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SECOND REGULAR SESSION

Final Report of the TASK FORCE TO STUDY METHODS OF ADDRESSING INEQUITIES IN THE RETIREMENT BENEFITS OF STATE EMPLOYEES AND TEACHERS

December, 2002

Members:

Senator Betheda G. Edmonds, Chair
Representative Jacqueline Norton, Chair
Representative Arthur F. Mayo
George Burgoyne
Kevin Mayo
Ken Williams
Donald Wills
Kay Evans (nonvoting)

Staff:
Deborah Friedman, Sr. Legislative Analyst
Office of Policy & Legal Analysis
Maine Legislature
(207) 287-1670

Table of Contents

Executive Summary

The Task Force to Study Methods of Addressing Inequities in the Retirement Benefits of State Employees and Teachers was created by Public Law 2001, chapter 707. The Task Force is the most recent of several efforts to study and alleviate the inequity in retirement benefits created by a 1993 state budget-balancing law.

That 1993 law increased the normal retirement age, increased early retirement penalties and delayed the post-retirement cost-of-living adjustment for state employees, teachers and other educational personnel covered by the state employee and teacher plan of the state retirement system, but only for those employees who had fewer than 10 years of service credit as of July 1, 1993. Employees who are affected by these benefit changes have been referred to as "cliff" employees.

The Task Force consisted of 3 legislators, a member appointed by each of 3 labor unions representing state employees and teachers, a representative of the Department of Administrative and Financial Services and a non-voting representative of the Maine State Retirement System.

The Task Force was charged with reviewing changes made in the retirement laws in 1993, understanding the impact of those changes on employees affected by the benefit changes, and searching for ways to bring greater equity to retirement benefits for those whose benefits were reduced and those whose benefits were maintained.

The retirement benefits of cliff employees differ from those of pre-cliff employees in the following ways:

- Normal retirement age for cliff employees is 62 (compared to 60 for most pre-cliff employees);

- The benefit reduction for retiring before normal retirement age is 6% per year, compared to an actuarially-determined amount that averages approximately $2^{1/4}$% per year for pre-cliff employees; and

- Retirement benefits paid to cliff employees are not adjusted for increases in the cost of living until 12 months after they reach normal retirement age, compared to 12 months after retirement for pre-cliff employees.

Since passage of the law in 1993, attempts have been made to address the inequities, but the cost and the Constitutional mandate to immediately fund any liability for past service that arises from a benefit restoration have made it difficult to restore full benefits to the cliff employees. The cost of restoring benefits was estimated for fiscal year 2002 to be $228.2 million in an upfront payment of liability for service credits earned in the past and an increase in the yearly cost of benefits of approximately 1.55% of payroll.

Following a review of options considered during past studies of the issue, the Task Force concluded that, despite the cost, the inequity between benefits for cliff and pre-cliff employees must be eliminated. Therefore:

> **The Task Force recommends that the inequity in retirement benefits created by Public Law 1993, chapter 401, Part L be addressed by repealing the reductions that were applicable only to state employees, teachers and other educational personnel who did not have 10 years of service credit as of July 1, 1993.**
>
> **The additional funds needed for this change should be provided by extending the period within which the state pays off the existing unfunded actuarial liability to the term permitted by the Maine Constitution and using the difference between the shorter payoff period and the longer period to fund both the unfunded liability and the normal cost (on-going) increases attributable to the benefit restoration during the pay-down period.**

The rationale for the recommendation is as follows:

- It's bad policy, bad for employee morale and bad for recruitment of excellent employees to have 2 employees performing the same work but having significantly different retirement benefit packages and to force employees to continue working simply to avoid substantial penalties in retirement benefits.

- The increase in costs will not worsen the State's current budget problems because they will be paid for by lengthening the payoff period for unfunded liability that the State is already required to pay off.

- Without this change, a pre-cliff employee retiring at age 59 receives a benefit reduced by about 2%, while a cliff employee retiring at the same age has a benefit reduced by 18% and a 3-year delay in cost-of-living adjustments. At age 60, the pre-cliff employee has a full benefit, but the cliff employee still has a 12% reduced benefit and a 2-year delay in the COLA.

The full report of the Task Force provides further details of the mechanism by which the benefit restoration would occur.

I. Introduction

The Task Force to Study Methods of Addressing Inequities in the Retirement Benefits of State Employees and Teachers was created by Public Law 2001, chapter 707. The Task Force is the most recent of several efforts to study and alleviate the inequity in retirement benefits created by a 1993 state budget-balancing law.

That 1993 law increased the normal retirement age, increased early retirement penalties and delayed the post-retirement cost-of-living adjustment for state employees, teachers and other educational personnel covered by the state employee and teacher plan of the state retirement system, [1] but only for those employees who had fewer than 10 years of service credit as of July 1, 1993. [2]

The Task Force consisted of 3 legislators, a member appointed by each of 3 labor unions representing state employees and teachers, a representative of the Department of Administrative and Financial Services and a non-voting representative of the Maine State Retirement System.

The Task Force was charged with reviewing changes made in the retirement laws in 1993, understanding the impact of those changes on employees affected by these benefit changes, and searching for ways to bring greater equity to retirement benefits for those whose benefits were reduced and those whose benefits were maintained.

Appointments to the Task Force were completed in late October of 2002 and the Task Force met for the first time on November 8th. At its first meeting, members received a staff briefing on the history of the issue and past attempts to address the inequity, and discussed how to proceed with the study. The Task Force met again on November 15th for further discussion of possible recommendations and completed its work at a meeting on December 9th.

[1] While the benefits of legislators and judges were also affected by these changes, these groups are covered under distinct retirement plans, and the Task Force work did not extend to these plans.

[2] The law also made other changes to the retirement law, but those changes applied to all covered employees, regardless of years of service. Those changes included an increase in the employee contribution rate to the retirement fund and changes in provisions relating to computation of service credits and cost of living adjustments.

II. Background

A. The Maine State Retirement System: Structure

The Maine State Retirement System was created by state law in 1942. Most state employees of the executive, legislative and judicial departments are required to be members of the system, as are most teachers and other certified, licensed educational professionals employed by local school administrative units.

The state retirement plan is a "defined benefit" plan, meaning that a retiree who meets all the eligibility criteria is entitled to a monthly benefit of a certain amount. [3] The benefit is determined at the time of retirement, based on 3 factors: (1) the number of years of service; (2) the accrual rate applicable to those years of service (currently the rate is 2% per year); and (3) the average annual compensation earned by the employee determined by averaging the 3 highest salary years. Employees covered by the state retirement system do not earn credit toward Social Security while they are employed and covered by the retirement plan.

The following table shows the number of state employees and teachers covered by the state retirement system, as well as the number of state employees and teachers receiving retirement benefits from the system, as of June 30, 2002.

Maine State Retirement System
Comprehensive Membership Count as of June 30, 2002

State Employees		
Active	Inactive	Retired
14, 935	15,606	9,433
Teachers		
Active	Inactive	Retired
34,629	46,281	10,759

[3] A defined benefit plan is different from a "defined contribution" plan, such as a 401(k) plan. In a defined contribution plan, the employer or employee (or both) makes a specific "defined" contribution to the plan while the person is employed and the retiree is entitled to receive the contributions and whatever investment income has been earned on those contributions. In contrast to a defined benefit plan, like the Maine state retirement plan or Social Security, there is no set benefit from a defined contribution plan.

B. The Maine State Retirement System: Funding

Funding a defined benefit plan is complicated. Ideally, for each employee, contributions would be made each year so that at the time of retirement, enough funds have been set aside to pay the required retirement benefit to that person for life, without making additional contributions. The amount that should be set aside each year would be based on factors such as the age of the employee, the salary, the likely years of service at the time of retirement, and the likely investment earnings on the contribution.

The Maine State Retirement System, like all defined benefit plans, does not make individual calculations to set aside funds for each employee. Instead, the System uses an actuary to determine the necessary aggregate contribution each year by looking at factors such as the value of assets currently held by the retirement fund, the number and age of employees, the salary level and probable salary increases and the likely earnings on investment of the funds. The number is recalculated each biennium and converted into a percentage figure that, when applied to state payroll, is expected to produce the necessary aggregate contribution.

The amount of contribution needed to fund benefits that are likely to be payable as a result of service credits earned by employees in the current year is referred to as the "normal cost" of the system. The "normal cost" is paid through contributions from employees and the State (the State pays the normal cost of teacher retirement, although the local school administrative units are the employers).

The normal cost for fiscal years 2004 and 2005, as determined by the June 30, 2002 valuation is 6.39% of salary for state employees and 6.04% for teachers.

In addition to the "normal cost" of benefits being earned in the current fiscal year, the State must make a payment toward the "unfunded actuarial liability" of the system. The unfunded actuarial liability, or "UAL," arose principally because sufficient funds were not appropriated for many years prior to 1995 to fund the benefits attributable to service performed in those earlier years. Thus, the retirement system is expected to pay out more in benefits in the future than can be funded with only normal cost contributions.

Maine law requires that the UAL that existed as of June 30, 1996 be paid off by June 30, 2019.[4] On the basis of that statutory requirement, the retirement system calculates the appropriation that will be needed each year in order to meet the statutory deadline. Based on the most recent actuarial calculation indicating a total UAL of $2.6 billion, as of June 30, 2002, the following amortization schedule requires appropriation of the following amounts from the General Fund, Highway Fund and other accounts from which staff salaries are paid:

[4] The Maine Constitution requires payoff by June 30, 2028. The Constitutional amendment is discussed in section E.

Amortization Schedule for the Unfunded Actuarial Liability (UAL)
Based on the June 30, 2002 Valuation[5]

Fiscal Year 20__	Remaining Unfunded Liability	Required Appropriation		Fiscal Year 20__	Remaining Unfunded Liability	Required Appropriation
02/03	$2,592,677,039	$146,601,771		11/12	$2,221,109,203	$311,766,366
03/04	2,674,268,440	203,146,612		12/13	2,073,801,885	328,913,516
04/05	2,647,282,853	214,319,675		13/14	1,896,835,199	347,003,759
05/06	2,635,651,231	226,107,257		14/15	1,686,853,282	366,088,966
06/07	2,610,801,296	238,543,157		15/16	1,440,177,731	386,223,859
07/08	2,570,999,754	251,663,030		16/17	1,152,778,826	407,466,171
08/09	2,514,337,478	265,504,497		17/18	820,244,287	429,876,811
09/10	2,438,713,395	280,107,244		18/19	437,745,359	453,520,035
10/11	2,341,816,977	295,513,143				

The amortization of the UAL is discussed further in section E.

