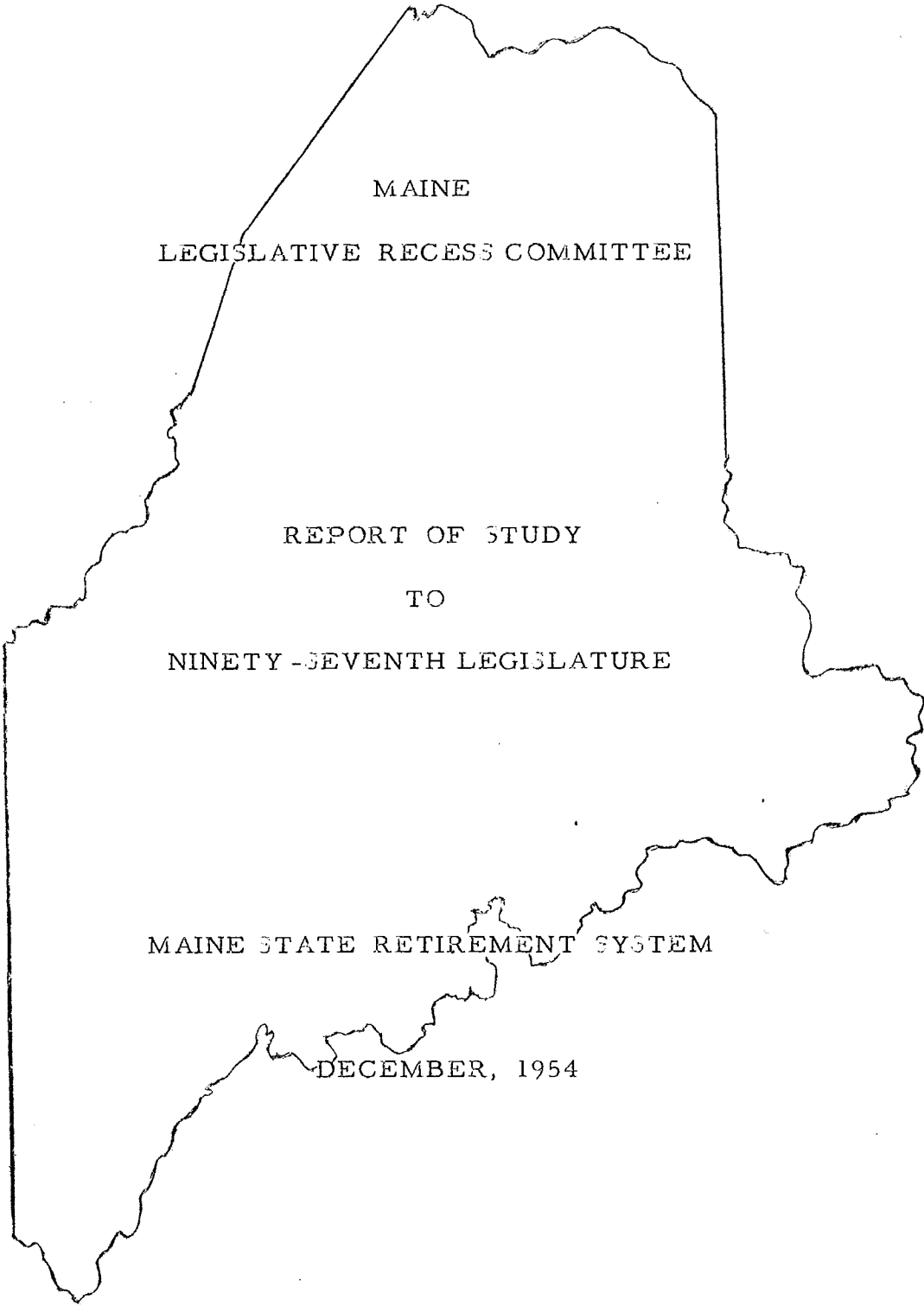


MAINE STATE LEGISLATURE

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MAINE
LEGISLATIVE RECESS COMMITTEE

REPORT OF STUDY
TO
NINETY-SEVENTH LEGISLATURE

MAINE STATE RETIREMENT SYSTEM

DECEMBER, 1954

REPORT OF LEGISLATIVE RECESS COMMITTEE

FOR STUDY OF

MAINE STATE RETIREMENT SYSTEM

to

NINETY-SEVENTH LEGISLATURE

A Study Summary of all phases of the State Retirement System and related titles of the Social Security Act.

