

DATE: March 29, 2021

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. 956 – An Act to Amend the Eligibility Criteria for Creditable Service in the Armed Forces of the United States under the State Retirement System

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. 956. We are here to provide information and offer any assistance the Committee might need regarding this bill.

MainePERS members can receive limited credit for time served in the military before they became members. For most members, the inclusion of military service credit results in the ability to retire earlier and/or with an increased retirement benefit. There are requirements that have to be met to get this credit, including costs that have to be paid by the member.

Under current law, the amount that must be paid by the member depends on whether their military service was during a federally recognized period of conflict. Members who served during one of these periods, regardless of whether they participated in the conflict, pay a relatively low amount and have the remainder subsidized by the State (for members of the State/Teacher Plan) or by the Participating Local District (“PLD”) Consolidated Plan (for members of that plan).

With one exception, members whose military service was not during a federally recognized period of conflict must pay the full actuarial cost of the additional service credit. The exception exists only in the State/Teacher Plan. Members in that plan who did not serve during a federally recognized period of conflict still can purchase subsidized military service credit if they received a type of medal for their military service that indicates participation in a conflict and the Legislature has appropriated funds to cover the cost of the subsidy. MainePERS submits an annual report to the Legislature of members who have self-reported who fall into this category. This exception does not exist in the PLD Consolidated Plan, which is not funded by the State.

“Federally recognized period of conflict” is defined in statute to include the dates of several military conflicts over the past century. This term essentially includes everything except a 15-year period between May 7, 1975 and August 8, 1990.

L.D. 956 would add two conflicts that occurred during this 15-year period to the definition of “federally recognized period of conflict,” resulting in the addition of approximately 20 months to the definition.

L.D. 956 would have a fiscal impact because it would increase the number of members eligible for a subsidized purchase. Additionally, members who served during the newly-added periods and already purchased military service at the full actuarial rate would be entitled to a refund equal to the amount of the subsidy they would have received had those periods been included when they made the purchase.

The cost of the new subsidies and refunds for the State/Teacher Plan would have to be funded immediately because the State Constitution prohibits the creation of unfunded liabilities for that plan.

The bill also would impose a fiscal impact on the PLD Consolidated Plan. The State does not fund the PLD Consolidated Plan, so the cost of the additional subsidies and refunds ultimately would have to be paid by the PLDs and their employees who are members.

It is difficult to accurately estimate the additional costs to the State and the PLD Consolidated Plan because we generally do not know which of our members served during the new periods that would be added by L.D. 956. However, we will work with the Office of Fiscal and Program Review to provide estimates based on the information available to us.

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