C. Benefit Reductions for "Cliff" Employees

In 1993, faced with a massive budget deficit, the Legislature and Governor cut state budgets and made a number of other changes to state law to close the budget gap.[6]

Among the changes was an amendment to state retirement law that reduced the retirement benefit package for state employees and teachers who did not have 10 years of service credit as of July 1, 1993. Employees who did not have 10 years of service credit on that date have been referred to as "cliff" employees[7], and those who did have 10 years of service credit have been referred to as "pre-cliff" employees.

[5] FY '03 payment was based on the 6/30/00 valuation
[6] The budget bill was Public Law 1993, chapter 401.
[7] The term "cliff" marks the dividing line between groups of employees with better benefits and those with worse benefits.

The retirement benefits of cliff employees differ from those of pre-cliff employees in the following ways:

- Normal retirement age for cliff employees is 62 (compared to 60 for most pre-cliff employees);

- The benefit reduction for retiring before normal retirement age is 6% per year, compared to an actuarially-determined amount that averages approximately $2^{1/4}$% per year for pre-cliff employees; and

- Retirement benefits paid to cliff employees are not adjusted for increases in the cost of living until 12 months after they reach normal retirement age, compared to 12 months after retirement for pre-cliff employees.

An example of the impact of the differences follows. Two employees retire from the same job at the age of 56, with at least 25 years of service. Employee A, who had 10 years of service credit on July 1, 1993, receives a benefit reduced by about 9%. Employee B, who did not have 10 years of creditable service as of July 1, 1993, receives a benefit reduced by 36% and receives no cost-of-living adjustment for at least 5 years after retiring, further reducing the amount of his or her retirement benefit for the duration of his or her life.

D. Attempts to Address the Inequity

Since passage of the benefit package changes in 1993, attempts have been made to restore retirement benefits for the cliff employees and to protect state employees and teachers from future benefit cuts.[8]

In the First Regular Session of the 119th Legislature, a bill was introduced to study various aspects of the retirement system.[9] The bill did not pass, but the Labor Committee of the 119th Legislature undertook its own review of the retirement system and its benefits. Among the issues addressed was the inequity created by the 1993 law changes. A memo describing the committee's review is included as Appendix F.

That study process provided some preliminary figures on the cost of restoring full benefits to the cliff employees. The cost to restore benefits for teachers and state employees in the "regular" state plan[10] was estimated in November 2000 to be approximately $140.1 million in a one-time payment to cover the liability created due to past service (an increase in the existing unfunded liability) and a continuing amount added to the normal cost, which for fiscal year 2001 was approximately $22 million. The cost figure increases significantly

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[8] In 1999, Public Law 1999 chapter 489 lowered the vesting period from 10 to 5 years and provided contractual protection for certain aspects of retirement benefits.

[9] LD 835, Resolve, to Study Pension Plan Design and Benefits under the Maine State Retirement System.

[10] This cost did not include the cost of restoring benefits to the special plan members, which include several groups of law enforcement related positions.

with the passage of time, based on changes in the number and composition of the work force, length of service of cliff employees, investment earnings and other factors.

Faced with those numbers and the Constitutional prohibition against creating unfunded liability, the Labor Committee declined to pursue the idea of restoring benefit cuts to cliff employees. Instead, the committee recommended to the 120th Legislature the creation of a supplemental defined contribution plan for cliff employees. The proposal would not have created an unfunded liability and would have been less costly to provide. The recommendation was drafted as a bill and submitted to the First Regular Session of the 120th Legislature.

That bill, LD 1211, was not enacted but spurred discussion among members of the Labor Committee of the 120th Legislature, resulting in creation of the Task Force to Study Methods of Addressing Inequities in the Retirement Benefits of State Employees and Teachers.

E. Requirements for Funding Benefit Restoration

Attempts to address the inequity have been made more difficult by passage of 1995 amendments to the Maine Constitution prohibiting creation of additional unfunded liability in the retirement system and requiring that the existing unfunded liability be paid off by July 1, 2028. The provisions are found in Article 9, section 18-A and 18-B of the Maine Constitution. A copy of the provisions is included as Appendix D.

Section 18-A, prohibiting creation of unfunded liability, means that immediate funding must be provided if a change in law gives rise to additional liability for retirement benefits. A liability can be said to increase if a change in retirement law increases the cost of benefits attributable to service already performed by state employees and teachers covered by the retirement system. Therefore, a lump sum would need to be appropriated to the Maine State Retirement System to cover the likely future cost of benefits attributable to past service.

Section 18-B requires that the unfunded liability that existed in the state employee and teacher retirement plans within the MSRS as of June 30, 1996 be paid off by July 1, 2028. The amount is calculated by actuaries each year, based on the assets and liabilities of the plan determined using current actuarial assumptions. As of June 30, 2002, the amount was determined to be approximately $2.6 billion. The timetable – or amortization schedule -- for paying off that amount is currently set in statute. The schedule was shortened twice during the 1990's, as favorable investment returns increased the value of assets in the retirement fund. Greater asset value meant that the UAL was smaller, and that a shorter payoff schedule could be adopted without increasing the required annual contribution.

The amortization schedule changed as follows:

- A 1988 study committee recommended a 30-year payoff schedule (payoff by 6/30/18)
- The remaining 25-year term was increased by 10 years in 1994 (payoff by 6/30/28)
- A 1995 Constitutional Amendment required payoff within 31 years of July 1, 1997 (payoff by 6/30/28)
- The 30 years remaining on the payoff schedule was reduced by 5 years in 1998 (payoff by 6/30/23)
- The 22 years remaining on the payoff schedule was reduced by another 4 years in 2001 (pay off by 6/30/19)

The current schedule is set forth in section B.

Although the trend during the 1990's was to shorten the amortization schedule, Governor King in 2001 proposed to lengthen the schedule for paying off the unfunded liability by 4 years to provide funds to close a General Fund budget gap. Members of the Labor Committee, as well as employee representatives, opposed the proposal and it was removed from the bill.

III. Task Force Deliberations

At their first meeting, Task Force members expressed support for undoing the retirement cuts made in 1993 for all cliff employees, if a viable way to pay for the restoration of benefits could be found.

Members preferred to restore the benefit cuts rather than looking further into options that had been reviewed in prior studies of the issue, including: (1) restoring cuts for some cliff employees (e.g., those who had been in service on the date the cuts were made) but not for all cliff employees; (2) restoring some but not all of the changes (e.g., leaving the normal retirement age at 62 but changing the penalties for early retirement); and (3) creating a supplemental benefit plan for cliff employees, such as a defined contribution plan.

Members said that the first option they rejected (restoring cuts only for those who were employed on the date the changes were made, but not for other cliff employees) would simply create a different kind of inequity. The second rejected option (restoring pieces of the benefit cuts) was difficult to explain. The third option (creating a defined contribution plan as a supplement for cliff employees) did not appear to be a viable option because of the difficulty of precisely identifying all cliff employees and the cost of such a program.

Members sought updated information from the Retirement System on the cost of restoring benefits and the possibility of paying those costs by reamortizing, or lengthening the payoff period, for the existing unfunded liability. In response to directions from the Task Force, the Retirement System provided information on 3 scenarios. Amortization schedules for paying the costs of the various scenarios are found in Appendix H.

Scenario #1

Under scenario 1, the amortization schedule would be extended to 2028 and the difference between the 2019 schedule and the 2028 schedule would be used to pay only the unfunded liability created by benefit restoration. Under this scenario, the increase in the normal cost would be paid directly by the General Fund in the same way as other normal costs are paid. The unfunded liability created by the benefit restoration would be paid off by the end of Fiscal Year 2009.

Scenario #2

Under scenario #2, the amortization schedule would be extended to 2028 and the difference between the 2019 schedule and the 2028 schedule would be used to pay both the unfunded liability created by benefit restoration and the increase in the normal cost created by the benefit restoration. The increase in normal cost would be paid from this difference only until the unfunded liability is paid, and then the increase in normal cost would be paid directly from the General Fund.

Under this scenario, the unfunded liability attributable to the benefit restoration would be paid by the end of fiscal year 2013.

Scenario #3

Under scenario #3, the amortization schedule would be extended to 2028 and the difference between the 2019 schedule and the 2028 schedule would be used to pay both the unfunded liability created by benefit restoration and the increase in the normal cost created by the benefit restoration until 2028. Sufficient funds can be banked by the end of fiscal year 2018 to pay almost all the normal costs until 2028.

In deciding which scenario to adopt, Task Force members attempted to find a way to equalize retirement benefits that was understandable to policymakers and the public and that was feasible in terms of long-term and short-term cost.

Members decided that Scenario #2 was the best option for equalizing the benefits without imposing an immediate additional burden on the General Fund. Both the unfunded liability and the increase in normal cost would be paid from money already expected to be appropriated pursuant to the amortization schedule already in effect. For approximately the next 10 years, if the amounts set forth in the current amortization schedule continue to be paid, the costs of the benefit restoration will be paid without increasing the employee and employer contribution rate paid on salaries. After that time, policy-makers would have an option to switch to Scenario #3 or to change the amortization schedule in other ways, depending on the State's financial status at that time.

IV. Recommendation

The Task Force recommends that the inequity in retirement benefits created by Public Law 1993, chapter 401, Part L be addressed by repealing the reductions that were applicable only to state employees, teachers and other educational personnel who did not have 10 years of service credit as of July 1, 1993.

The additional funds needed for this change should be provided by extending the period within which the state pays off the unfunded actuarial liability to the term permitted by the Maine Constitution and using the difference between the shorter payoff period and the longer period to fund both the unfunded liability and the normal cost increases attributable to the benefit restoration during the pay-down period.

A concept draft describing the necessary legislation is included as Appendix I.

This recommendation is based primarily upon the belief that it is fundamentally unfair to have 2 classes of employees working side by side on the same job – those with a more favorable retirement plan and those with a less favorable plan. In addition, members believe that a fair and strong retirement benefit package is an important tool in recruiting and retaining talented employees.

Although many legislators and employee representatives opposed the Governor's plan to lengthen the payoff period for the unfunded liability in 2001, members believe that this proposal is different. Instead of using the additional funds for general state expenses, the State would use the extra funds specifically to restore retirement benefit cuts.

The method of paying for the benefit restoration would be as follows:

> 1. The statute requiring that the UAL be paid off by 2019 would be amended to require payoff by 2028;
>
> 2. The Legislature would continue to appropriate the amount of money required by the shorter payoff period, and the difference between the amount needed for the longer period and the amount needed for the shorter period would be held in a separate account within the retirement trust fund;
>
> 3. The amounts in the separate account would be used each year to (1) pay the increase in the normal cost each year attributable to the benefit restoration for service earned in the current fiscal year; (2) pay for the increased cost of benefits for any cliff employee retiring that year; (3) build up a fund to pay the full cost of the unfunded liability created by the benefit restoration; and (4) pay for the increased cost of benefits for already-retired cliff employees.

