MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

LEGISLATIVE FACT SHEET

LD 111 - An Act to Allow Career Educators to Retire without Penalty

Description

This bill would allow teachers and school administrators with at least 35 years of creditable service to retire with full retirement benefits at any age. It also would require a retired teacher or school administrator who returns to work to pay the same employee contribution rate as paid by other teachers.

Impact

This would impact teachers and retired teachers who return to work. Under retirement system law, "teacher" includes school administrators.

Costs

The bill would increase pension costs in three ways.

First, it would create an actuarial liability of approximately $83 million dollars, which would have to be funded up front under the State Constitution.

Second, it would increase the normal costs that are paid by schools by an estimated $1.6 million per year, equivalent to an increase of .15% of payroll.

Third, it would require retired teachers who are re-employed to pay 7.65% of earnings while re-employed. This would be paid in after-tax dollars.

Reason for Costs

Under current law, teachers who retire earlier than their normal retirement age (60, 62, or 65 depending on their service history) receive a reduced monthly benefit to reflect the fact that they will be receiving a greater number of monthly payments over their lives than if they waited until normal retirement age. For most retirees, the two cumulative amounts should be the same over their life expectancy. The contributions that have been paid toward retirement for these teachers have been based on this structure.

LD 111 would eliminate any benefit reduction for teachers who retire before normal retirement age if they have 35 years of creditable service, which would make this is a more expensive plan. This means that school units must pay higher normal costs. Normal costs are the costs of benefits that are being earned each year.

Since contributions for current teachers have been based on a less-expensive plan with an age threshold, the bill would also create an actuarial liability that does not currently exist. The Maine Constitution requires that the cost of enhancing benefits must be fully paid at the time that the enhancement is made. As a result, the increased actuarial liability must be fully-funded up front.

Retired teachers who return to work currently do not pay any contributions. The bill would require them to pay the same rate as non-retired teachers. This would be in after-tax dollars because it is not a contribution toward the teacher's retirement.