

DATE: March 2, 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. 426 – An Act to Amend the Eligibility Criteria for Creditable Service in the Armed Forces of the United States Under the State Retirement System

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. 426. 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 must be met to get this credit, including costs that must be paid by the member.

Under current law, the amount that must be paid by the member depends on whether the military service was during a federally recognized period of conflict. Members who served during one of these periods 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. This cost is significantly higher than the subsidized rate since the member is essentially self-funding the additional benefit that results from the inclusion of the military service. The employer does not share in the costs for the purchase. The exception exists only in the State/Teacher Plan. Members in that plan who did not serve during a federally recognized period of conflict can purchase subsidized military service credit if they received a type of medal for their military service that indicates participation in a conflict, and if 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. The most recent report was submitted on February 7, 2023.

“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. 426 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 18 months to the definition.

L.D. 426 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.

It is difficult to accurately estimate the additional costs because we generally do not know which of our members served during the new periods that would be added by L.D. 426. In the 130th Legislature, L.D. 956 proposed the same change as is being proposed in L.D. 426. At that time, we estimated an increased liability of between \$4.9 million and \$7.4 million to fund this new provision. Our estimated costs were developed based on a review of requests from members with military service during the expanded periods of conflict. The enactment of L.D. 426 would likely increase the number of requests and purchases made at the more favorable level of costs. This could have a future impact on the normal costs of the plan, but that impact cannot be determined at this time, and would be captured in future experience studies of the plan.

If enacted, the PLD Advisory Committee would consider whether to recommend that the PLD Plan be amended to include this new provision in that 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.

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.