4. When sufficient funds have been collected in the separate account to pay all the unfunded liability attributable to the benefit restoration, benefits would be considered fully restored for cliff employees. The increased normal cost in its entirety required by benefit restoration would be paid by the General Fund in the same way the current normal cost is paid. Policy-makers could then determine whether to continue to make payments under the longer amortization period or to shorten the period again.

This method of restoring benefits would occur with no immediate increase in General Fund costs. General Fund costs would rise, however, when the increase in the normal cost is no longer taken from the amortization of the UAL. Also, General Fund costs for paying off the UAL will be higher because of interest payments over the longer payoff period. If the Legislature continued paying off the UAL on the longer amortization schedule for the term permitted by the Constitution, the additional cost could be as much as $2.3 billion. Reverting to a shorter schedule once the benefit restoration is funded would lessen that amount.

Despite the long-run cost of the restoration, the Task Force believes that it is fair to reamortize the payment of unfunded liability and to use the difference in scheduled amounts to restore benefit cuts to the "cliff" employees.

The following table shows the payments how the unfunded liability cost of the benefit restoration can be funded and how increases in the normal cost attributable to the benefit restoration can be covered for the next several years.

Amortization Schedule to Buy Down the "Cliff" Unfunded Liability and Pay the "Cliff" Normal Cost Increase During the Buy-down Period

Fiscal Year	Annual Payment FY '19 Payoff Non-cliff UAL	Annual Payment FY '28 Payoff Non-cliff UAL	Difference		Buydown of Cliff UAL (amount remaining)	Payment of Cliff Normal Cost
03/04	$203,146,612	$143,255,894	$59,890,718		$269,991,501	$22,990,697
04/05	214,319,675	151,134,968	63,184,707		256,530,056	24,255,186
05/06	226,107,257	159,447,392	66,659,866		240,063,354	25,589,221
06/07	238,543,157	168,216,998	70,326,159		220,244,916	26,996,628
07/08	251,663,030	177,468,933	74,194,097		196,694,709	28,481,443
08/09	265,504,497	187,229,724	78,274,773		168,996,146	30,047,922
09/10	280,107,244	197,527,359	82,579,885		136,692,821	31,700,558
10/11	295,513,143	208,391,364	87,121,779		99,284,964	33,444,088
11/12	311,766,366	219,852,889	91,913,477		56,225,598	35,283,513
12/13	328,913,516	231,944,798	47,671,708		6,916,363	37,224,107
13/14	347,003,759	244,701,762			0	0
14/15	366,088,966	258,160,359				
15/16	386,223,859	272,359,178				
16/17	407,466,171	287,338,933				

17/18	429,876,811	303,142,574				
18/19	453,520,035	319,815,416				
19/20		337,405,264				
20/21		355,962,553				
21/22		375,540,494				
22/23		396,195,221				
23/24		417,985,958				
24/25		440,975,186				
25/26		465,228,821				
26/27		490,816,406				
27/28		517,811,309				

Assuming:
Total Existing UAL as of 6/30/02 of $2,647,268,440
Cliff UAL for the fiscal year 2002/03 of $228,200,000
Investment Return of 8%; Inflation/General Salary Increase of 5.5%
Data Provided by the Maine State Retirement System
December 13, 2002

The Task Force rationale for the recommendation is as follows:

- It's bad policy, bad for employee morale and bad for recruitment of excellent employees to have 2 employees performing the same work but having significantly different retirement benefit packages and to force employees to continue working simply to avoid substantial penalties in retirement benefits.

- The increase in costs will not worsen the State's current budget problems because they will be paid for by lengthening the payoff period for unfunded liability that the State is already required to pay off.

- Without this change, a pre-cliff employee retiring at age 59 receives a benefit reduced by about $2^{1/4}$%, while a cliff employee retiring at the same age has a benefit reduced by 18% and a 3-year delay in cost-of-living adjustments. At age 60, the pre-cliff employee has a full benefit, but the cliff employee has a 12% reduced benefit and a 2-year delay in the COLA.

Appendix A.

List of Task Force Members

Membership List

Task Force to Study Methods of Addressing Inequities in the Retirement Benefits of State Employees and Teachers (PL 2001, Ch 707)

LEGISLATURE Sen. Betheda G. Edmonds, Chair 122 Hunter Road Freeport, ME. 04032 (207) 865-3869	**AFSCME** Kevin Mayo 155 French Road Dover Foxcroft, ME 04426 (207) 285-0800
LEGISLATURE Rep. Jacqueline Norton, Chair 85 Thomas Hill Road Bangor, ME. 04401 (207) 947-8873	**MEA** Mr. Ken Williams 47 Headgate Road Damariscotta, ME 04543 (207) 563-3437
LEGISLATURE Rep. Arthur F. Mayo 83 Green Street Bath, ME 04530 (207) 442-8053	**MSEA** George Burgoyne 228 Center Street Bangor, ME 04401 (207) 942-5179
Department of Administrative and Financial Services Donald Wills, Director Bureau of Human Resources 4 State House Station Augusta, ME 04333 (207) 624-7366	**MSRS (Non-voting member)** Kay Evans, Executive Director Maine State Retirement System 46 State House Station Augusta, ME 04333 (207) 512-3190

Staff
Deborah Friedman, Senior Legislative Analyst
Office of Policy & Legal Analysis
13 State House Station
Augusta ME 04333
(207) 287-1670
deborah.friedman@state.me.us

Appendix B.

Authorizing Legislation (Public Law 2001, chapter 707) and Request for Deadline Extension

This Act was presented to the Governor by the Senate on APR 10 2002 and has become law without his signature. (Constitution, Article IV, Part Third)

APR 16 '02

CHAPTER

707

PUBLIC LAW

STATE OF MAINE

IN THE YEAR OF OUR LORD
TWO THOUSAND AND TWO

S.P. 819 - L.D. 2199

An Act to Address the Unfunded Liability of the Maine State Retirement System and the Equity of Retirement Benefits for State Employees and Teachers

Be it enacted by the People of the State of Maine as follows:

Sec. 1. 5 MRSA §17160 is enacted to read:

§17160. Minimum level of employer contribution

1. Portion of employer contribution. Beginning in fiscal year 2002-03 and continuing until the unfunded liabilities of the Maine State Retirement System attributable to state employees and teachers, as defined in the Constitution of Maine, Article IX, Section 18-B, are retired, within the term provided in Section 18-B or within any shorter term provided by statute, the portion of the employer contribution amount devoted to paying the unfunded liabilities of the system attributable to state employees and teachers may not be less than the amount paid for that purpose during the immediately preceding fiscal year.

A. In circumstances in which the unfunded liability amount to be paid in a given year would be less than the amount paid in the immediately preceding year, the Board of Trustees of the Maine State Retirement System shall request the system's actuary to recommend a methodology to adjust plan funding in order to realize payment of the required amount. The methodology for adjustment must be actuarially sound in itself and may not jeopardize the actuarial soundness of the system or its funding.

B. If the system's actuary determines pursuant to paragraph A that no methodology meeting the requirements of this subsection can be identified, then the requirement that the unfunded liability payment in a given year may not be less than the amount paid in the immediately preceding fiscal year applies only to the General Fund portion of the unfunded liability payment. A General Fund appropriation in the amount of the difference between the General Fund portions of the unfunded liability payment in the 2 years in question must be sought.

Sec. 2. Task force established. The Task Force to Study Methods of Addressing Inequities in the Retirement Benefits of State Employees and Teachers, referred to in this section as the "task force," is established.

1. Membership; chairs. The task force consists of members as follows:

A. Three Legislators, one of whom is appointed by the President of the Senate and 2 of whom are appointed by the Speaker of the House;

B. The Commissioner of Administrative and Financial Services or the commissioner's designee; and

C. A representative from each of the following organizations, appointed by each respective organization: the Maine State Employees Association, the Maine Education Association and the American Federation of State, County and Municipal Employees.

The Executive Director of the Maine State Retirement System or the executive director's designee shall serve as a nonvoting adjunct member of the task force for the purpose of providing information and analysis and obtaining and directing the services of the system's actuary when needed for the work of the task force. The executive director or designee shall participate in the task force's proceedings and discussions and, together with such staff as may be provided by the Legislative Council, shall draft the accompanying legislation, if any, included in the task force report and, at the request of the members, shall draft the task force report.

The member appointed by the President of the Senate and the first named member appointed by the Speaker of the House shall serve as cochairs of the task force.

2. Appointments. All appointments must be made no later than 30 days following the effective date of this Act. The appointing authorities shall notify the Executive Director of the Legislative Council upon making their appointments. Within 15 days of when the appointment of all members is complete, the cochairs of the task force shall call and convene the first meeting of the task force.

3. Duties. The task force shall:

A. Identify the advantages and possible methods of further reductions in the amortization schedule for paying off the unfunded liabilities of the Maine State Retirement System attributable to state employees and teachers;

B. Identify and list the differences in retirement benefits available to state employees and teachers who had 10 years of creditable service on July 1, 1993 and those who did not;

C. Assess the impact of that difference on state employees and teachers and on State Government and school administrative units;

D. Calculate the immediate and future cost of restoring the level of benefits for all state employees and teachers who did not have 10 years of creditable service on July 1, 1993;

E. Recommend whether those who were employed as state employees or teachers when the benefit reductions were made should be treated differently than those employed after the changes were enacted; and

F. Identify possible methods of funding the restoration of benefits.

4. Meetings. The task force is authorized to hold not more than 4 meetings to complete its work.

5. Staff assistance. Upon approval of the Legislative Council, the Office of Policy and Legal Analysis shall provide necessary staffing service to the task force. The Maine State Retirement System shall provide information and actuarial assistance upon request of the cochairs of the task force.

6. Reimbursement. Task force members who are Legislators are entitled to receive the legislative per diem, as defined in the Maine Revised Statutes, Title 3, section 2, for each day's attendance at meetings of the task force. Public members not otherwise compensated are entitled to receive reimbursement of necessary expenses for their attendance at authorized meetings of the task force.

7. Report. The task force shall submit its report with any accompanying legislation to the joint standing committee of the Legislature having jurisdiction over retirement matters by November 6, 2002. Following receipt and review of the report, the joint standing committee may report out a bill to the First Regular Session of the 121st Legislature.

8. Extension. If the task force requires a limited extension of time to complete its study and make its report, it may apply to the Legislative Council, which may grant an extension.

