

DATE: January 19, 2022

TO: Senator Craig Hickman, Chair
Representative Mike Sylvester, Chair
Members, Joint Standing Committee on Labor and Housing

FROM: Kathy J. Morin, Manager, Actuarial and Legislative Affairs

SUBJECT: Testimony on L.D. 1746 – An Act to Expand the 1998 Special Retirement Plan To
Include Employees who Work for the Office of Chief Medical Examiner

Senator Hickman, Representative Sylvester, and members of the Joint Standing Committee on Labor and Housing. My name is Kathy Morin, and I am the Manager of Actuarial and Legislative Affairs for the Maine Public Employees Retirement System.

MainePERS is neither for nor against L.D. 1746. We are here to provide information and offer any assistance the Committee might need regarding this bill.

State employees are covered by either a “regular plan” or a “special plan.” The majority of state employees are covered by the regular plan, which requires twenty-five years of service and/or attainment of normal retirement age of 60, 62 or 65. Special plans typically allow for retirement with fewer years of service and/or at a younger age. Because of the more favorable provisions of the special plans, they are more expensive to fund.

Employees in the Office of Chief Medical Examiner are covered by the regular plan. L.D. 1746 would move these employees into the 1998 Special Plan. Under this plan, participants become eligible to retire in one of two ways: 1) by accruing 25 years of service in a covered capacity; or 2) by accruing 10 years under the 1998 Special Plan and attaining age 55. Under the first provision, all service in a covered capacity is counted towards meeting the 25-year requirement while under the second provision, only service earned in a covered capacity after the date that a specific group is included in the plan is counted towards meeting the 10 year requirement.

Benefits are calculated based upon the plan under which the service was earned. The result for those members with some service in a regular plan and some service in a special plan is a “split age reduction” such that the regular plan service is reduced for early retirement prior to 60, 62 or 65, and the special plan service is reduced for early retirement only if retirement is prior to age 55. Members with all or a high percentage of their service under the 1998 Special Plan are more greatly advantaged by that plan.

L.D. 1746 would expand the 1998 Special Plan to include certain employees in the Office of Chief Medical Examiner employed on July 1, 2022, or hired thereafter. This change would apply prospectively, effective July 1, 2022, and service earned prior to that date would remain regular plan service and benefits would be subject to the split age reduction described above.

MainePERS has one concern about the way L.D. 1746 is drafted. Specifically, the bill as proposed permits impacted employees to elect whether to move into the new plan. Since our work with the Committee last session, MainePERS has become aware that these plan coverage elections in a qualified plan are not permitted by the Internal Revenue Service. MainePERS would recommend that in order to avoid a plan compliance issue, the bill be amended to move all employees in the covered positions into the new plan.

We would also note that the emergency preamble in L.D. 1746 indicates that the impacted employees were inadvertently omitted from Public Law 2021, chapter 474, which added employees in the Maine State Police Crime Laboratory and computer crimes unit to the special plan on a prospective basis. There is a separate bill which you will hear today, L.D. 1808, which would provide retroactive special plan coverage for those employees. If that bill is advanced, and if the Committee's intent is to provide parity between these two groups of employees, it may want to consider whether to amend L.D. 1746 to also provide retroactive plan coverage.

As drafted, this bill will have a fiscal impact because the ongoing employer normal cost for the members covered in a special plan is higher than the regular plan normal cost. If the bill is amended to provide retroactive plan coverage, there would also be an increase in liabilities that would require immediate funding in compliance with the State Constitution. We will work with the Department and the Office of Fiscal and Program Review to identify the individuals covered by this proposal and to provide an estimate of the costs associated with providing special plan coverage.

Thank you for your consideration of this testimony. I would be happy to answer your questions and will be available at your work session.