QUESTIONS AND ANSWERS ON SEBAC ARP GRIEVANCE AWARD

On September 22, 2010, neutral arbitrator Roberta Golick recommended and the parties accepted the attached arbitrator's award which resolves the SEBAC grievances concerning steering of higher ed employees into the Alternate Retirement Plan. The Q& A below is intended to help answer any questions about the award.

Q1: What was the steering grievance and what remedies was it seeking?

A1: There were two major aspects of the steering grievance. First, the grievance alleged that virtually every higher ed employee had not received fully adequate time and/or information in order to make an informed decision among their choice between retirement plans (or in the case of adjuncts, their additional choice not to participate in a retirement plan). The grievance sought two remedies for this claim. For new employees, the grievance sought the imposition of an agreed upon plan selection process by which employees would have adequate time, and the full information necessary to make an informed choice. For current employees, the grievance sought a one-time opportunity to switch plan choices with ARP employees able to use some or all of their ARP proceeds to purchase past service credit at its full actuarial cost.

The second aspect of the grievance affected a small number of employees. This aspect alleged that these employees had either been told they could only choose the ARP plan, or told that if they chose the SERS option there would be an adverse employment impact (for instance, that they could only work part-time). The remedy sought for this aspect of the grievance was the ability to switch to the SERS plan at a subsidized cost.

Q2: Does the award provide all the remedies sought by the grievance?

A2: No, the award is a compromise. It granted all the relief sought with respect to the first part of the grievance which affects all higher ed employees. New employees will have the time and information necessary to make an informed decision about their choice of plans, including a full set of materials created by the Retirement Division of the Comptroller's Office. All current employees will have a one-time opportunity to switch retirement plans. ARP participants switching to SERS may use their account balance to purchase past-service credit at the actuarial cost. It did not grant the ability for a small group of people to buy past-service credit at a subsidized cost.

Q3: If my choice is to go into the SERS plan, which plan would I go into? Tier I, Tier II, of Tier IIA?

A3: Tier I will not be an option. Employees whose service extends to before July 1, 1997 will be placed in Tier II. Anyone whose service does not extent to before July 1, 1997 would be placed into Tier IIA. Since the benefit structure of Tier IIA and Tier II are identical, the only difference would be from the time of the switch forward, Tier IIA participants would make a 2% contribution towards their future service, while Tier II participants don't contribute. There is no impact on the cost of purchasing past service, since the benefits are the same.

Q4: What does the award mean by a "one-time" choice?

A4: Because of IRS rules, the choice of pension plan is in most circumstances irrevocable. So once current employees make the choice allowed by the award, and once new employees make their choice upon hire, that pension plan choice will be binding throughout their tenure with the State. This applies even where the employee changes jobs – for instance, when an adjunct becomes full-time in the state university or community college systems. The only exceptions occur (1) when an employee switches jobs to one which offers options not previously available to him or her (e.g., a UCONN Adjunct had been offered only the choice of the ARP, becomes full time, or switches to another higher ed system which offer TRS and SERS as options); or (2) when an employee switches to a state job which doesn't offer his or her previous choice (e.g., an ARP participant switches to a job outside higher ed).

Q5: How long will I have to make my choice of plans, and what materials will be available to me?

A5: The choice must be made by December 31st of this year. As soon as we can possibly get them prepared, we will make available to employees a full set of materials which will explain the differences among the plans, and the advantages, disadvantages, potential gains, and risks, associated with the various plan choices. Adjuncts will have the additional option to choose "no plan" ., but because that is rarely the most advantageous choice, they will be allowed to do so only by signing an explicit waiver form assuring that they fully understand the nature of that selection.

Q6: What about those participants switching from ARP to SERS. How long will they have to decide about purchasing past service credit? And what materials will they have available?

A6: They will also have until December 31st of this year. In addition to the materials which will help them make their choice of plans, these employees will have the charts available which will allow them to compute the cost of purchasing past service credit. There will also be examples of SERS benefits upon retirement which they can use to estimate their retirement income if they choose to purchase the credit, and if they don't. Because of the scope of the decision to be made, it will be recommended that each individual consult a financial advisor to determine if the purchase of past service credit makes sense for them.

Q7: Where are the charts that I can use to determine the cost of past service credit?