9. Budget. The chairs of the task force, with assistance from the task force staff, shall administer the budget of the task force. Within 10 days after its first meeting, the task force shall present a work plan and proposed budget to the Legislative Council for approval. The task force may not incur expenses that would result in the task force exceeding its approved budget. Upon request from the task force, the Executive Director of the Legislative Council shall provide the task force chairs and staff with a status report on the task force's budget, expenditures incurred and paid and available funds.

Task Force to Study Methods of Addressing Inequities in the Retirement Benefits of State Employees and Teachers

October 23, 2002

To: Representative Michael V. Saxl, Chair
Senator Michael H. Michaud, Vice-Chair
Legislative Council of the 120th Maine Legislature

Fr: Senator Beth Edmonds, Co-Chair BE
Representative Jackie Norton, Co-Chair JN
Task Force to Study Methods of Addressing Inequities in the Retirement Benefits of State Employees and Teachers

Re: Extension of Reporting Deadline for the Retirement Task Force

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We are writing to request an extension of the reporting deadline for the Task Force to Study Methods of Addressing Inequities in the Retirement Benefits of State Employees and Teachers. The deadline set forth in the enabling legislation (section 2 of Public Law 2001, chapter 707) is November 6, 2002. We are asking for an extension until December 13, 2002.

We were informed just recently that all the members of the Task have been appointed, and, with the upcoming election, we are not able to schedule our first meeting until November 8th. However, we believe that we can complete our duties in 3 meetings and can submit a report to you by December 13th.

Since we have not yet had our first meeting, we cannot speak for the entire Task Force. However, as co-chairs of the Task Force we feel that it is important to secure this permission so that we can plan accordingly at our first meeting.

Please contact either of us, or the analyst for the Task Force, Deb Friedman in OPLA, if you have questions about our request.

cc: Senator Richard A. Bennett, President Pro Tempore
David E. Boulter, Executive Director

Appendix C.

Chronology of Significant Events Relating to the "Cliff" Problem

Chronology of Significant Events
Relating to the "Cliff" Problem

1993

Creation of the Two-Tiered Retirement Benefit System

Public Law 1993, chapter 401, Part L changed retirement benefits for state employees and teachers in a number of ways. Some changes, such as the increase in the employee contribution rate to 7.65%, applied to all employees. Other changes apply only to employees who were not vested in the retirement system as of July 1, 1993 (the so-called "cliff" employees).

As a result of Public Law 1993, chapter 401, the retirement benefits for cliff employees differ from those for pre-cliff employees in 3 ways:

- Normal retirement age for cliff employees is 62 (compared to 60 for most pre-cliff employees)

- The benefit reduction for retiring before normal retirement age is 6% per year, compared to an actuarially-determined amount that averages 2 1/8% per year for pre-cliff employees; and

- Retirement benefits paid to cliff employees are not adjusted for increases in the cost of living until 12 months after they reach normal retirement age, compared to 12 months after retirement for pre-cliff employees

Beginning in 1994 and continuing to the present time, numerous bills have been introduced to protect retirement benefits from future reductions, to consider alternatives to the state retirement system, and to undo the 1993 changes.

1995

Constitutional Amendments Prohibiting Creation of Unfunded Liability and Setting a Time-table for Paying Off Existing Unfunded Liability

Article 9, section 18-A was added to the Maine Constitution, prohibiting the creation of unfunded liabilities and requiring the State to annually fund the normal cost of retirement and ancillary benefits on an actuarially sound basis. (copy attached)

This amendment has complicated attempts to "fix" the cliff inequity because it requires immediate funding of the potential liability that arises on the books of the retirement system as soon as benefits are increased for any group of employees.

Article 9, section 18-B was also added to the Maine Constitution. (copy attached) That section requires that the unfunded liability as of June 30, 1996 be paid off not more than 31 years after July 1, 1997 (July 1, 2028)

1999

Change in Vesting Period and Protection of Benefits

Public Law 1999, chapter 489 lowered the vesting period from 10 years to 5 years and provided contractual protection for certain aspects of retirement benefits (which effectively prohibits the state from diminishing certain aspects of a person's retirement benefits once accrued)

2000
Labor Committee Study of the Cliff Issue
LD 835 (carried over from the 1st Session and considered in the 2nd Regular Session of the 119th Legislature) proposed to create the Commission to Study the Interrelationship among the Maine State Retirement System, federal Social Security and Tax-Advantaged Accounts. The bill did not pass, but the Labor Committee undertook its own review of retirement issues during interim committee meetings. Among the issues was the issue of the inequity among retirement benefits.

Attached is a memo (blue) describing the committee's deliberations on the issue. Attached is a second memo (pink) in which the Retirement System provides cost estimates to fix the cliff problem. In brief, the Labor Committee concluded that the cost of equalizing benefits was too high. Instead, the committee recommended creation of a supplementary defined contribution plan for cliff employees. The recommendation was drafted into a bill, which was introduced and sent to the Labor Committee in 2001.

2001
Consideration of a Defined Contribution Plan
LD 1211 (copy attached) was a concept draft that proposed to create a defined contribution plan for cliff employees. The Labor Committee, in the 1st Regular Session of the 120th Legislature considered the bill and voted to carry it over to the 2nd Regular Session. Memos attached (salmon) are the only written reports from the interim consideration of the bill.

During committee deliberations, the Board of Trustees of the Retirement System set forth an alternative proposal for consideration (green copy attached). That proposal would equalize benefits (although possibly on a delayed basis) and would fund the increased cost by lengthening the pay-down period of the unfunded liability.

2002
Creation of the Task Force
The Labor Committee in the 2nd Regular Session voted against LD 1211, but instead endorsed creation of the Task Force, which is the study group that is now beginning to review the issue.

Prepared by Deborah Friedman, October 30, 2002 for the Task Force to Study Methods of Addressing Inequities in the Retirement Benefits of State Employees and Teachers

Appendix D.

Provisions of the Maine Constitution Relating to Funding of the Retirement System (Article 9, sections 18-A and 18-B)

Selected Provisions of the Maine Constitution, Article 9

Section 18-A. Funding of retirement benefits under the Maine State Retirement System. Beginning with the fiscal year starting July 1, 1997, the normal cost of all retirement and ancillary benefits provided to participants under the Maine State Retirement System must be funded annually on an actuarially sound basis. 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. CR 1995, c. 2 (new).

Section 18-B. Payment of unfunded liabilities of the Maine State Retirement System. Each fiscal year beginning with the fiscal year starting July 1, 1997, the Legislature shall appropriate funds that will retire in 31 years or less the unfunded liabilities of the Maine State Retirement System that are attributable to state employees and teachers. The unfunded liabilities referred to in this section are those determined by the Maine State Retirement System's actuaries and certified by the Board of Trustees of the Maine State Retirement System as of June 30, 1996. CR 1995, c. 2 (new).

Appendix E.

Table Summarizing Options Considered in the Past for Addressing the Cliff

Optional " Fixes" Considered in Past Reviews

Proposal	When Considered	Estimated Cost
Restore Benefit Cuts Before Retirement		
Restore all benefit cuts to all cliff employees	Labor Committee reviewed this option in 2000 and recommended against it because of the cost MSRS Board of Trustees proposed this approach in May 2001, funded by reamortizing the unfunded liability (see memo on green paper in your background materials). Restoration would occur when sufficient funds have been collected.	Cost estimated at $140.1 million in unfunded liability plus approx. $22 million per year based on 2000 figures
Restore benefit cuts to only the "rug" cliff employees (i.e., those who were already employed on 7/1/93, but did not have 10 years of service)	Labor Committee has never made a recommendation regarding treating "rug" employees differently from other cliff employees, but has continued to wonder whether to do so	MSRS does not have figures on how many of the cliff employees are rug employees and how many are not, so it is not possible to estimate costs
Create Defined Contribution Plan to Supplement Benefits		
Supplement the retirement benefits of cliff employees by creating individual defined contribution accounts, with portion of current employee contributions going to account and state paying the difference to the Trust Fund	Labor Committee proposed this option after review during the 2000 interim. It was drafted as LD 1211 and introduced in the 2001 session, but was not passed. It proposed diverting 2% of the employee contribution to individual defined contribution accounts	Estimated cost based on FY 2001 salaries was $5.26 million for each 1% of salary contributed to the plan.

Supplement the retirement benefits of cliff employees by creating a group defined contribution account to be used to pay additional benefits upon retirement of cliff employee	This was considered as an alternative to the individual accounts in 2001, after the MSRS reported administrative difficulty with determining individual eligibility prior to retirement	
Restore Some or all of Benefit Cuts at Retirement		
Create a trust fund to buy down some or all of the benefit reductions (at the time of retirement?)	Option listed in June 2001 memo from the Labor Committee; not fully considered	
Restore portions of the benefit cuts at the time of retirement	The Labor Committee asked MSRS to cost out some partial restoration proposals during its 2000 interim study.	MSRS estimated cost of applying the 6% early retirement penalty only until retiree reached normal retirement age, then readjusting with a 2 1/8% reduction. Cost of approx. $40 million unfunded lliability and .43% increase in the normal cost

Appendix F.

Memoranda Summarizing Past Efforts by the Joint Standing Committee on Labor to Address the Cliff

MAINE STATE LEGISLATURE
Augusta, Maine 04333

MEMORANDUM

January 18, 2001

TO: Members, Joint Standing Committee on Labor, 120th Legislature

FROM: Members, Joint Standing Committee on Labor, 119th Legislature

RE: Maine State Retirement System benefit structure

As part of its 2000 interim activities, the Labor Committee undertook a study of MSRS pension design and benefit structure. The Committee met 4 times during the summer and fall. In anticipation of introduction of legislation proposing alternative pension plans, increases in benefits of certain categories of employees and "fixes" for inequities in the current plan during the upcoming session, we make the following findings and recommendations to the Labor Committee of the 120th Legislature.

- We find that for the majority of state employees and teachers the current MSRS defined benefit (DB) pension plan provides adequate retirement benefits, especially if combined with a personal savings and investment program.

- We recommend that the state not establish a defined contribution (DC) pension plan as an optional or compulsory replacement for the current MSRS defined benefit (DB) pension plan. Although popular in the private sector and increasingly under consideration by some public employers, we find a DC plan inappropriate as the sole pension plan for state employees and teachers. That is so because DC plans entirely shift the burden of ensuring retirement security to the employee and offer no guaranteed pension base or floor such as Social Security does in the private sector.

- We further recommend that the state not create a combination pension plan as an optional or compulsory replacement for the current MSRS DB pension plan that would offer Social Security plus a DC plan. Such a plan does not make sense for Maine because it would cost significantly more that the MSRS plan and because there is lack of support for such a plan among the affected constituencies. We believe that if additional money is available, a higher priority is to fund fixes in the inequities of the current system.

