

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 1638, An Act Regarding Disability Retirement Benefits Under the Maine Public Employees Retirement System

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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 1638, An Act Regarding Disability Retirement Benefits Under the Maine Public Employees Retirement System. We are here to provide information and to offer any assistance the committee may request regarding this bill.

In addition to its primary service retirement programs MainePERS also administers a Disability Retirement Program. Disability Retirement serves members who become unable to work but are not yet ready or eligible to start their service retirement benefit. As a form of retirement, it is a unique benefit that has different requirements under Maine law than other similar but different government-run disability programs. It is also different than private insurance that may be purchased to provide some income during a short-term or long-term illness that prevents someone from working.

According to statute, in order to qualify for Disability Retirement a member must demonstrate that one or more medically diagnosable conditions exist, that functional limitations caused by those conditions make the member unable to perform the essential functions of the member's employment position with reasonable accommodation and that the inability can be expected to be permanent.

The great majority of MainePERS members do not participate in Social Security. Those that do are typically members of the Participating Local District (PLD) Consolidated Plan, working for cities, towns, counties or local utilities like water or sanitary districts. Under arrangements reached by their employers, some of these members contribute to both MainePERS and to Social Security.

Under Maine law, when these members apply for and receive disability retirement benefits through MainePERS and Social Security for the same disabling condition and period of employment, a portion of their MainePERS benefit is offset by the benefit received from Social Security. A similar provision exists in statute for the State/Teacher plan but it is not triggered as State/Teacher members do not pay into Social Security.

The amount of disability retirement benefit available through MainePERS generally is 59% of a member's Average Final Compensation (AFC). If the member is also receiving Social Security disability benefits for the same disability and period of employment, the MainePERS disability benefit is reduced so that the two benefits combined do not exceed 80% of the member's pre-disability compensation taking into account AFC and wages and earnings from other employment.

LD 1638 seeks to eliminate the offset of MainePERS disability retirement benefits by Social Security benefits received for the same condition. The bill also proposes the retroactive payment of previously offset benefits plus cost-of-living adjustments (COLA) and interest. The proposed interest rate on these payments is prime rounded up to the nearest whole percent, plus 3. Currently that is 10.5%. This greatly exceeds the 6.5% that MainePERS uses as an investment assumption for the trust funds. LD 1638 also eliminates the requirement that those eligible to apply for disability benefits under Social Security do so before making application to MainePERS.

This bill will have a fiscal impact on the PLD Consolidated Plan because disability retirement benefit recipients will receive higher benefits, thus increasing the actuarial liabilities of the Plan. From a plan funding perspective, there is the expectation that some portion of disability retirement benefits will be offset, and our actuaries have valued plan liabilities and recommended contribution rates based on our historic experience, which has included the effect of the offsets. If those offsets are eliminated, the actuary will determine the impact on future actuarial liabilities and how plan costs are impacted.

The immediate costs of LD 1638 have not yet been determined. This is in part because the System would need to manually recalculate the retroactive benefits for current disability retirement recipients for whom benefits are offset, as proposed in the bill. Additionally, our actuaries would need to determine the immediate costs based on current recipients as well as the impact of changing the assumptions related to benefit offsets, as stated above.

As previously indicated, L.D. 1638 applies specifically to the PLD Consolidated Plan, which is funded by participating municipalities and other local districts and their employees. The program is not funded by the State. In recognition of this, and pursuant to Title 5, Section 18801, subsection 2, amendments to retirement benefit statutes do not become part of the PLD plan unless adopted through rulemaking based on a recommendation of the PLD Advisory Committee. This Committee is established in statute with its voting membership evenly split between plan employers and employees.

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