing IRA outside of ING? If so, any penalties?</p>	<p>Subject to IRS regulations, leftover funds will remain in the ARP account, just as they would if an employee worked 5 years in an ARP eligible position, and then later worked in a non-higher ed position not eligible for ARP participation.</p>
23	<p>Those who have opted out of Social Security years ago...since that was only available to ARP members, if the ARP member transfers to SERS, will Social Security deductions immediately begin again? Is there any possibility of penalties from Social Security/IRS for the years we “opted out” of the Social Security System?</p>	<p>See Vol I, Q.8. There are indeed possibilities for “penalties” in the calculation of the social security benefits of ARP participants not covered by Social Security who switch to SERS and as a consequence are covered. Social security participation would begin immediately for anyone electing to become a member of SERS. The specific impact on any individual of the Social Security windfall or penalty rules needs to be checked with the Social Security Administration.</p>
24	<p>When the TIAA to ING Administrator conversion started, some of the ARP members opted to close & begin having their TIAA-CREFF annuity contracts start paying out (over 9 years) with the annual payments rolling over to their ING ARP accounts. Since there are still several years left on those annuity payouts, will this be taken into account if the member decides to buy-in to SERS (will provisions be made to allow the total remaining annuity amounts to be used as part of the needed total funds to transfer to SERS)?</p>	<p>See Vol 1, Q14.</p>
25	<p>Define last hire date – Someone working at CSU for instance takes a job at CCSU. Which date is used for their last hire date, the date they were hired by CSU or the date hired by CCSU? Does it include time working outside the union, such as student employment/ UA positions? According to document, the last hire date is used to determine whether the person is TIER II or TIER IIA. Do leaves such as maternity leaves reset last hired date?</p>	<p>In general, last hire date means the most recent hire date, plus any previous service that meets the applicable bridging rules for Tiers II/IIA. Effective July 1, 1988, service was bridged unless the break in service was both longer than 5 years, and longer than the length of the previous service. Prior to July 1, 1988, the 5 year rule didn’t exist. In other words, service could be bridged only if the break in service was less than the prior service time.</p>
26	<p>Salary fluctuations – for various reasons some people have extreme salary fluctuations or changes over the course of their career in CSU. People jumping from part-time to full-time, hired at a lower level and moved up in rank, combined with salary adjustments, etc. Will there be any averaging of salaries over the course of someone’s career in figuring out buy in cost?</p>	<p>The buy-in cost, as calculated by the actuaries for the SERS plan, converts current or highest annual salary into projected final average earnings as calculated for SERS upon retirement. That formula uses the average of the three highest years of earnings, subject to certain limitations which were explained at Q. 13 above.</p>

27	How are leaves (medical, maternity, personal) and reductions of schedules calculated into years of service for purposes of buy in and retirement? From what I read it counts as service time if it was an approved leave for retirement, however when taking a leave under ARP, people are not paid. So how is buy in calculated?	SERS has complex rules for computing SERS service time, and those rules will need to be followed for calculating additional service earned <i>after</i> the buy-in. However, since employees are paying the full actuarial cost of the buy in, it is not necessary (or feasible given the time constraints), to perform these sorts of calculations. People will be able to purchase their service covering as many years and months as they've been employed, without deductions for leaves.
28	Can 403/457/IRA or non-retirement money be used for buy in money?	See Vol I, Q 12.
29	Since changing plans from ARP to SERS really should include re-thinking life insurance needs, since from what I read employees with under 25 years of service who die pre-retirement leave no benefit to spouses, is there any plans to do an open enrollment that coordinates with the switch over for life insurance? Same could be said for disability insurance for people with under 10 years of service.	These are good ideas and the parties will be pursuing the possibility of offering these options early to accommodate those switching from ARP to SERS.
30	Do you know if anyone is working on a "Dummies Guide", which breaks down the considerations of members into groups. Things to consider if you: a. Are not yet vested - less than 5 years of service-OR less than 10 years military and state service b. Do not yet have tenure, c. Do not yet have 25 years of service (where spouses guaranteed benefits if member dies). -> Life insurance as possible balancer d. Become Disabled e. Summarizing what SERS retirement benefit options exist at point of retirement erses what the options are if you have ARP. f. Providing ARP calculators to compare the SERS benefits with the ARP benefits.	These are all important issues. See the answers to Q. 10 above.
31	I was employed as a clerical, paying into that union, from 1/98 until 6/29/02, at which time I entered SUOAF/ARP. That money is held until I retire, I did not receive any of it when I changed unions. When I calculate my conversion time do I start from 1998 or do I start from 6/29/02?	Assuming you were making Tier IIA contributions in the clerical position, and there was no break in service before the ARP position, the previous IIA time would not have to be "purchased" -- it's already yours. It would just be added to the amount of SERS time you work.
32	I am also an adjunct instructor, do I calculate those payments into my total salary or do I just use the Administrator salary?	The general rule is that these types of earning will count towards your final average earnings, and so they are counted now. However, see Q. 44 for individual circumstances that may require individual treatment.

