



CSU-AAUP

Cavanaugh MacDonald Consulting LLC
3550 Busbee Parkway
Kennesaw, GA 30144

February 8, 2010

Dear Tom,

I am a member of the Connecticut State Employees Retirement Commission and the business manager of the Connecticut State University American Association of University Professors (CSU-AAUP). CSU-AAUP negotiates the wages, benefits and working conditions for the full and part-time faculty as well as other employees of the various Connecticut State Universities. CSU-AAUP is a member of the State Employees Bargaining Agent Coalition (SEBAC) that represents approximately 50,000 Connecticut State public service employees and was recognized in 1986 by Public Act 86-411 to negotiate with the State of Connecticut on healthcare and retirement security.

A substantial number of faculty members in Connecticut's higher education institutions who are currently participating in the Alternate Retirement Program (ARP) would like to transfer their current account balances from ARP to SERS and purchase pension service credits in Tier I, Tier II or Tier IIA of SERS, whichever plan was available at the time the employee was hired.

What they contemplate is an arrangement similar to the change to the Florida Retirement System (FRS) (<http://www.flsenate.gov/data/session/2007/House/bills/analysis/pdf/h0685a.SLC.pdf>) that was enacted two years ago.

In 2007, the Florida legislature passed a bill that provided Florida public education employees with a one-time opportunity to transfer the assets in their defined contribution plans to the State's defined benefit plan. In the "Effects of the Proposed Changes", the legislative record stated that "For employees who elect transfer to the FRS (defined benefit plan), service credit is based on the actuarially determined accumulated benefit obligation for that period of service, and the transfer sum is determined by a formula and methodology certified by an enrolled actuary".

Section 14 of Article X of the Florida State Constitution requires that any changes made to a publicly funded retirement or pension system resulting in an increase in retirement benefits must also include provision for the funding of the increase of these retirement benefits on a sound actuarial basis.

An actuarial study performed by Milliman USA at that time concluded that the bill met the requirements of Article X.

I understand you are familiar with ARP, which is a defined contribution plan where the employer contributes 8% of compensation and the employee contributes 5%. On the other hand, as you know, under the three different Tiers retirement benefits are based on formulas taking their compensation, age and years of pension service into account. Essentially, our members would want a year of service under the Tier of SERS in effect at the time they started contributing to ARP for each year they contributed to ARP.

Before proposing an amendment to the Connecticut retirement statute that would enable such a change, SEBAC would be interested in having an actuarial analysis performed in order to determine whether the transfers would be cost neutral and if not, what requirements should be developed, – such as a minimum waiting period before retirement, increased employee contributions, etc. – to prevent any additional costs to the State. Alternatively, our members would want to know, for each Tier, what the actuarial present value or lump sum value of the SERS benefit would be at different ages and different levels of final average compensation.

They would like to know the fiscal implications of this proposal and whether a Private Letter Ruling should first be obtained from the Internal Revenue Service.

The treatment of our members who were hired before 1990 and who may not have contributed to the Social Security system should also be discussed.

If you and your firm are interested in this assignment, SEBAC would like to know what information – demographic, financial or otherwise – you would need to perform the actuarial study. Could you also provide us with an estimate of your fees for this project as well as the time it would take to perform the analysis.

Sincerely,

A handwritten signature in cursive script that reads "Stephen Creatore".

Stephen Creatore
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