From the Senate

Benjamin Butler

From the House

Lucia M. Cormier

Willis A. Trafton, Jr.

From the Board of Trustees

James J. George

Frank S. Carpenter

Clair E. Wood

Consulting Actuary

Alfred W. Perkins

Representative of Maine State Employees Association

Edward L. Walter

Representative of Maine Teachers Association

Lincoln A. Sennett

Representative of Maine Municipal Association

Benjamin W. Ela

Representative of the Public, appointed by the Governor

W. Mayo Payson

To the Members of the 97th Legislature:

The Recess Committee for the study of Maine State Retirement System hereby submits to you a report of its studies and recommendations.

The Committee first met August 27th, 1953. After electing a chairman, the following sub-committees were appointed: Social Security, General Revision of the Law, Actuarial Study and Investments.

It became apparent at once that the entire committee needed to acquaint themselves with each of the sub-committees' immediate problems. Accordingly, each phase was studied by the committee of the whole.

After receiving the report of Bowles, Andrews and Towne, the retained Actuary this Committee has held public meetings in Presque Isle, Dennysville, Bangor, Rockland, Portland, Lewiston, Augusta, Rumford and Biddeford before determining these recommendations.

Subsequent Federal Social Security legislation could easily necessitate additional State Legislation for our retirement system. Accordingly it is earnestly requested that this Legislature consider the advisability of continuing this committee for the next biennium.

Respectfully submitted,

LEGISLATIVE RECESS COMMITTEE

By: *Benjamin Butler* Chairman

CHAPTER 82 RESOLVES 1953 entitled, "RESOLVE, for a recess committee to study all phases of the Maine State Retirement System and related titles of the Social Security Act" provided that a special recess committee be appointed to study the Maine State Retirement Law and its application to all covered employees, authorize and supervise an examination of the plan by an outside independent actuary, study the application or possible application of the benefits of the Federal Social Security Act to the members of the State Retirement System, looking toward the possibility or desirability of integrating social security with the state plan or supplementing the state plan with social security. The committee was instructed to report at the next regular session of the legislature its recommendations for legislation, if any, together with a draft of such legislation.

After organization, the committee selected the consulting actuarial firm of Bowles, Andrews & Towne of Richmond, Virginia to make a complete survey of the Maine State Retirement System in its entirety and to report thereon. This survey, conducted under the supervision of Mr. Robert J. Towne, actuary, covered all phases of the system including funding methods, the computation of benefits, the formulae used, the actuarial tables, the accounting procedures, the record keeping, the investments, the reserves, the administration, the efficiency of the personnel and of the procedures. In due course the actuaries submitted a detailed report which contained many recommendations and suggestions.

The same firm of actuaries was next instructed to submit a report on the advantages and disadvantages of covering public employees under the Federal Social Security System, using actuarial data obtained in preparation of the first report to project a cost comparison of the two systems. The report covers in detail factors involved in any decision whether Social Security coverage for members of the State Retirement System should be sought.

The Committee's study has included extensive publications on the subject, consultation with specialists, attendance at conferences in Boston and Washington, and a series of public hearings conducted about the state.

Specific committee recommendations are set forth hereinafter. The cost of changes recommended is estimated at \$25,000. per year. Both of the Bowles, Andrews & Towne reports in published form accompany this report, together with the draft of a bill which rewrites the Maine State Retirement Law in accordance with the committee's recommendations.

RECOMMENDATIONS

FIRST - THE MAINE STATE RETIREMENT SYSTEM SHOULD BE RETAINED WITHOUT SUPPLEMENTATION OR INTEGRATION WITH THE FEDERAL SOCIAL SECURITY SYSTEM.

Reasons:

1. The Maine State Retirement System is found to be basically sound from the point of view of benefits provided and of financial condition. Inadequacy of benefits or financial unsoundness, factors which have motivated a shift to social security in some states, do not exist in our system.

2. Retention of our present system appears advantageous from a financial point of view both from the public's side and from the employee's side. Even though costs in the immediate future might be lowered under social security coverage, ultimate costs, under that system, would be higher for comparable benefits. * Observation should be made that a good part of the system's higher apparent cost is due to the retirement at 60 feature as against 65 for the social security system. Actuarially it costs about twice as much money to pay the same retirement benefits to an employee beginning at age 60 as it does beginning at age 65.

