

MAINE STATE LEGISLATURE

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REPORT

To: Members, Joint Standing Committee on Appropriations and Financial Affairs
Fr: Public law, Chapter 213, Part N work group
Re: OPEB liability for Retired Teachers
On: January 13, 2010

Introduction:

Public law Chapter 213 H.P. 274 - L.D. 353 PART N (the FY10-11 budget) directed the State Treasurer to establish a work group to explore issues associated with compliance with Governmental Accounting Standards Board (GASB) Statements Number 43 and Number 45 related to the unfunded liability obligations for retiree health benefits for individuals described in the Maine Revised Statutes, Title 20-A, section 13451, subsections 2, 2-A, 2-B and 2-C.

Public Law, Chapter 213, part N states:

1. Participants. In convening the work group the Treasurer of State shall include representatives from the Office of the Treasurer of State, Maine Education Association, Maine School Management Association and Maine Municipal Association and the Commissioner of Administrative and Financial Services or the commissioner's designee and the Executive Director of the Maine Public Employees Retirement System. Members of the work group may have professional advisors in attendance at the meetings of the group. The Treasurer of State shall serve as chair of the work group and may accept resources as approved and provided by work group participants.

2. Duties. The work group shall:

A. Review unfunded liabilities for post-employment health benefits with respect to individuals described in the Maine Revised Statutes, Title 20-A, section 13451, subsections 2, 2-A, 2-B and 2-C;

B. Review Governmental Accounting Standards Board Statements Number 43 and Number 45 with respect to determining responsibility for meeting the requirements of the standards in order to be in compliance with those standards;

C. Review the status of the unfunded liability obligation for other post-employment benefits for retiree health benefits with respect to individuals described in Title 20-A, section 13451, subsections 2, 2-A, 2-B and 2-C;

D. Review the responsibility for the unfunded liability obligations for retiree health benefits with respect to individuals described in Title 20-A, section 13451, subsections 2, 2-A, 2-B and 2-C based on the requirements of the Governmental Accounting Standards Board Statements Number 43 and Number 45; and

E. Recommend one or more methods and timelines for the funding of unfunded liability obligations required to be disclosed in order to be in compliance with Governmental Accounting Standards Board Statements Number 43 and Number 45 and possible trust and trustee options for other post-employment benefit contributions.

3. Report. The work group shall submit its report, including any recommended implementing legislation to the Joint Standing Committee on Appropriations and Financial Affairs by January 15, 2010.

Task Force Members:

David Lemoine, State Treasurer
David Wakelin, Maine Education Association
Dick Spencer, Maine School Management Association
Martin Hanish, Maine Municipal Association
Terry Brann, Acting State Controller, designee for the Commissioner of DAFS
Sandy Matheson, Executive Director of MainePERS

Meeting Dates:

October 21, 2009
November 9, 2009
November 20, 2009
January 12, 2010

Recommendations:

The working group unanimously agreed to recommend that:

- The State of Maine comply with Governmental Accounting Standards Board (GASB) regulations regarding its reporting of other post employment benefits (OPEB) liability for retired teachers.
- An irrevocable trust be established through which the State of Maine may set aside funds that will reduce its OPEB liability for retired teachers and into which the State of Maine may make qualified contributions in order to reduce its retired teacher OPEB liability while receiving the most favorable discount rate available under Governmental Accounting Standards Board (GASB) guidelines.
- The Maine Attorney General draft an irrevocable trust document which would govern the receipt, control, investment and disbursement of funds placed into trust concerning the State of Maine's other post employment benefits (OPEB) liability for retired teachers.
- A private, independent, non-governmental entity with a physical presence in the State of Maine be appointed to administer the trust, and that the selection of that trustee be done through the State's Request for Proposal bidding process with the State Treasurer making the selection with the advice of representatives from the Maine Municipal Association, the Maine School Management Association, the Maine Education Association and the State Controller.
- That the trustee selection process begin when funds are appropriated for placement into the trust.

- The State of Maine contribute to the trust to the fullest extent consistent with other state spending priorities.

Statement of Facts:

The working group unanimously agreed upon the following statement of facts:

1. Public school teachers in Maine are employed by local school units.
2. Maine retired public school teachers must be allowed to participate in the group health insurance plan which covers active teachers in the system or school unit from which they retired, and retired teachers must be charged the same premium rate for health insurance coverage that applies to active teachers in the applicable school system or unit. 20-A M.R.S.A. s. 13451(1)
3. Approximately 98% of all active and retired teachers in Maine are covered by a single health insurance plan administered and sponsored by the Maine Education Association Benefits Trust (MEABT), a non-profit tax exempt employee benefit trust.
4. The premiums charged by the MEABT for active teachers, as well as for retired teachers not covered under Medicare, is a statewide blended rate which provides no adjustments for age, gender, retired status, geographic location or prior claims history.
5. The State of Maine must contribute 45% of the retiree medical premium for retired teachers based on: Single rate for single and employee + children coverage; 50% of 2-party rate for 2-party and family coverage. 20-A M.R.S.A. s. 13451(3)
6. Monthly premiums schedule under the MEABT-sponsored plan are:

