

Date: April 22, 2025

To: Senator Michael Tipping, Senate Chair
Representative Amy Roeder, House Chair
Members, Joint Standing Committee on Labor

From: Bill Brown, Director of Actuarial and Legislative Affairs

Subject: LD 1611, An Act to Decrease the Retirement Contributions Required for Teachers and State Employees

Good afternoon Senator Tipping, Chair Roeder and the other distinguished members of the Joint Standing Committee on Labor. I am Bill Brown, Director of Actuarial and Legislative Affairs for the Maine Public Employees Retirement System (MainePERS).

MainePERS is neither for nor against LD 1611, An Act to Decrease the Retirement Contributions Required for Teachers and State Employees. We are here to provide information and to offer any assistance the committee may request surrounding this bill.

The defined benefit plans administered by MainePERS on behalf of members, retirees and beneficiaries are partially funded by the contributions paid by members and employers. Those contributions, along with investment earnings, fund the benefits earned by and promised to members. The total cost to provide these benefits is subject to fluctuations due to demographic factors such as life expectancy, retirement behavior and salaries, and economic factors such as market returns and inflation, as well as legislatively enacted changes.

Within the State/Teacher Plan, contributions paid by members are set by statute at 7.65% of earnable compensation for members who participate in the regular plan, which is the far majority. This rate has been in effect since July 1, 1993. The rate is slightly higher for members covered by the so-called special plans. Employer contributions by the State vary to absorb fluctuations in the costs to provide benefits. Estimated Normal Costs (NC) of benefits and Unfunded Actuarial Liabilities (UAL), less the total of employee contributions, are used to establish the rate of employer contributions for the State/Teacher plan. In FY25 the employer rate for State employees in the regular plan is 21.14% of earnable compensation and 18.98% for Teacher members. Just as with employee rates, the employer rates are higher for the special plans.

LD 1611 seeks to reduce the contribution rate paid by certain members covered by the State/Teacher Plan from 7.65% to 6.2%. It is unclear whether the intent of the bill is to decrease the member contribution rate for all members in the State/Teacher Plan or only for those members covered by the specific section amended in the bill. There are many other sections of statute that set out the contribution rate for members in specific plans, and those are not addressed in LD 1611.

Decreasing the amount paid through member contributions does not decrease the total amount required to fund the benefits, but instead transfers that obligation to the employer. LD 1611 will increase the employer costs paid by the State as well as the normal costs paid by local school units. The Maine Constitution requires that the normal costs of all retirement benefits under the Maine Public Employees Retirement System be funded annually and on an actuarially sound basis. We are awaiting guidance from the committee before obtaining cost information for this proposal.

On a drafting note, we think that Section 17701-B should remain unchanged, and a new Section 17701-C added to include the proposal in LD 1611, thus preserving the contribution rate language for rates paid through the July 1, 2026, as proposed in the bill. This would be consistent with the current construction of statute when contribution rate changes have been implemented.

Thank you for your consideration of this testimony. I am happy to take your questions and will be present for any work session.