- We find that serious inequities were created in the benefit structure of the MSRS by laws enacted during years of budget shortfall in 1991 and 1993. Those inequities affect the benefits of the so-called "cliff employees"—employees with less than 10 years of service on July 1, 1993. There were 3 statutory changes to the benefit structure under the MSRS that seriously reduced the benefits of cliff employees.

  1. An increase in the normal retirement age (NRA) from 60 to 62
  2. An increase in the early retirement penalty for those who retire early from a 2 1/8% to a 6% penalty for each year that retirement occurs before NRA
  3. Elimination of cost-of-living adjustments for those who retire early until they reach NRA

  These inequities, impair the ability to attract and retain qualified state employees and educators which is one of the stated statutory objectives of the MSRS. Furthermore the current situation creates 2 classes of employees, each of whom contribute the same amount toward their retirement but one of who must look forward to significantly reduced pension benefits. In the mind of this committee, the existence of such inequities creates a serious public policy issue.

- Given the Constitutional prohibition on the creation of unfunded liabilities within the MSRS plan, we find that the cost of eliminating the inequities and retroactively restoring the "cliff employees" to the level of benefits provided before 1993 would be prohibitively expensive. The current cost of restoring the pre-1993 benefits to those employees would be $140.1 million to pay the unfunded actuarial liability and an increase in the employer's normal cost contribution rate of 1.62%. For every year that changes are not made to eliminate or reduce the inequities, the UAL cost is expected to increase by approximately 8%. See attached memo from MSRS outlining costs.

- Because of the high cost, completely eliminating the discrepancies for cliff employees appears to be out of reach of the state. For that reason the committee has developed the attached proposal that we feel will provide a meaningful, additional benefit to cliff employees at no extra cost to them and at a modest cost to the state. We recommend that the possibility of introducing legislation to accomplish our recommendation be considered by the Labor Committee of the 120th Legislature. The Labor Committee of the 119th has involved representatives of the concerned constituencies in our deliberations and feel that they are generally supportive of the proposal. We fully expect that through discussion and debate modifications and necessary details concerning our proposal can be worked out during the public hearing and work session process if legislation is introduced next session. The overall objective of our proposal is to provide the best retirement benefits possible given the limitations imposed by resources and the Constitutional limitation on creation of unfunded liabilities.

LABOR COMMITTEE PROPOSAL

(basis for LD1211 (Mills) in the 120th Session)

An Act to Provide Equitable Retirement Benefits to State Employees and Teachers

- Applies only to employees who did not have 10 years of creditable service on 7/1/93, including those hired after that date

- Current MSRS benefit structure would remain the same as it is now for those employees

  - Employee MSRS contribution rate = 7.65%
  - Benefit calculation formula = 2% x # years svc x AFC
  - NRA = 62
  - Early retirement penalty = 6% per year
  - No COLA in benefit until reach NRA

- In addition to their regular MSRS benefit, each employee with less than 10 years of service on 7/1/93 would be provided a defined contribution (DC) pension plan paid for by the State

- The MSRS would set aside (1% or 2%) of employee salary from the current employee contribution o f 7.65% for the DC plan. The State would pick up the extra costs which are projected below, and those costs will be spread over the whole state and public school payrolls. There would be no increase in the unfunded liability

- The plan would be portable

- The proposal would take effect either 1/1/02 or 7/1/02

- Cost projections:

  - No effect on unfunded liability

  - MSRS estimates that providing a 1% contribution to a DC plan for employees with less than 10 years of service on 7/1/93 would result in an increase in the employer normal cost contribution of .45% for state employees and .37% for teachers spread across salaries of all employees.

  - The estimated salaries for FY 2001 are $480,101,465 for state employees and $866,416,197 for teachers resulting in the following cost projections:

    .0045 x $480,101,465 = $2.16 million (for state employees)

    .0037 x $866,416,197 = $3.10 million (for teachers)

- This proposal is meant to stimulate discussion of the issue of how to address the inequities imposed on cliff employees. If the proposal is introduced as a bill, the public hearing and work session process will provide the opportunity for the committee and interested parties to discuss the relative merits of alternative plans and other issues, including changes likely to spring from the pension reform act under consideration by Congress.

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MAINE STATE RETIREMENT SYSTEM

Kay R. H. Evans, *Executive Director*
Gail Drake Wright, *Chief Deputy Director*

DATE: November 14, 2000

TO: David Elliott, OPLA Staff to Labor Committee

FROM: Maine State Retirement System

The Labor Committee's discussions on September 13, 2000, resulted in several information requests to the Retirement System. The requested information is set out in this memo; we have attempted to group the requests logically and by topic.

1. Costs of undoing benefit changes made in 1993 that affected State employee and teacher members having less than 10 years of creditable service as of June 30, 1993.

The Committee asked that we obtain from the actuary the cost of undoing certain effects of the 1993 changes to retirement benefits that affected State employee and teacher members who had less than 10 years of creditable service as of June 30, 1993. The benefit changes affected members then employed as State employees or teachers and those hired or re-hired thereafter. For the State employee and teacher groups, we were asked to obtain costs for the following:

- Normal retirement age (NRA)
  Revert from age 62 to age 60

- Early retirement reduction factor (ERR)
  Revert from 6% per year to reduction factor used for members having 10 or more years as of June 30, 1993 (a/k/a 2 1/8%)

- Post-retirement cost-of-living adjustment (COLA)
  Revert from delayed application of (at least) 12 months after reaching 62 to (at least) 12 months after benefits first due

Each of these changes has a normal cost rate effect, that is, each increases the cost of benefits being earned by current service. Each change also has an unfunded liability cost effect, that is, each increases the unfunded liability because

LOCATION: Two Central Plaza, Corner of Capitol & Sewall St., Augusta, Maine
MAILING ADDRESS: 46 State House Station, Augusta, Maine 04333-0046
TELEPHONE: (207) 287-3461 or toll free 800-451-9800 TDD: (207) 287-8446 FAX: (207) 287-103

it increases the value of benefits already earned through service rendered in the past. The normal cost rate increase and unfunded liability dollar cost increase of each of these changes are set out below. Please note: The State employee costs are for members covered under the regular plan. Costs for special plan members are not included.

	NC Rate Increase	UAL Amount (millions)
NRA to 60		
State employees	1.01%	28.8
Teachers	1.01%	57.5
Total		86.3
ERR to "2 1/8"		
State employees	0.59%	16.6
Teachers	0.59%	36.7
Total		53.3
COLA to 12 months		
State employees	0.20%	5.2
Teachers	0.20%	13.4
Total		18.6

If all three of these changes were made, the costs would be those set out below. Because the changes are interactive, the costs of making all three are not simply the additive costs of the three changes made separately.

NRA/ERR/COLA	NC Rate Increase	UAL Amount (millions)
State employees	1.62%	46.0
Teachers	1.62%	94.1
Total		140.1

2. Increase in these costs over time.

The Committee asked that we provide an estimate, or an approach to estimating, the increase in these costs over time. If benefit provisions, funding approach, actuarial assumptions and member demographics remain as they are currently, the increase to the normal cost rate would be the same as set out above and the dollar amount of the unfunded liability would be estimated to grow at 8% per year.

3. <u>For "less than 10 years" members who retire before NRA (age 62), apply the 6% ERR until NRA is reached, then adjust the member's benefit to what it would have been had the ERR been "2 1/8" instead of 6%.</u>

ERR Drop	NC Rate Increase	UAL Amount (millions)
State Employee	0.43%	10.8
Teachers	0.43%	29.1
Total		40.0

4. <u>Direct part of the member contribution of "less than 10 years" members to a deferred compensation/defined contribution plan</u>.

This approach would reduce the total member contributions flowing to the defined benefit plan. The reduction in member contributions would increase the normal cost rate component of the employer contribution. There would be no unfunded liability cost effect.

	NC Rate Increase		
% to DC	State Employee	Teacher	Total
1%	0.~~48%~~45	0.37%	0.39%
2%	0.~~86%~~90	0.74%	0.78%

5. <u>Cost of adjusting the average final compensation (AFC) of members who terminate employment but retire at a later time</u>.

The costs set out below assume that the adjustment to AFC would be available to all members (i.e., not just those with less than 10 years of service as of June 30, 1993).

		UAL (millions)		
Adjustment/YR	NC Rate Increase	Active	Inactive	Total
1%	0.09%	16.8	12.8	29.6
2%	0.19%	34.9	26.7	61.6
3%	0.30%	54.6	41.7	96.3
4%	0.41%	75.8	57.9	133.8

6. Trends in "less than 10 year" and "more than 10 year" members: number of members; payrolls.

State employees
At 7/1/93, "more than 10 years" State employees were approximately 45% of the State employee population and approximately 53% of the State employee payroll. "Less than 10 years" State employees were approximately 55% of the population and approximately 47% of the payroll.

At 7/1/2000, "more than 10 years" State employees were approximately 32% of the population and approximately 39% of the payroll. "Less than 10 years" State employees were approximately 68% of the population and approximately 61% of payroll.

Teachers

At 7/1/93, "more than 10 years" teacher members made up approximately 46% of the teacher population and approximately 64% of the payroll for this group. "Less than 10 years" teacher members were approximately 54% of the teacher population and approximately 36% of the payroll.

At 7/1/2000 the "more than 10 years" teachers were approximately 35% of the teacher population and approximately 47% of the payroll. "Less than 10 years" teachers were approximately 65% of the population and approximately 53% of the payroll.

May 23, 2001

MEMO TO: Members, Joint Standing Committee on Labor

FROM: David Elliott, Principal Analyst

RE: Proposal for interim work on LD 1211 under the auspices of the Labor Committee—to provide a supplemental defined contribution retirement plan for post-cliff members of the MSRS

BACKGROUND

LD 1211, "An Act to Supplement Benefits for State Employees and Teachers whose Pensions are Subject to Reductions Enacted in 1993" grew out of a review of the benefit structure and equity of the state employees and teachers retirement plan conducted by the Joint Standing Committee on Labor of the 119th Legislature during the summer and fall of 2000. Responding to concerns of committee members and representatives of the affected constituencies, the committee began looking for realistic ways to reduce the impact of benefits reductions enacted for cost cutting reasons in 1993. The benefit changes included (1) an increase in the normal retirement age from 60 to 62 years of age, (2) an increase in the reduction for early retirement from approximately 2 ¼% to 6% per year, and (3) a delay in the award of COLAs for those who retire early until 1 year after normal retirement age. The changes affected state employees and teachers who did not have 10 years of creditable service in the MSRS on July 1, 1993—the post cliff employees.