33	<p>If folks do not have sufficient funds in their ARP accounts to buy all of their service time, will they be allowed to buy all of their time by:</p> <p>a. transferring all of their ARP accumulations to the state, and then</p> <p>b. entering into a payroll deduction arrangement with the state to use their future earnings to "pay off" the amount they were short in their ARP accounts?</p>	<p>The parties will be offering such arrangements, subject to IRS approval</p>
34	<p>After rejoining SS, is there a period of time after which GPO (Government Pension Offset-affecting spousal, divorced spouse benefits) is no longer in affect? (We have heard five years.)</p>	<p>To lessen the likelihood of errors, all social security based questions should be directed to the Social Security Administration. The entry portal can be found at http://www.ssa.gov/.</p>
35	<p>Are 403B accounts subject to WEP, GPO- members have received conflicting answers on this from SS offices. We will be unable to make an informed decision unless we have information we can trust.</p>	<p>We cannot give Social Security advice. Please share the conflicting information with your union representatives, and we will see if we can provide you a contract at the Social Security Administration who will be able to reliable resolve the conflict.</p>
36	<p>Is everyone in ARP covered, even if they are not in a SEBAC union?</p>	<p>See Q. 18, above.</p>
37	<p>What are the chances that the state will revise the ARP program for existing employees to either raise the contribution rate (5%) or lower the match rate (8%) as is done in private industry? How would they have to go about doing that? Would they create a new ARPII level for new employees?</p>	<p>The existing ARP rules, like the SERS rules, are the product of a collective bargaining agreement between the State and SEBAC, which expires on June 30, 2017. Any rules changes would have to be the result of collective bargaining rather than the unilateral decision of the State. See also the response to Q. 19, above.</p>
38	<p>Where is the "tipping point" where it would be better to stay in ARP vs. Tier IIA? Example: employees with less than 10 years till retirement vs. employees with 30+ years till retirement.</p>	<p>The award is about providing employees with the informed choice to select retirement options which are best for them. The specific financial advantages and disadvantages of the various choices will vary by individual, and should be discussed with individual financial advisors.</p>
39	<p>Is the buy-in money simply going to be used to fund the egregiously unfunded pension that already exists? How are you going to instill confidence in employees that the fund will be around in 30-40 years? (Just saying the state can raise revenues does not give enough comfort. The state should be made to properly fund the pension.)</p>	<p>The purpose of the retirement money is to make the conversion from ARP to SERS cost neutral to the State -- otherwise the award could never have been achieved. However, we will not be trying to "instill confidence", but to provide people with the facts and options necessary to make the best possible individual choice. With respect to the status of the plan's funding, see the response to Q. 20, above.</p>
40	<p>Now that this is settled is SEBAC looking to revise its required 3% contribution by new employees for retirement healthcare to spread this across the board for all employees?</p>	<p>Retiree health care is not affected by this award.</p>

41	<p>How would I go about getting my 4 years active duty military time posted to my record ASAP, so I can use that towards my years of service? I was always told I cannot do this is ARP but could if I was in Tier IIA. I already get those years towards longevity payments. Is there a cost for this?</p>	<p>Military service can be purchased under the arrangement that applies to the particular Tier. The parties will agree on an appropriate deadline to apply for such purchase.</p>
42	<p>Will there be a TAX implication for using current monies in the ARP to pay for SERS ?</p>	<p>The parties' understanding is that there are no negative tax implications. But these types of tax issues are all being confirmed with the IRS.</p>

43	Can people still save using 403b and 457 and join SERS ?	Yes. People are treated like any other SERS participants once they are in SERS.
44	It sounds like the buy in will be calculated on your current annual salary. I am currently in an Interim position making about \$10,000 more a year than the position I will return to. Can I use my permanent salary to calculate the buy in, not my interim one?	Interim or temporary positions and other such unique situations will be handled individually.
45	Are years of service prorated to part time FTE? Do years as a student employee count?	Part-time service is not pro-rated. Student employment generally does not count, although specific circumstances may vary, and the fact that an employee was simultaneously a student does not disqualify state service that is performed as a state employee.
46	Confirmation that a retiree's pension (under SERS) as a "defined pension plan" would be protected from suits and seizure should that retiree or surviving dependent require long term care etc in a State Facility when their personal funds run out, whereas a person in ARP would NOT have that protection?	The pension trust fund is not subject to seizure in such circumstances like private funds might be. However, monthly pension benefits are income, which may be considered in benefit eligibility determinations and in some circumstances, monthly benefits may be required to be used as payment for certain services.
47	Where can I find the actuarial reduction factors that are used to figure the reduction for the Spouse Option in SERS?	The actuarial spousal option tables currently in effect can be found at http://www.osc.state.ct.us/rbsd/reports/2009Optionfactortbl02.pdf . These tables are subject to periodic revision by the Retirement Commission pursuant to the recommendation of the Plan's actuaries as economic, demographic and mortality factors change over time.