3. The social security program is not concerned as much with equities between individuals, in the sense of benefits being commensurate with services and contributions, as is an employer-type retirement system. Differences in length of period of service are leveled by social security in favor of those soon retiring. The cost of dependents' and survivors' benefits is shared by those who have no dependents at all. Further, social security is weighted in favor of the lower income brackets.

4. The committee recognizes that there are certain members who would be in a more advantageous position under social security but finds that the majority of the members would be at a disadvantage.

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Under social security as amended in 1954 a worker without dependent whose average monthly wages are two hundred dollars would receive monthly payments on retirement of \$78.50 as against \$100 from the Retirement System after thirty-five years of covered employment. Two hundred dollars a month was the rough average salary of teachers in the system in 1953.

Social security monthly payments to a retired worker with dependent wife over sixty-five, if his average monthly wages were three hundred dollars, would be \$147.80 as against \$150. under the State Retirement System.

The foregoing illustrations are offered with some reluctance because of the inherent difficulty of making fair comparisons between the two systems.

5. The Committee recognizes the attractiveness of survivor's and dependent's benefits particularly to married male employees. It recommends that, if initiated for members of the system, such benefits be provided as a supplement to the Maine State Retirement System, rather than by modification of the system or by integration with social security.

SECOND: - MEMBERSHIP SERVICE BENEFITS SHOULD BE BASED ON THE FORMULA OF $1/70$ OF THE AVERAGE HIGHEST COMPENSATION X YEARS OF MEMBERSHIP SERVICE IN LIEU OF THE PRESENT METHOD.

Reasons: Under the present law membership benefits are determined by adding together (1) the State's guarantee of $1/140$ of average highest compensation times the number of years of membership service and (2) an annuity purchased by the member's contributions.

The amount received from the annuity portion can not be readily determined by the member but must be computed by an actuary. The change will make benefits more understandable. In addition it will to some extent liberalize benefits. In theory the two components were expected to be roughly equal. Actually, wage increases have caused benefits from the State's pension portion to increase more rapidly than the annuity benefits so that the combined benefits computed under the present law are less than the theoretical one-half average final compensation that would be expected after thirty-five years of covered service.

THIRD: - THE INVESTMENT PROVISIONS OF THE MAINE STATE RETIREMENT LAW SHOULD BE LIBERALIZED TO PERMIT INVESTMENT IN EQUITIES UNDER THE "PRUDENT MAN RULE" IN AMOUNT UP TO 10% OF THE SYSTEM'S FUNDS.

Reasons: The present portfolio of investments of the system has been examined by experts. Investments are uniformly sound and of highest quality. In making investments the Board of Trustees has been governed by the rules set forth in the Savings Bank law. Yield of the system's investments has been steadily increasing but does not yet quite equal 3%, the rate at which members' contributions have been credited and annuities computed.

It is believed that the proposed change is consistent with the primary investment consideration of safeguarding the funds, and yet will permit an increased rate of return more compatible with the return realized by private institutions from endowment funds. The estimate is noteworthy that an increase of one-half per cent in the rate of investment earnings can reduce the contributions of the State for current service by from 10 to 12 %.

FOURTH: - SUFFICIENT FUNDS SHOULD BE APPROPRIATED BY THE LEGISLATURE TO PERMIT THE BOARD OF TRUSTEES TO EMPLOY INVESTMENT COUNSEL.

Reason: Investment and management of funds exceeding twenty-million dollars is a full time task. Benefits can be derived from the services of investment men who are specialists in that field.

FIFTH: - CERTAIN AMBIGUITIES IN WORDING OF THE PRESENT LAW SHOULD BE ELIMINATED AND CERTAIN MINOR TECHNICAL CHANGES RECOMMENDED BY THE ACTUARIES SHOULD BE ENACTED.

Comment: The accompanying draft reduces the number of funds of the system, thereby increasing administrative efficiency.

In the case of dormant accounts which lack ten years of creditable service to obtaining a vested status, interest will not be credited after five years of inactivity.

Benefit payments will be pro-rated in the event of death of a retired member rather than terminate with the last payment prior to death.