David Wakelin, Chair of the Board of Trustees of the Retirement System, suggested in a meeting with the committee that the discrepancy in benefits would prove to be one of the major public policy issues of the next decade. In the course of his discussion with the committee, Mr. Wakelin suggested that the committee consider the possibility of a modest defined contribution with the cost to be picked up by the State as a relatively affordable way to partially offset the impact of the changes on the cliff employees.

The Labor Committee looked at the possibility of undoing all or some of the benefit changes that created the "cliff" or of providing some other partial "fixes". The major obstacle to retroactively restoring any of the benefit reductions is financial. Because of the provision in the Maine Constitution prohibiting the creation of unfunded liabilities of the MSRS, the full cost of restoring the benefits to the post-cliff employees would have to be funded upfront. Last fall at the request of the Labor Committee, the MSRS estimated that the cost of fully restoring the benefits would be approximately $140 million.

After some discussion of other approaches, the Labor Committee focused on Mr. Wakelin's suggestion to provide a modest defined contribution plan to post-cliff employees to in part offset the reduced benefits for those employees. Among the advantages of doing so the committee felt were the following:

- Portability of funds, but with restrictions to use for retirement purposes
- Tax advantages—earnings accumulate tax-free and, if involving employee contributions, they are pre-tax
- Provides investment options and control over plan funds for employees
- Could be set up to involve no cost to employees
- Could specifically target affected group of employees

Preliminary, approximate calculations projected by the Labor Committee indicated the cost would be $5.26 million for each 1% of salary contributed.

LD 1211

Sen. Peter Mills, a member of the 119th Labor Committee and key participant in the committee's interim study, introduced LD 1211 this year as a concept bill. In general terms the bill called for:

- Creation of a portable, tax-advantaged Section 457-type defined contribution plan for state employees and teachers who did not have 10 years of creditable service on July 1, 1993.
- The MSRS would be charged with the responsibility of administering the defined contribution plan.
- The plan would be funded at 2% of employee's' salary to be deducted from the current employee contribution to the MSRS without reducing the employee's defined benefits under the regular MSRS plan.
- The State would make up the loss of contributions to the MSRS so as to avoid creation of an unfunded liability. The costs would be apportioned across the entire state payroll.
- I believe the intent was for covered employees to be vested immediately in the contributions made on their behalf.
- Each employee would have a range of retirement payout options.

At the public hearing on LD 1211, MEA and MSEA testified in support although the support was somewhat qualified. A representative of the administration testified Neither For Nor Against the bill supporting the concept but expressing concern about the cost. After the hearing additional written Neither For Nor Against testimony was received from a manager for one of the carriers under the current state 457 deferred compensation plan. That testimony suggested that use of the existing 457 option for state employees be thoroughly explored before creating another defined contribution plan.

CONSIDERATION OF THE BILL

Following 2 work sessions, the Labor Committee voted to carryover LD 1211 and to initiate an informal study of the bill over the interim. The study process would request the MSRS staff, working with a subcommittee of the Labor Committee, committee staff and other interested parties, to thoroughly review the proposal contained in LD 1211, evaluate the proposal and, if necessary, explore alternatives to the concept proposed in the bill. Members of the subcommittee are Sen. Edmonds, Sen. Turner, Rep. Matthews and Rep. Norton. Before the end of this session, the subcommittee will develop a plan for conducting its study. A draft outline of issues to be considered is contained at the end of this memo. The subcommittee will provide overall direction to the MSRS and committee staff and will use part of the authorized committee meeting days during the interim to complete the study. At the beginning of the Second Regular Session, the committee would amend the bill as necessary to accomplish the recommendations of its interim work.

During its discussions of LD 1211 this session, the committee was informed by the MSRS of what appears to be a serious obstacle to accomplishing the objectives of the bill and the recommendations of the Labor Committee of the 119th Legislature. The obstacle concerns the difficulty of accurately identifying individual members of the post-cliff group of state employees and teachers. That being the case, it will be impossible to fully implement the individual defined contribution retirement plan concept contained in the bill and last session's Labor Committee recommendations. Given the advantages that last session's study and the bill recognize from instituting a defined contribution plan, the subcommittee finds the threshold issue for its interim work on this issue is to document as fully as possible the extent of the problem and the time and cost that might be involved in identifying the members of the post-cliff group

SENATE

BETHEDA G. EDMONDS, DISTRICT 23, CHAIR
KARL W. TURNER, DISTRICT 26
M SAWYER, JR., DISTRICT 9

DEBORAH C. FRIEDMAN, LEGISLATIVE ANALYST
DAVID C. ELLIOTT, LEGISLATIVE ANALYST
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STATE OF MAINE

ONE HUNDRED AND TWENTIETH LEGISLATURE

COMMITTEE ON LABOR

June 6, 2001

MEMO TO: Members, Joint Standing Committee on Labor subcommittee on supplemental benefits for cliff employees—Sen. Edmonds, Sen. Turner, Rep. Matthews and Rep. Norton;

FROM: David Elliott, Principal Analyst

RE: Update of subcommittee work

Attached is an update of subcommittee deliberations so far and a rough proposal for proceeding from here. Let me know if you have any comments or questions.

David

cc: other legislators—Sen. Mills and Rep. Goodwin
interested parties—Kay Evans, Don Wills, Steve Crouse, Susan Mitchell and Shirley Ezzy

100 STATE HOUSE STATION, AUGUSTA, MAINE 04333-0100 TELEPHONE 207-287-1333

LABOR COMMITTEE
INTERIM STUDY OF
SUPPLEMENTAL BENEFITS FOR CLIFF EMPLOYEES

ISSUES FOR CONSIDERATION

➢ DC plan for individual members

The subcommittee met near the end of the session on May 25 to begin discussion of ways to provide supplemental benefits to post cliff employees. The threshold issue identified by the subcommittee was to determine the feasibility of establishing a traditional DC plan for individual members as proposed by LD 1211 given the difficulty of the retirement system in accurately and completely identifying state employees and teachers who lacked 10 years of creditable service on July 1, 1993. The difficulty stems from the existence of breaks in member service, ability of members to purchase credit for non-covered service the amount of which can only be known when purchase occurs, unavailable or unclear employment and payroll records, movement of members from state service to teaching or vice versa and lack of computerized membership records for state employees and teachers. Together these issues would require the retirement system to thoroughly research thousands of member records and individually calculate the length of each one's service as of July 1, 1993.

Following discussion with Kay Evans, Executive Director of the retirement system, the subcommittee concluded that prior identification of all state employees and teachers who did not have 10 years of creditable service on July 1, 1993 is not reasonably achievable in a timely manner. Neither using a series of screens based on date or hire, age, employment or other status nor a process of voluntary identification by the members themselves would both yield a reasonably accurate result and reduce the amount of record checking required of the retirement system to a manageable level. Given the important rights at stake, the subcommittee felt it is essential that if individual determination were to be made it needed to be made quickly, accurately and should not detract from the system's ability to carry out its other statutory responsibilities.

In light of the extreme difficulty in identifying post cliff employees, the subcommittee concluded that an alternative or alternatives to establishment of individual DC plans should be pursued. In doing that, the primary goal of the subcommittee remains to provide a measure of relief to state employees and teachers who did not have 10 years of creditable service on July 1, 1993 while recognizing the fiscal limitations that the General Fund in under.

➢ Alternatives to traditional DC Plan

One alternative to establishment of DC plans for individual state employees and teachers in the post-cliff category seems to be to run a group or aggregate DC plan. In very general terns that might work as follows. Contribution of a percentage of overall state and teacher salaries would be made into a fund to be held, most likely, by the retirement system and managed by the system or some agent employed by them. Upon termination, each member's service record would be reviewed as it is currently. Part of that review would be a separate determination whether the member had 10 years of creditable service on July 1, 1993. If not, the member would be eligible for a supplemental benefit paid from the aggregate fund based on the member's service record. Obviously one of the traditional advantages of DC plans will be unavailable under such an approach—the ability of individual plan participants to control contributions on their behalf and to select investment options. Generally the subcommittee wishes to retain as many of the other advantages of traditional DC plans as possible.

A second alternative seems to be to use the funds that would have funded the DC option or some other identified source of funding to, in effect, establish a trust fund under the retirement system to be used to fully or partially buy down targeted benefit reductions—to restore at least part of the benefit reductions made in 1993.

The above are the possible approaches that have been proposed by involved parties to date. Certainly there are many details that need to be ironed out in either approach. My proposal is to develop an outline of both approaches, circulate those for comments by interested parties and then meet with the subcommittee to discuss the details of the 2 options—probably at the 1st interim committee meeting. At that time, I hope to get direction from the subcommittee on whether to further pursue one of the approaches and which one.

➢ **Other issues**

Fully explore the method of funding—payment from employee contribution with employer reimbursement to the retirement system or direct State contribution—and determine updated costs.

Identify ways to provide stepped up benefits to post-cliff employees close to retirement age. Among employees who did not have 10 years of creditable service on July 1, 1993, should employees hired after 7/1/93 receive different treatment than those hired before?

Update on pending pension reform legislation at the federal level; impact?

NOTE: The retirement system share of this work plan likely involves a considerable commitment of time and resources for them. As the interim work unfolds, it may be useful to periodically determine that the level of interest of the committee continues to warrant that level of commitment.

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120th MAINE LEGISLATURE

FIRST REGULAR SESSION-2001

Legislative Document	**No. 1211**
S.P. 373	In Senate, February 28, 2001

An Act to Supplement Benefits for State Employees and Teachers whose Pensions are Subject to Reductions Enacted in 1993.

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.

Be it enacted by the People of the State of Maine as follows:

CONCEPT DRAFT
SUMMARY

This bill is a concept draft pursuant to Joint Rule 208.

The purpose of this bill is to create a new defined contribution plan as a supplemental benefit for those state employees and teachers who are in service under the Maine State Retirement System on or after January 1, 2001.

1. The new plan does not cover:

A. A member who was in service and had 10 years of creditable service on July 1, 1993;

B. A member covered by the 1998 Special Plan; or

C. A member covered by the plan for Maine State Police officers.

2. Contributions to the plan are calculated at the rate of 2% of an employee's salary or wages earned after December 31, 2000. The amount will be deducted from the employee's existing required contribution to the Maine State Retirement System but the employee's defined benefits under the Maine State Retirement System will not be diminished.

3. The added cost of maintaining the employee's defined benefits will be allocated to the employer's share of the pension contribution. For state employees, the added cost will be apportioned across the entire payroll for state employees covered under the Maine State Retirement System whether or not they are also covered by the new plan.

4. Amounts contributed to the plan are managed by the Maine State Retirement System for the benefit of each employee in a nonlapsing fund. Each employee's share of the fund is tax sheltered and portable as provided in Section 457 and other provisions of the Internal Revenue Code.