Non Medicare Eligible Retirees

Medical Plan	Year	Single	2-Party	Family	Participant w/Child(ren)
HMO Choice (MEA choice plus)	08/09	Total:	Total:	Total:	Total:
	09/10	\$528.40	\$1,190.91	\$1,449.51	\$935.16
		Retiree: \$290.62 State: \$237.78	Retiree: \$922.96 State: \$267.95	Retiree: \$1181.56 State: \$267.95	Retiree: \$697.38 State: \$237.78
Blue Choice (MEA Standard Plus)	08/09	Total:	Total:	Total:	Total:
	09/10	\$570.61	\$1,286.19	\$1,565.47	\$1,009.96
		Retiree: \$313.84 State: 256.77	Retiree: \$996.80 State: \$289.39	Retiree: 861.01 State: \$289.39	Retiree: \$753.19 State: \$256.77

Medicare Eligible Retirees

Medical Plan	Year	Single	2-Party	Family	Participant w/Child(ren)
Group Companion	08/09 09/10	Total: \$321.36 Retiree: 176.75 State: \$144.61	Total: \$674.55 RT: \$522.78 State: \$151.77	n/a	n/a

7. The State of Maine has not pre-funded its projected liability for retired teachers' healthcare premiums in an irrevocable trust, and is instead paying its share of those premiums as they become due, (pay-as-you-go).
8. The discount rate assumption for funds held in the State's retired teacher health insurance premium payment account is 4.5%, as is shown in the State's January 2009 actuarial report. The discount rate for those funds if held in an irrevocable trust would vary from 4.5% to 7.5%
9. The State of Maine is required to comply with all provisions of GASB 45 regarding the measurement and reporting of projected retired teacher health insurance premium payments, also known as Other Post Employment Benefit (OPEB) liabilities, as if it were making an employer contribution.
10. An irrevocable trust has been established by the State of Maine pursuant to 5 M.R.S.A. s. 286(B)(2) regarding the State's OPEB liability for state employees and retired teachers. The State has considered the trust funds to apply only to its OPEB liability for state employees.
11. As currently worded, the state's irrevocable trust is not open for contributions from entities other than the state.

CHAPTER 213
H.P. 274 - L.D. 353

PART N

Sec. N-1. 5 MRSA §286-B, sub-§2, as enacted by PL 2007, c. 240, Pt. RRR, §1, is amended to read:

2. Establishment. The Irrevocable Trust Fund for Other Post-employment Benefits is established to meet the State's unfunded liability obligations for retiree health benefits for eligible participants, as described in section 285, subsections 1-A and 11-A who are the beneficiaries of the irrevocable trust fund and beginning July 1, 2011 for eligible participants as described in Title 20-A, section 13451, subsections 2, 2-A, 2-B and 2-C, who are the beneficiaries of the irrevocable trust fund. Funds appropriated for the irrevocable trust fund must be held in trust and must be invested or disbursed for the exclusive purpose of providing for retiree health benefits and may not be encumbered for, or diverted to, other purposes. Funds appropriated for the irrevocable trust fund may not be diverted or deappropriated by any subsequent action.

Annually, beginning with the fiscal year starting July 1, 2007, the Legislature shall appropriate funds to meet the State's obligations under any group health plan, policy or contract purchased by the State Employee Health Commission to provide retiree health benefits pursuant to section 285, subsection 5 and, if applicable, to meet the State's obligations under any self-insured group health plan pursuant to section 285, subsection 9. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not exceeding 10 years.

Annually, beginning with the fiscal year starting July 1, 2009, the Legislature shall appropriate funds that will retire, in 30 years or less from July 1, 2007, the unfunded liability for retiree health benefits for eligible participants as described in this section. The unfunded liability referred to in this section is that determined by the Department of Administrative and Financial Services, Office of the State Controller's actuaries and certified by the Commissioner of Administrative and Financial Services as of June 30, 2006.

Sec. N-2. Work group. The Treasurer of State shall convene a work group to explore issues associated with compliance with Governmental Accounting Standards Board Statements Number 43 and Number 45 related to the unfunded liability obligations for retiree health benefits for individuals described in the Maine Revised Statutes, Title 20-A, section 13451, subsections 2, 2-A, 2-B and 2-C.

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- C. Review the status of the unfunded liability obligation for other post-employment benefits for retiree health benefits with respect to individuals described in Title 20-A, section 13451, subsections 2, 2-A, 2-B and 2-C;
- D. Review the responsibility for the unfunded liability obligations for retiree health benefits with respect to individuals described in Title 20-A, section 13451, subsections 2, 2-A, 2-B and 2-C based on the requirements of the Governmental Accounting Standards Board Statements Number 43 and Number 45; and
- E. Recommend one or more methods and timelines for the funding of unfunded liability obligations required to be disclosed in order to be in compliance with Governmental Accounting Standards Board Statements Number 43 and Number 45 and possible trust and trustee options for other post-employment benefit contributions.

3. Report. The work group shall submit its report, including any recommended implementing legislation to the Joint Standing Committee on Appropriations and Financial Affairs by January 15, 2010.

Following receipt and review of the report, the Joint Standing Committee on Appropriations and Financial Affairs may report out legislation to the Second Regular Session of the 124th Legislature.