

DATE: March 29, 2021

TO: Senator Craig Hickman, Chair
Representative Mike Sylvester, Chair
Members, Joint Standing Committee on Labor and Housing

FROM: Kathy J. Morin, Manager, Actuarial and Legislative Affairs

SUBJECT: Testimony on L.D. 1041 – An Act to Include Certain Mental Health Workers
under the 1998 Special Plan for Retirement

Senator Hickman, Representative Sylvester, and members of the Joint Standing Committee on Labor and Housing. My name is Kathy Morin, and I am the Manager of Actuarial and Legislative Affairs for the Maine Public Employees Retirement System.

MainePERS is neither for nor against L.D. 1041. We are here to provide information and offer any assistance the Committee might need regarding this bill.

Most state employees are covered by the regular plan, which requires 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.

Under the 1998 Special Plan, participants become eligible to retire in one of two ways: 1) by accruing 25 years of service in a covered capacity; or 2) by accruing 10 years under the 1998 Special Plan and attaining age 55. Under the first provision, all service in a covered capacity is counted towards meeting the 25 year requirement while under the second provision, only service earned in a covered capacity after the date that a specific group is included in the plan is counted towards meeting the 10 year requirement.

Benefits are calculated based upon the plan under which the service was earned. The result for those members with some service in a regular plan and some service in a special plan is a “split age reduction” such that the regular plan service is reduced for early retirement prior to 60, 62 or 65, and the special plan service is reduced for early retirement only if retirement is prior to age 55. Members with all or a high percentage of their service under the 1998 Special Plan are more greatly advantaged by that plan.

L.D. 1041 would expand the 1998 Special Plan to include certain Department of Health and Human Services employees employed on October 1, 2021, or hired thereafter. These employees have always been covered by the regular plan. The bill as drafted would allow for

the inclusion of all service in a covered position as service in the 1998 Special Plan. Therefore, the split age reduction as previously described would not apply and a reduction for early retirement would only apply for retirement before age 55.

This bill will have a fiscal impact because the Constitution does not allow the creation of new or additional benefits unless immediately and fully funded. New benefits are created under L.D. 1041 because mental health workers would be able to retire earlier and therefore would receive benefits for more years than currently accounted for and funded, creating a new unfunded actuarial liability (UAL). This bill would also increase the ongoing employer normal costs for the members who will be covered in a more favorable special plan.

During the 129th Legislature, the Committee considered L.D. 1569, which included the same proposal as L.D. 1041. At that time, MainePERS estimated the cost for the plan change to be approximately \$4 million in increased UAL, which would require immediate funding, and an ongoing \$1.3 million per year increase in normal costs. Those costs would need to be updated for L.D. 1041.

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