5. Each employee's accumulated contributions and net earnings are nonlapsing and may be withdrawn or rolled over in accordance with the Internal Revenue Code when the employee dies, retires or departs from state service. The employee will have a range of annuity options for payment of benefits to the employee or the employee's spouse.

Appendix G.

Letter from the Maine State Retirement System Board of Trustees to State Policymakers Regarding the Cliff Inequity, dated May 9, 2001

MAINE STATE RETIREMENT SYSTEM

Kay R. H. Evans, *Executive Director*
Gail Drake Wright, *Chief Deputy Director*

DATE: May 9, 2001

RE: **Correcting Retirement Benefit Inequities Created in 1993**

TO: Governor Angus S. King, Jr.
Senator Michael H. Michaud, Senate President
Senator Richard A. Bennett, Senate President Pro Tempore
Representative Michael V. Saxl, Speaker of the House
Senator Betheda G. Edmonds, Senate Chair, Labor Committee
Representative George F. Bunker, Jr., House Chair, Labor Committee
Members, Labor Committee
Senator Jill M. Goldthwait, Senate Chair, Appropriations Committee
Representative Randall L. Berry, House Chair, Appropriations Committee
Members, Appropriations Committee
Carl Leinonen, Executive Director, Maine State Employees Association
Mark L. Gray, Executive Director, Maine Education Association
Ed Willey, Area Coordinator, American Federation of State, County and Municipal Employees (AFSCME) Council 93
Larry Gross, Executive Director, Maine State Troopers Association

FROM: The Board of Trustees, Maine State Retirement System
David Wakelin, Chair
John Kimball, Vice Chair
George Burgoyne
John S. Eldridge, III
Peter M. Leslie
Dale McCormick
Eunice C. Mercier
Catherine R. Sullivan

As has been widely discussed and is well known by all of you, there is substantial inequity in retirement benefits between two groups of State employees and teachers as the result of changes to the Maine retirement laws made in 1993. We are writing to put before all of you an approach to remedying that inequity. In doing so, we are not blind to the cost of the remedy. However, we are also very aware that the cost increases markedly each year and that, given the requirements of the 1995 Constitutional amendment, the possibility of its payment steadily decreases. Therefore, we are writing to you now to set out a remedy for your consideration.

As you know, the 1993 changes to the Retirement System laws created two groups of state employee and teacher members: those having 10 or more years of

LOCATION: Two Central Plaza, Corner of Capitol & Sewall St., Augusta, Maine
MAILING ADDRESS: 46 State House Station, Augusta, Maine 04333-0046
TELEPHONE: (207) 287-3461 or toll free 800-451-9800 TTY: (207) 287-8446 FAX: (207) 287-1032

creditable service on July 1, 1993, and those having less than 10 years. The most significant differences in the retirement plans covering these two groups are the 1 difference in normal retirement age, 2 the difference in the benefit reduction for early retirement and 3 the difference in the waiting period for the application of the cost-of-living adjustments to retirement benefits. The cumulative effect of these three differences is so significant that it has been described as creating a "cliff."

An example will illustrate the difference in benefits. At age 55, a teacher or State employee with 30 years of service who is "above" the cliff (that is, had 10 or more years of service in 1993) would have earned a benefit of about 53% of his or her average final compensation. An employee of the same age and service but "below" the cliff (that is, less than 10 years of service in 1993) would have earned a benefit of about 35% of his or her average final compensation. The benefit above the cliff is 151% of the benefit below the cliff. This disparity in benefits for employees doing the same jobs in the same work situation crystallizes the issue of equity. In some circumstances, the adequacy of the lower benefit is questionable.

The benefit structure on the less-than-10-year side of the cliff also has significant implications in other important public policy areas. In the last several months, serious and widespread concern has been expressed about current and growing teacher shortages and about incipient shortages in the State employee workforce. Serious problems of recruitment and retention have been pointed out as to both of these groups. Salaries and benefits, including notably retirement benefits, are almost always at the center of recruitment and retention discussions. With respect to retirement benefits, the nature of the less-than-10-year retirement plan has been seen as negatively affecting both recruitment and retention.

In most, if not all, of the years since 1993, bills proposing to amend or repeal one or more of the cliff provisions have been before the Legislature. Because of the requirement of immediate payment of any unfunded actuarial liability created by these bills, none has been enacted. However, considerable legislative understanding about the cliff and its implications has been evident in the discussions of these bills. Recruitment and retention have also been on the legislative and executive branch agendas, as evidenced by bills, legislative studies and press reports of legislative and executive branch concern about current or imminent workforce shortages.

On the basis of its longstanding position on the cliff inequities and its intimate knowledge of retirement plan funding, the Board has decided to set before all of you the approach to addressing the cliff that is described below. In doing so, we have grappled with our belief that, as a matter of law and policy, the terms of the State employee and teacher plan, like those of each of the retirement plans that the Board administers, are to be decided upon together by the plan's employer - in this case, the Administration and the Legislature - and covered employees. We have concluded that setting out a remedy for the cliff does not compromise that belief. Further, the Board may be the only body in a position to lay an approach before you for your shared consideration and, if you so decide, further discussion.

The price of remedying the cliff includes both an unfunded liability cost and an increase in the normal cost. As you know, the unfunded liability cost must be paid at the time the liability is created, while the normal cost is the ongoing cost of benefits as they are earned. The approach we are setting out requires lengthening the amortization period for payment of the unfunded liability cost. The Board is well aware of the strong feelings that proposals to lengthen the amortization period have caused in the context of the development of the state budget for the upcoming biennium. However, we believe that it is qualitatively and very significantly different to lengthen the amortization period for purposes of achieving the fundamental policy objectives involved in remedying the cliff, rather than for meeting budgetary needs. For fear of having our thinking on the cliff mis-read as somehow related to the budget discussions, we have hesitated to put this idea forward. In the end, we were persuaded not to flinch by the sheer significance of the policy issues involved, even though our approach involves lengthening the amortization period.

Here are the key elements of the Board's approach:

- Define the current 19-year amortization period and the required annual payments under the 19-year schedule as a benchmark.

- Establish a lengthened amortization period and schedule for the payment of the unfunded liability. The length of the amortization period could not exceed the Constitutional limitation but could be any length up to that limitation.

- In any given fiscal year, the amount of the payment required under the 19-year amortization schedule will be greater than the amount of the payment required under any longer schedule. The funds to be provided by the State to the Retirement System would be those required under the 19-year schedule. The major portion of these funds would go to make the unfunded liability payment required under the longer amortization schedule. The remainder of the funds, that is, the difference between the payment required by the shorter schedule and that required by the longer schedule, would be held by

the Retirement System in a separate trust account established for the purpose of accumulating the funds necessary to pay the costs of remedying the cliff.

- The actual remedying of the cliff, and the accompanying creation of the unfunded liability associated with remedying it, would not occur until the funds required to pay the unfunded liability cost had been accumulated in full in the cliff trust account.

- In addition to paying the unfunded liability cost, funds held in the cliff trust account would also be used to adjust, at retirement, the benefits of members who retired in the period before sufficient funds had accumulated to eliminate the cliff.

- To assure that headway is made in accumulating the funds necessary to eliminate the cliff, the increase in the normal cost to support the correction of the cliff would need to be paid from the time the approach was put in place. Funds in the cliff trust account could be used to pay the on-going normal cost increase, or the normal cost increase could be paid in the usual manner, as an appropriated rate.

The Board is under no illusion that this approach is simple, easy to understand, easy to implement or easy to communicate. We believe, however, that the correction of the cliff problem must be addressed sooner rather than later, as the cost increases markedly each year.

The Board invites your serious consideration of the ideas set out above. If you decide that further discussion is warranted, the Board offers to serve as the convener of such discussions, should you wish us to serve in that capacity.

cc: James Clair, Executive Director, Legislative Council
Kay Rand, Chief of Staff, Office of the Governor

Appendix H.

Three Options for Funding Benefit Restoration for Cliff Employees

Maine State Retirement System

UAL Amortization per 6/30/02 Valuation
FY 03 Payment set by 6/30/00 Valuation

Use Difference Between Schedules to Buy Down the UAL Cost of the Cliff Fix

Scenario #1

Investment Return	8.00%		8.00%	
Inflation/General Salary Increase	5.50%		5.50%	

	Current Amortization Schedule 16 yrs remaining 7/1/03		25 Year Amortization Schedule Starting at 7/1/03				
Year	Total UAL	Annual Payment	Total UAL	Annual Payment		Difference Between Schedules	Buydown of Cliff UAL
FY 02/03	2,592,677,039	146,601,771	2,592,677,039	146,601,771	FY 02/03	0	228,200,000
FY 03/04	2,647,268,440	203,146,612	2,647,268,440	143,255,894	FY 03/04	59,890,718	269,991,501
FY 04/05	2,647,282,853	214,319,675	2,709,715,011	151,134,968	FY 04/05	63,184,707	231,700,103
FY 05/06	2,635,651,231	226,107,257	2,768,943,888	159,447,392	FY 05/06	66,659,866	187,051,404
FY 06/07	2,610,801,296	238,543,157	2,824,245,917	168,216,998	FY 06/07	70,326,159	135,355,651
FY 07/08	2,570,999,754	251,663,030	2,874,830,368	177,468,933	FY 07/08	74,194,097	75,857,944
FY 08/09	2,514,337,478	265,504,497	2,919,817,036	187,229,724	FY 08/09	8,351,081	7,732,483
FY 09/10	2,438,713,395	280,107,244	2,958,227,652	197,527,359			0
FY 10/11	2,341,816,977	295,513,143	2,988,976,506	208,391,364			
FY 11/12	2,221,109,203	311,766,366	3,010,860,253	219,852,889			
FY 12/13	2,073,801,885	328,913,516	3,022,546,810	231,944,798			
FY 13/14	1,896,835,199	347,003,759	3,022,563,266	244,701,762			
FY 14/15	1,686,853,282	366,088,966	3,009,282,738	258,160,359			
FY 15/16	1,440,177,731	386,223,859	2,980,910,061	272,359,178			
FY 16/17	1,152,778,826	407,466,171	2,935,466,228	287,338,933			
FY 17/18	820,244,287	429,876,811	2,870,771,474	303,142,574			
FY 18/19	437,745,359	453,520,035	2,784,426,876	319,815,416			
FY 19/20			2,673,794,363	337,405,264			
FY 20/21			2,535,974,983	355,962,553			
FY 21/22			2,367,785,291	375,540,494			
FY 22/23			2,165,731,700	396,195,221			
FY 23/24			1,925,982,620	417,985,958			
FY 24/25			1,644,338,194	440,975,186			
FY 25/26			1,316,197,447	465,228,821			
FY 26/27			936,522,612	490,816,406			
FY 27/28			499,800,405	517,811,309			
Total Pmts		5,152,365,868		7,474,511,525			
	Difference		2,322,145,657				