Out of state service credits enjoyed by teachers in the past shall be made available to State employees. To obtain such credits in the future, every member must pay both the State's contribution and the member's contribution. No such existing credits of present members of the system will be changed.

Contributions shall be required of state personnel employed subject to the six-months probation rule of the state personnel law and also of employees employed after they attain age 65.

Request for extension of service for employees of participating local districts shall be administered by municipal officers and

the board of Trustees without reference to the governor and council.

The foregoing examples are the more important minor changes but are not offered as a complete list thereof.

SIXTH: - THE LEGISLATURE SHOULD ADOPT A POLICY WITH RESPECT TO SPECIAL PENSION RESOLVES THAT NO SUCH RESOLVE SHOULD BE GRANTED EXCEPT UPON A CONTEMPORANEOUS APPROPRIATION INTO THE RETIREMENT ALLOWANCE FUND OF SUCH SUM OF MONEY AS WILL EQUAL THE FULL ACTUARIAL COST OF THE PENSION.

Reasons: Practice has been to grant pension resolves carrying an appropriation only for the immediately succeeding biennium. The true extent of liabilities incurred by special resolves thus tends to be clouded. Since 1943 by special resolves of the legislature commitments have been made against the system for future payments of over \$340,000, valued as of July 1, 1953, in order to provide forty-six special pensions.

The theoretical need for special pensions to meet unusual cases is recognized, although they are obviously discriminatory. Fair and equitable treatment to all employees demands that the adequate funding program of the system should not be impaired by these special resolves for adequate funding is a guarantee to the members that the money will be available at a future date to pay the benefits provided by the law.

CONCLUSIONS.

The Maine State Retirement System is found to be sound and worth retention. It provides liberal benefits to members on a reasonable cost basis.

The present system can be improved in certain details as

above related. To accomplish this a new draft of the law has been prepared.

The committee recognizes that there are certain inequities with respect to prior service within the law but elimination of these inequities at this date would involve prohibitive expense upon the part of the State.

The committee has considered extension of service-connected disability and service connected death benefits to all members of the system whereas now only certain hazardous duty groups enjoy them. The cost of such a change is estimated at \$49,000. per year. No recommendation is made.

The committee recommends a voluntary, contributory group life insurance program be made available to state employees by separate enactment to provide additional death benefits to employees. It believes that such a program should be independent of the Maine State Retirement System and supplementary to it. Costs have been estimated at an annual cost of \$186,372.36, of which the State's share would be \$150,000. for the first year and \$25,000. for the second year.

The committee further recommends that the Board of Trustees issue and publish rules and regulations governing the administration of the law and interpreting its provisions in accordance with and to the extent of the authority in them vested by the act so that such rules and ruling may be readily and permanently available to any individual concerned and to the public. Following is a detailed summary of the actuary's recommendations and committee comments.

<u>RECOMMENDATION BY ACTUARY</u>	<u>COMMITTEE ACTION</u>	<u>COMMITTEE COMMENTS</u>
Consideration should be given to the possibility of including the members of the judiciary in the Maine State Retirement System.	Rejected	Deprivation of Rights.
Consideration should be given to including state police in service on July 9, 1943 in the system and abolishing the present non-contributory system.	Rejected	Deprivation of Rights.
Membership for elected officials or appointed officials should probably be compulsory rather than optional.	Rejected	Deprivation of Right of Option.
Membership should not be allowed for any temporary employees. Excluded classes of employees should be stated in the law. Consideration might be given to excluding part time or seasonal employees with less than specified periods of employment.	Rejected	Could not assist these employees and change might deprive them of rights under retirement system.
Consideration should be given to terminating the right to become a member and receive prior service credits in the case of employees who originally elected not to become members when first eligible to do so.	Rejected	Did not want to deprive anyone of right to membership.

RECOMMENDATION BY ACTUARY

COMMITTEE ACTION

COMMITTEE COMMENTS

Consideration should be given to the problem of the relation of years of service credits for other than a full per annum basis and the employment status under which final average compensation is based.

Rejected

Could be detrimental to present members and could reduce benefits to those having this type of service.

Consideration should be given to the problem of the relation between service credits for periods of absence without pay and the determination of average final compensation.

Rejected

An administrative problem that if set up in law could be restrictive in certain instances.

