DATE: February 9, 2023

TO: Senator Michael Tipping, Chair
Representative Amy Roeder, Chair
Members, Joint Standing Committee on Labor and Housing

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

SUBJECT: Testimony on L.D. 106 – An Act to Standardize Service Credit Qualifications for State Retirees

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Good afternoon, Senator Tipping, Representative Roeder, and members of the Joint Standing Committee on Labor and Housing. My name is Kathy Morin, and I am the Director of Actuarial and Legislative Affairs for the Maine Public Employees Retirement System.

MainePERS is neither for nor against L.D. 106. We are here to provide information and offer any assistance the Committee might need regarding this bill.

Most 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. Retirement after twenty-five years of service but prior to normal retirement age results in the application of an early retirement reduction to the benefit, which for most members is 6% for each year below normal retirement age. The reduction reflects that benefits will be paid to the retiree over a longer period of time. In essence, lower benefits paid over a longer period of time equate to a higher, unreduced benefit, being paid over a fewer number of years. 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.

Special plans are typically provided to employees in law enforcement positions. These plans require that a certain number of years of service, specified in statute, must be completed while employed in a plan-covered capacity in order to meet the eligibility requirements of the plan. So, for example, to qualify to retire under a plan that provides for retirement after twenty-five years of service, regardless of age, the service must be earned in a position covered by that plan. Typically, service earned in other plans, such as the regular plan, may not be included towards meeting the years of service eligibility requirement. Any benefit for service earned in a different plan is calculated under the plan in which it was earned, which could result in the application of an early retirement reduction.

As drafted, L.D. 106 would permit a member covered by a special plan to leave that plan prior to meeting plan eligibility requirements, and continue to earn service credit in that special plan, even though no longer employed in an otherwise plan-covered capacity. While under current law, benefits earned in a regular plan subsequent to leaving the special plan would be determined under the regular plan benefit calculations, under L.D. 106, all benefits would be based on the special plan benefit calculations. This could have two results: 1) the member could qualify for a special plan benefit when, under current law, that qualification may not be met; and 2) the member could receive a higher benefit at retirement, since any early retirement reduction, if applicable, would be based on the special plan provisions rather than the regular plan provisions.

L.D. 106 will have a fiscal impact because the Constitution does not allow the creation of new or additional benefits unless immediately and fully funded. New benefits are created under L.D. 106 because retirees would be receiving higher benefits than currently accounted for and funded, creating a new unfunded actuarial liability (UAL). We also think it important to note that both the member and employer normal costs for the special plans are typically higher than those costs for the special plans. It is unclear from the bill as to how those increased costs will be paid for a member employed in a regular plan position but earning special plan benefits. We have not yet determined an estimate of the costs associated with this bill, but will do so once we have a better understanding of its intent and application.

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