12/5/2002

UAL Amortization per 6/30/02 Valuation
FY 03 Payment set by 6/30/00 Valuation

Use Difference Between Schedules to Buy Down the UAL Cost of the Cliff Fix and to Pay the Normal Cost of the Cliff Fix

Scenario #2

Investment Return		8.00%		8.00%					
Inflation/General Salary Increase		5.50%		5.50%					
	Current Amortization Schedule 16 yrs remaining 7/1/03		25 Year Amortization Schedule Starting at 7/1/03						
Year	Total UAL	Annual Payment	Total UAL	Annual Payment		Difference Between Schedules	Buydown of Cliff Cost	Payment of Cliff Normal Cost
FY 02/03	2,592,677,039	146,601,771	2,592,677,039	146,601,771	FY 02/03	0	228,200,000	21,792,130
FY 03/04	2,647,268,440	203,146,612	2,647,268,440	143,255,894	FY 03/04	59,890,718	269,991,501	22,990,697
FY 04/05	2,647,282,853	214,319,675	2,709,715,011	151,134,968	FY 04/05	63,184,707	256,530,056	24,255,186
FY 05/06	2,635,651,231	226,107,257	2,768,943,888	159,447,392	FY 05/06	66,659,866	240,063,354	25,589,221
FY 06/07	2,610,801,296	238,543,157	2,824,245,917	168,216,998	FY 06/07	70,326,159	220,244,916	26,996,628
FY 07/08	2,570,999,754	251,663,030	2,874,830,368	177,468,933	FY 07/08	74,194,097	196,694,709	28,481,443
FY 08/09	2,514,337,478	265,504,497	2,919,817,036	187,229,724	FY 08/09	78,274,773	168,996,146	30,047,922
FY 09/10	2,438,713,395	280,107,244	2,958,227,652	197,527,359	FY 09/10	82,579,885	136,692,821	31,700,558
FY 10/11	2,341,816,977	295,513,143	2,988,976,506	208,391,364	FY 10/11	87,121,779	99,284,964	33,444,088
FY 11/12	2,221,109,203	311,766,366	3,010,860,253	219,852,889	FY 11/12	91,913,477	56,225,598	35,283,513
FY 12/13	2,073,801,885	328,913,516	3,022,546,810	231,944,798	FY 12/13	47,671,708	6,916,363	37,224,107
FY 13/14	1,896,835,199	347,003,759	3,022,563,266	244,701,762	FY 13/14		0	
FY 14/15	1,686,853,282	366,088,966	3,009,282,738	258,160,359				
FY 15/16	1,440,177,731	386,223,859	2,980,910,061	272,359,178				
FY 16/17	1,152,778,826	407,466,171	2,935,466,228	287,338,933				
FY 17/18	820,244,287	429,876,811	2,870,771,474	303,142,574				
FY 18/19	437,745,359	453,520,035	2,784,426,876	319,815,416				
FY 19/20			2,673,794,363	337,405,264				
FY 20/21			2,535,974,983	355,962,553				
FY 21/22			2,367,785,291	375,540,494				
FY 22/23			2,165,731,700	396,195,221				
FY 23/24			1,925,982,620	417,985,958				
FY 24/25			1,644,338,194	440,975,186				
FY 25/26			1,316,197,447	465,228,821				
FY 26/27			936,522,612	490,816,406				
FY 27/28			499,800,405	517,811,309				
Total Pmts		5,152,365,868		7,474,511,525				
Difference			2,322,145,657					

12/4/2002

Maine State Retirement System

UAL Amortization per 6/30/02 Valuation
FY 03 Payment set by 6/30/00 Valuation

Use Difference Between Schedules to Buy Down
the UAL Cost of the Cliff Fix
and Continue to Pay Cliff NC Post-buydown

Scenario #3

Investment Return		8.00%		8.00%
Inflation/General Salary Increase		5.50%		5.50%

	Current Amortization Schedule 16 yrs remaining 7/1/03		25 Year Amortization Schedule Starting at 7/1/03						
Year	Total UAL	Annual Payment	Total UAL	Annual Payment		Difference Between Schedules	Buydown of Cliff Cost	Payment of Cliff Normal Cost	Use Difference Post-buydown to Pay Cliff NC
FY 02/03	2,592,677,039	146,601,771	2,592,677,039	146,601,771	FY 02/03	0	228,200,000	21,792,130	
FY 03/04	2,647,268,440	203,146,612	2,647,268,440	143,255,894	FY 03/04	59,890,718	269,991,501	22,990,697	
FY 04/05	2,647,282,853	214,319,675	2,709,715,011	151,134,968	FY 04/05	63,184,707	256,530,056	24,255,186	
FY 05/06	2,635,651,231	226,107,257	2,768,943,888	159,447,392	FY 05/06	66,659,866	240,063,354	25,589,221	
FY 06/07	2,610,801,296	238,543,157	2,824,245,917	168,216,998	FY 06/07	70,326,159	220,244,916	26,996,628	
FY 07/08	2,570,999,754	251,663,030	2,874,830,368	177,468,933	FY 07/08	74,194,097	196,694,709	28,481,443	
FY 08/09	2,514,337,478	265,504,497	2,919,817,036	187,229,724	FY 08/09	78,274,773	168,996,146	30,047,922	
FY 09/10	2,438,713,395	280,107,244	2,958,227,652	197,527,359	FY 09/10	82,579,885	136,692,821	31,700,558	
FY 10/11	2,341,816,977	295,513,143	2,988,976,506	208,391,364	FY 10/11	87,121,779	99,284,964	33,444,088	
FY 11/12	2,221,109,203	311,766,366	3,010,860,253	219,852,889	FY 11/12	91,913,477	56,225,598	35,283,513	
FY 12/13	2,073,801,885	328,913,516	3,022,546,810	231,944,798	FY 12/13	96,968,718	6,916,363	37,224,107	49,297,010
FY 13/14	1,896,835,199	347,003,759	3,022,563,266	244,701,762	FY 13/14	102,301,997	0	39,271,432	113,129,622
FY 14/15	1,686,853,282	366,088,966	3,009,282,738	258,160,359		107,928,607		41,431,361	185,362,728
FY 15/16	1,440,177,731	386,223,859	2,980,910,061	272,359,178		113,864,681		43,710,086	266,849,534
FY 16/17	1,152,778,826	407,466,171	2,935,466,228	287,338,933		120,127,238		46,114,141	358,521,463
FY 17/18	820,244,287	429,876,811	2,870,771,474	303,142,574		126,734,236		48,650,418	461,394,964
FY 18/19	437,745,359	453,520,035	2,784,426,876	319,815,416				51,326,192	442,874,274
FY 19/20			2,673,794,363	337,405,264				54,149,132	419,823,154
FY 20/21			2,535,974,983	355,962,553				57,127,334	391,711,485
FY 21/22			2,367,785,291	375,540,494				60,269,338	357,957,519
FY 22/23			2,165,731,700	396,195,221				63,584,151	317,923,237
FY 23/24			1,925,982,620	417,985,958				67,081,280	270,909,314
FY 24/25			1,644,338,194	440,975,186				70,770,750	216,149,650
FY 25/26			1,316,197,447	465,228,821				74,663,141	152,805,429
FY 26/27			936,522,612	490,816,406				78,769,614	79,958,680
FY 27/28			499,800,405	517,811,309				83,101,943	(3,394,724)
Total Pmts		5,152,365,868		7,474,511,525					
Difference			2,322,145,657						

12/4/2002

Appendix I.

Concept Draft for Proposed Legislation to Restore Benefits

Draft Legislation Proposed by the Task Force to Study Methods of Addressing Inequities in the Retirement Benefits of State Employees and Teachers

(Pursuant to PL 2001, c. 707)

"An Act to Provide Equity in the Retirement Benefits of State Employees and Teachers"

CONCEPT DRAFT

This bill will require that retirement benefits of all state employees and teachers be determined in the same way, regardless of whether the employee had 10 years of service credit on July 1, 1993 or not. This bill will correct an inequity created in 1993 when retirement benefits were reduced for employees with less than 10 years of service credit as of July 1, 1993. The bill establishes a process for meeting the Constitutional requirement that funding of any legislation that adds liability to the retirement system must be provided at the same time that the liability is created.

Benefits would be restored and funding would be provided as follows:

1. The statutory schedule for paying off the existing unfunded liability of the retirement system (Title 5, section 17151, subsection 2) would be amended to state the intent of the Legislature that the existing unfunded liability of the retirement system be paid off not later than June 30, 2028, as permitted by the Maine Constitution. The law would then require that the Legislature appropriate or allocate sufficient funds to the Retirement System in an amount that would pay off the liability by June 30, 2019, but that the difference between the 2019 schedule and the 2028 schedule must be set aside in a separate account in the retirement fund.

2. A new section would be created in subchapter V (Benefits) to set up the separate account, list permissible expenditures and explain the timing of benefit restoration for cliff employees. Permissible expenditures from the separate account would include: (1) payment of the total cost of the increase in the normal cost each year attributable to the benefit restoration for service earned in the current fiscal year; (2) payment of the increased cost of benefits for already-retired cliff employees; (3) payment of the increased cost of benefits for any cliff employee retiring prior to full payment of the unfunded liability attributable to benefit restoration; and (4) accumulation of a fund to pay the full cost of the unfunded liability created by the benefit restoration.

3. The new section will also state that, notwithstanding sections 17852, the benefits for cliff employees are determined as if the employees were pre-cliff

employees, to the extent that sufficient funds exist in the separate account to fund the benefit restoration. Once sufficient funds are accumulated in the separate account to cover the full cost of the unfunded liability of the benefit restoration, all the benefit laws should be amended so that no distinction is made in retirement benefits on the basis of service credits on July 1, 1993.

4. The new section will provide for payment of restored benefits to cliff employees who retire before the legislation takes effect, including payment of retroactive benefits.

5. In order to avoid a violation of the Constitutional prohibition against creating unfunded liabilities, and the statutory limitation on reducing retirement benefits, the bill must be drafted so that the legal right to a restored benefit does not arise until the unfunded liability is entirely paid. Benefit restoration paid for from the separate account may not be continued if funds are not appropriated to pay the entire cost of the unfunded liability.

6. The Maine State Retirement System will be asked to review the statutes to determine whether any additional changes are necessary to implement the intent of the legislation that the cliff separating employees with 10 years of service credit on July 1, 1993 from those without it disappear.

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