124th MAINE LEGISLATURE

FIRST REGULAR SESSION-2009

Legislative Document **No. 1431**

S.P. 515 In Senate, April 7, 2009

Resolve, To Reform Public Retirement Benefits and Eliminate Social Security Offsets

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Reference to the Committee on Labor suggested and ordered printed.

Joy J O'Brien

JOY J. O'BRIEN
Secretary of the Senate

Presented by Senator MILLS of Somerset.

Sec. 1. Design of unified pension and benefit plan for all state employees and teachers who are first employed with the State after December 31, 2010. Resolved: That the Maine Public Employees Retirement System, the Commissioner of Administrative and Financial Services and the State Employee Health Commission, collectively referred to in this resolve as "the task force," shall, within their existing resources, design in accordance with this resolve a unified pension and benefit plan, referred to in this resolve as "the plan," to apply to all state employees and teachers who are first hired after December 31, 2010 with no prior creditable service.

1. Definitions. For purposes of this resolve, the following terms have the following meanings.

A. "Teacher" has the same meaning as in the Maine Revised Statutes, Title 5, section 17001, subsection 42.

B. "State employee" includes:

(1) Employees as defined in Title 5, section 17001, subsection 40;

(2) Judges entitled to retirement benefits under Title 4, chapter 27 or 29;

(3) Members of the State Police; and

(4) Legislators entitled to retirement benefits under Title 3, chapter 29.

2. Health plan. The task force shall design the health plan component of the plan in accordance with this subsection and may propose additional variations on the plan.

A. All active members of the plan and their dependents must be entitled to membership in the health plan. Assessments for coverage under the health plan must be imposed and budgeted in accordance with Title 5, section 286-A. The proportion of the assessment paid on behalf of members by their employers must be in accordance with the law existing on the effective date of this resolve or in accordance with applicable collective bargaining agreements.

B. Every active member of the plan and the spouse and dependents of each such member may continue coverage under the health plan in retirement if criteria for eligibility are met as prescribed in Title 5, section 285, subsection 1-A. The task force may recommend changes in eligibility criteria.

C. The health plan premium for any eligible retired member and any covered spouse or dependent of the member must be paid from the Bureau of Human Resources' State Employee Health Dedicated Revenue Account established in Title 5, section 286-A. Each retired member must be entitled to 3% of the premium for each year of creditable service up to a maximum of 90% of the total premium. For a covered spouse or dependent, the subsidy is 1.5% of the premium for each year of the member's creditable service up to a maximum of 45% of the premium.

D. The present actuarial cost of the future benefit subsidy for retired state employees and teachers must be paid 1/2 by the employee and 1/2 by the employer. Payments as calculated and assessed by the Commissioner of Administrative and Financial Services must be remitted on a regular and periodic basis to the Bureau of Human

Resources' State Employee Health Dedicated Revenue Account established in Title 5, section 286-A.

3. Pension plan. The task force shall design the pension plan component of the plan in accordance with this subsection and may propose additional variations on the plan.

A. Every member of the plan must contribute to both Social Security and Medicare, and the employer of each member must contribute the employer's share of Social Security and Medicare.

B. Each active member of the plan must be entitled to a supplemental defined benefit pension calculated as a percentage of base compensation for each year of service. Base compensation equals the income received in the 5th highest calendar year of service. Benefits are vested after 6 years.

C. Normal pension benefits commence after 30 years of service or at 62 years of age, whichever occurs first.

D. A member who separates from service before normal retirement may:

(1) If the member has at least 6 years of service in the plan, leave the member's contributions and interest on account in the plan until the member retires at 62 years of age, with those benefits adjusted each year by an amount equal to the Consumer Price Index, up to an annual maximum of 3.5%;

(2) Withdraw 1.5 times the amount of the member's own contributions, plus 6% interest, with the option to roll the amount withdrawn into a tax-sheltered account;

(3) Purchase one or more irrevocable annuities or, with a spouse, joint life annuities, to commence at any future time and to end either at death or at the annuitant's normal retirement age for Social Security. The annuity values must equal 1.8 times the member's own contributions plus 6% interest. The Maine Public Employees Retirement System may serve as the annuity underwriter; or

(4) Use a combination of the options under subparagraphs (2) and (3).

E. The combined actuarial cost of retiree health insurance and supplemental defined pension benefits may not exceed 6% of aggregate payroll for all members. The cost of the plan must be divided equally between the member and the member's employer.

F. The actuarial cost of the retiree health benefit, expressed as a percentage of payroll, must be deducted from the 6% payroll charge, and the remainder must be allocated to the funding of a defined benefit system that will be expressed as a percentage of base payroll, rounded to the nearest tenth of a percent; and be it further

Sec. 2. Report. Resolved: That the task force shall submit a report on its design of the plan, together with any necessary implementing legislation, to the Joint Standing Committee on Labor by December 10, 2009. After receipt and review of the report, the joint standing committee may report out a bill to the Second Regular Session of the 124th Legislature.

SUMMARY

This resolve directs the Maine Public Employees Retirement System, the Commissioner of Administrative and Financial Services and the State Employee Health Commission, within their existing resources, to design a unified pension and benefit plan to apply to all state employees and teachers that are first hired after December 31, 2010. It authorizes submission of the proposed unified pension and benefit plan, together with proposed implementing legislation, to the Joint Standing Committee on Labor no later than December 10, 2009 and authorizes the committee to report out a bill to the Second Regular Session of the 124th Legislature. Under this unified pension and benefit plan:

1. In order to enhance portability of benefits and eliminate the issues associated with the government pension offset and the windfall elimination provision of the federal Social Security Act, every state employee and teacher subject to the plan will be covered under Social Security;

2. All new employees will be members of a common health plan with benefits that are identical to those paid for in accordance with current law and collective bargaining contracts;

3. In addition to Medicare and Social Security, each member will be entitled to a supplemental defined pension and retiree health benefit;

4. The present actuarial cost of retiree benefits under the plan will be limited to 6% of payroll to be divided equally between the employee and the employer;

5. Continuing health coverage will be offered to retirees and their dependents;

6. A retired member may receive a subsidy of up to 90% of the cost for the retiree's own health insurance and up to 45% of the cost of a spouse or dependent. The level of subsidy will be graduated to reflect length of service;

7. The future cost of retiree health benefits will be paid into an existing dedicated revenue account by assessing the current payroll of active members a percentage that is divided equally between the member and the member's employer;

8. Each member's supplemental defined pension will be calculated as a percentage of base year compensation times years of service. The percentage, rounded to the nearest tenth, will be calculated based on funding available after deducting the cost of the retiree health benefit from the 6% total benefit cost; and

9. A vested member may retire after 30 years of service or at 62 years of age, whichever occurs first. A member who retires early may recover 1.5 times the member's own contribution plus 6% interest if benefits are withdrawn as cash, or 1.8 times the member's own contribution plus 6% interest if the benefits are withdrawn in the form of an annuity.