MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

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. 185 – An Act to Reduce the Benefit Penalty Imposed on Career Educators Who Retire After 35 Years of Service

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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. 185. We are here to provide information and offer any assistance the Committee might need regarding this bill. It is our understanding that the bill as drafted does not reflect the intent of the sponsor and that an amendment will be offered to provide clarification. Our testimony is based on that amended language.

Under current plan provisions, there are two ways by which a teacher becomes eligible to retire. One way is by completing twenty-five years of service and the other is by reaching the applicable normal retirement age, which is age 60, 62, or 65 depending on service requirements at specific dates set in law. A teacher who reaches twenty-five years of service prior to reaching normal retirement age may retire with a reduction, approximately 2.125% for teachers in the age 60 plan and 6% for teachers in the age 62 and 65 plans, 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.

As amended, L.D. 185 proposes to allow all teachers with at least thirty-five years of service to retire with an early retirement reduction of approximately 2.125% per year, regardless of the normal retirement age of the plan in which they participate. So, for example, a teacher who has a normal retirement age of 62 and is age 58 would currently be subject to a reduction of 24% (4 years x 6% per year). Under this proposal, the teacher would instead be subject to a reduction of approximately 8.5% (4 years x 2.125%).

L.D. 185 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. 185 because a teacher would be receiving higher benefits than currently accounted for and funded, creating a new unfunded actuarial liability (UAL). We estimate an approximate $49 million increase to the UAL if this bill is enacted. Additionally, we estimate an ongoing increased normal cost of approximately $1.1 million per year.

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