A7: A near-final version of those charts was distributed by the higher ed unions several months ago, and can be found on union websites. We are endeavoring to get final approval of those charts ASAP, but the draft version should be enough to allow the initial calculations of whether your ARP funds are sufficient to purchase full past service credit, and to begin discussions with a financial advisor as to the wisdom of such a choice.

Q8: What about individuals not covered by social security? Will they be allowed to switch to SERS and if so, what will happen to their exemption from social security coverage?

A8: Since the exemption applies only to those in the ARP (and only to certain ARP participants), that exemption would end upon the switch. Complex social security rules may make the switch inadvisable for such people, but this is an individual decision that should be discussed carefully with a financial advisor.

Q9: Will the Unions be encouraging people to change plans?

A9: No. We think it's very important that all employees have the option to choose a defined benefit plan like SERS and that they understand the benefits that a true pension program presents to long-service employees and their employers. But the carrying out of that choice is an individual decision which must be made by each employee based on their own particular circumstances. This is also true -- perhaps even more true – with respect to the decision about whether to purchase past-service credit upon switching. These are individual choices which should be made based upon a careful assessment of individual financial circumstances.

Q10: I'm an ARP participant thinking of switching to TRS. Will that be allowed, and if so, can I purchase past service in TRS?

A10: The one-time choice to switch from ARP to TRS participation is allowed subject to TRS approval. But because of the complex relationship of state employment status to TRS benefit rules (which apply to a far broader group than just state employees), purchase of past-service credit in TRS is not an option.

Q11: I'm an ARP participant thinking of purchasing past service credit. If I choose, can I keep some of my money in ARP and use some to purchase past-service credit?

A11: If you happen to have enough money in your ARP account to purchase your full past-service credit and there is some ARP money left over, then the answer is a definite yes. Generally you will be expected to purchase all of your past service to the extent you have available funds from your ARP account. If you are seeking to buy less than full past-service credit and still leave some money in your ARP account, we don't know yet if that choice will be allowed by the IRS. We hope to find out shortly.

Q12: What if my ARP funds are insufficient to purchase my full past-service credit? Can I use my own funds?

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.

Q13: I'm an ARP participant thinking of purchasing past service credit. I have some money in ARP (TIAA-CREF) that is from a job I had before coming to Connecticut. Would I be allowed to use that money to purchase past service credit?

A13: Provided that the IRS agrees, yes, but in no event would you be able to receive credit for any non-State of Connecticut service.

Q14: I have some money in TIAA that I want to use to purchase past service credit. But TIAA has a rule that only 10% of the money can be withdrawn in a year (ie. it will take ten years to get all the money out). Can I still transfer all of that money to the state up front?

A14: The parties are in agreement that TIAA rules should not be allowed to interfere with the transfer of funds allowed under the award. They have agreed to work together with the Comptroller's office to see that TIAA allows all necessary transfers to happen.

Q15: Even if I am allowed to use my own funds to purchase past service credit, is that a good financial decision for me?

A15: That's a question for individual financial advisors. The award makes the option available subject to IRS approval. That does not make it a good financial decision or a bad one.

Q16: Does the award allow retirees to switch plans, as well as active employees?

A16: No. The award applies only to current employees.

Q17: What about the additional information which is referenced in the last page of the award, about the advantages and disadvantages of the various plan choices.

A17: We hope to have those formal documents available shortly. But aside from providing some hopefully helpful examples which will be particularly important to new employees, those documents will simply say clearly and unmistakably what some long-service ARP participants have unfortunately learned the hard way. For long-service employees, the benefits of SERS coverage will not make you rich, but they are predicable. Know your age and years of service at your retirement, and predict your final average earnings, and you can predict your starting pension, and know that it will increase by 2.5 to 6% per year, depending on the cost of living (under the formula, 2.5% is by far the most likely amount of increase). For long service employees, ARP funds upon retirement could provide a better retirement income -- but they could also provide a far worse one, depending on the stock market and the individuals investing skill and luck. The ultimate benefits are thoroughly unpredictable.

The materials will also point out that employees who expect a very brief career with the State have a different set of issues to consider, including the fact that ARP funds are immediately vested, while SERS benefit entitlements don't vest for five years, and the impact that the years between leaving state service and retirement eligibility may have on the relative value of the employees final average earnings. They will also point out that sometimes people who expect only brief careers with the State end up staying for their entire working lifetime. So even though the materials have not been fully written yet, the principles which underlie the materials are available now.