

DATE: April 19, 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. 1424 – An Act to Remove the Age Requirement for
Correctional Staff Retirement under the 1998 Special Plan

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. 1424. We are here to provide information and offer any assistance the Committee might need regarding this bill.

State employees are covered by either a “regular plan” or a “special plan.” The majority of state employees are covered by the regular plan, which permits retirement after twenty-five years of service and/or attainment of normal retirement age of 60, 62 or 65. Special plans typically allow for retirement with fewer years of service and/or at a younger age. Because of the more favorable provisions of the special plans, they are more expensive to fund. Included with this testimony is a chart that details the different plans and the groups covered by each.

L.D. 1424 proposes to change the retirement plan by which certain Department of Corrections and Department of Administrative and Financial Services employees are covered. Employees in the positions described in the bill are currently covered by the 1998 Special Plan. It is our understanding that the intent of L.D. 1424 is to move all covered employees into a special plan that provides for retirement after completing 25 years of service, regardless of age. This would be a plan separate from the 1998 Special Plan.

This bill would have a fiscal impact because the Constitution does not allow the creation of new or additional benefits unless immediately and fully funded. New benefits would be created if covered employees are able to retire earlier and with a higher benefit, which would result in benefits in excess of those currently accounted for and funded, creating a new unfunded actuarial liability (UAL). A more favorable plan would also have higher ongoing employer normal costs.

We have not yet estimated the costs associated with L.D. 1424. With guidance from the Committee, we will work with the departments and the Office of Fiscal and Program Review to identify the individuals covered by this proposal and to determine the costs associated with changing the retirement plan coverage for this group of employees.

On a technical note, if we are correct in our understanding of the intent of the bill, we do not think the bill as drafted accomplishes that intent. Specifically, the bill is drafted to amend qualifications for benefits under the 1998 Special Plan for only these employees. It does not address other aspects, such as the calculation of benefits. Many other groups are covered by the 1998 Special Plan and changing eligibility requirements for one group within that plan may create confusion. An alternative approach is to remove this group from that plan and place them in the existing 25 year, no age requirement plan. That approach would be consistent with that taken when other groups have been removed from the 1998 Special Plan and placed in a more favorable plan. We are happy to work with the sponsor and the Committee's Analyst on language to accomplish that intent.

We would also note that L.D. 483, for which a public hearing was held on March 2, proposes to change plan coverage for a subset of employees covered by L.D. 1424. Under that bill, the covered individuals would remain in the 1998 Special Plan and be provided with retroactive coverage in that plan.

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

MainePERS State-Sponsored Retirement Plans as of June 30, 2022

	Regular Plan	1998 Special Plan	25 Year No-Age Special Plan	Fire Marshals	Closed Plans*	Legislators	Judges
Member Count	State 10,787 Teacher 27,718	1,144	455	15	2	174	60
Groups included	All State employees not covered by a special plan <i>and</i> Teachers	<ul style="list-style-type: none"> •Liquor Inspectors (eff. 7/1/1998) •Airplane pilots (eff. 7/1/1998) •Forest Rangers (eff. 7/1/1998) •Fed-funded BIA firefighters (eff. 7/1/1998) •Baxter St. Park Rangers (1/1/2000) •Fire Marshals (eff. 1/1/2000) •Department of Corrections (eff. 1/1/2000) •Capitol Police (eff. 7/1/2002) •Oil & Hazardous Waste Emergency Response employees (eff. 1/1/2002) •Emergency Communications Employees at Dept. of Public Safety (eff. 7/1/20) •BMV Detectives (eff. 7/1/20) •AG Detectives (eff. 7/1/20) •Crime Laboratory/Computer Crimes Unit Employees (eff. 10/1/21) <p>*service prior to effective dates is in the regular plan</p>	Inland Fisheries and Wildlife Wardens and Marine Resources Officers hired after 8/31/84 State Police hired after 9/15/84	State Fire Marshal Investigator State Fire Marshal Senior Investigator State Fire Marshal Sergeant Assistant State Fire Marshal- Investigations	Game Warden (1) State Police (1)	Legislators	Judges
Member Contribution Rate	7.65% 1.15% for those with employer-paid contributions	8.65% for the first 25 years of service, 7.65% thereafter 1.15% for those with employer-paid contributions	8.65% for the first 25 years of service, 7.65% thereafter 1.15% for those with employer-paid contributions	8.65% for the first 20 years of service, 7.65% thereafter 1.15% for those with employer-paid contributions	Varies	7.65%	7.65%
Total Employer Rate for FY 24	State 4.84% NC <u>16.23%</u> UAL 21.07% TOTAL Teacher 4.47% NC <u>14.51%</u> UAL 18.98% TOTAL	5.33% NC <u>18.50%</u> UAL 23.83% TOTAL	5.55% NC <u>17.86%</u> UAL 23.41% TOTAL	11.97% NC <u>25.42%</u> UAL 37.39% TOTAL	Varies	5.74% NC <u>(5.74%)</u> UAL 0.0% TOTAL	12.21% NC <u>(8.02%)</u> UAL 4.19% TOTAL

MainePERS State-Sponsored Retirement Plans as of June 30, 2022

	Regular Plan	1998 Special Plan	25 Year No-Age Special Plan	Fire Marshals	Closed Plans*	Legislators	Judges
Normal Retirement Age	60/62/65	55	Any age at which member meets service requirement	Any age at which member meets service requirement	Varies	60/62/65	60/62/65
Service Eligibility	25 years	10 years under the plan if at least age 55 or 25 years in a covered position	25 years of covered service	20 years of covered service	Varies	25 years	25 years
Accrual Rate	2%	2%	2%	2.5% for 20 years and 2% for additional years over 20	Varies	2%	2% for service through 6/30/98 and 3% for service thereafter Benefits for judges appointed on or after 12/1/84 cannot exceed 70% of AFC
Early Retirement Reduction Factor	2.125% or 6% per year based on years of service on 7/1/93	2.125% or 6% per year based on years of service on 7/1/93 Reduction based on plan in which service was earned (i.e., regular or special)	N/A	N/A	N/A	2.125% or 6% per year based on years of service on 7/1/93	2.125% or 6% per year based on years of service on 7/1/93