MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

CHIEF EXECUTIVE OFFICER
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DATE: May 3, 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. 1761 – An Act to Include Certain Mental Health Workers Under the 1998 Special Plan for Retirement

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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. 1761. 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 permits retirement after 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.

All employees in the Department of Health and Human Services are covered by the regular plan. L.D. 1761 would move certain employees, specifically direct care workers as defined in the bill, into the 1998 Special Plan effective October 1, 2023, and would apply retroactively to include all covered service in the 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.

This bill 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. 1761 because covered employees would be able to retire earlier and with a higher benefit, and therefore would receive benefits in excess of those currently accounted for and funded, creating a new unfunded actuarial liability (UAL).

We have not yet estimated the costs associated with L.D. 1761. With guidance from the Committee, we will work with the department and the Office of Fiscal and Program Review to identify the individuals covered by this proposal and to determine the costs associated with changing the retirement plan coverage for this group of employees.

MainePERS has one concern about the way L.D. 1761 is drafted. Specifically, the bill as proposed permits impacted employees to elect whether to move into the new plan. 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.

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