Service credits to teachers for out-of-state service should be discontinued.

Accepted

Committee felt that out-of-state service already granted and service rendered up to July 1, 1955 should be available but there after none should be granted except if paid in full. New draft extends out-of-state credits to state employees and participating district employees.

The allowance of normal retirement after age 55 and 25 years of service in the case of the fish and game warden, etc. groups should be reviewed both from the point of view of the age and years of service requirements.

Rejected

Restrictive and detrimental to service.

<u>RECOMMENDATION BY ACTUARY</u>	<u>COMMITTEE ACTION</u>	<u>COMMITTEE COMMENTS</u>
The desirability of allowing extensions beyond compulsory retirement age should be reviewed as well as the reasons for having such extensions under the control of the governor and council in respect to employees of participating districts.	Rejected	State service might suffer if too limited in extensions. Did authorize extensions by participating districts without recourse to governor and council.
The years of service qualification for early retirement should be reviewed.	Rejected	Committee felt that minimum number of years (25-30) should be retained.
It would be desirable to change the basis of membership service retirement benefits to a total retirement allowance equal to 1/70 of average final compensation multiplied by the number of years of membership.	Accepted in part	Provides guarantee for amounts contributed and is beneficial to member.
The provision for a 50% retirement allowance after 25 years of service for the fish and game warden, etc. groups should be re-examined.	Rejected	Restrictive.
The soundness of basing average final compensation upon the five highest years' earnings should be re-examined.	Rejected	Restrictive, retained five highest years.

<u>RECOMMENDATION BY ACTUARY</u>	<u>COMMITTEE ACTION</u>	<u>COMMITTEE COMMENTS</u>
A change in the technical basis for calculation of early retirement benefits might be considered.	Rejected	Committee felt that continued use of approved actuarial tables was the accepted practice.
A better basis for disability retirement allowances would be 1/70 of average final compensation multiplied by years of creditable service subject to a minimum of 25% of average final compensation.	Rejected	Committee felt that there should be a differential between disability benefits and full retirement benefits.
The limitation test in the case of disability beneficiaries receiving earnings from any gainful occupation should relate to compensation at the time of retirement as well as average final compensation.	Rejected	The limitation test is restrictive and possibly detrimental.
Disability benefits should probably cease in the case of a disabled member restored to active service.	Rejected	The termination of disability benefits as suggested is a curtailment of the existing act.
Re-examination should be made of the adequacy of the present limitations in respect to retired employees, other than disabled employees, returning to active service.	Rejected	The requirements under the present act of retired employees returning to work should not be made more stringent.

RECOMMENDATION BY ACTUARY

COMMITTEE ACTION

COMMITTEE COMMENTS

Consideration might be given to the logic of the ten year service requirement in the case of occupational disability benefits for firemen.

The recommendation was enacted in the 1953 statute.

In the case of occupational death benefits, provision should be made for an offset of workmen's compensation benefits.

Accepted

There should be no duplication of payments.

The propriety of including state policemen who are not members of the System under the occupational death benefits should be considered.

Accepted

Redraft of bill provides that costs should not come from Retirement funds.

Consideration should perhaps be given to including occupational disability and death benefits for all state employees and perhaps for members of local police departments.

No Recommendation

It is necessary to consider the following costs: \$21,000 disability benefits; \$28,000 death benefits, plus administrative expenses. Difficulties are involved in considering disability benefits.

Consideration might be given to making the automatic option for the payment of full retirement allowance include a death benefit guarantee of the difference between accumulated member contributions and total retirement allowances received.

Rejected

Benefits are available to members by election of option IV.

<u>RECOMMENDATION BY ACTUARY</u>	<u>COMMITTEE ACTION</u>	<u>COMMITTEE COMMENTS</u>
The soundness of the survivor benefits payable in the event of death before retirement but after eligibility for retirement has been reached should be re-examined.	Rejected	The committee felt that automatic option II is fair and sound.
A beneficiary should perhaps be given the choice of accepting a return of member's contributions or the survivor benefits. Presumably a beneficiary is not entitled to both.	Accepted in part	The beneficiaries who receive \$10.00 or less per month may make choice.
Consideration might be given to providing group life insurance benefits for members of the system.	Accepted	The committee recognizes the desire of some for survivor benefits, but not as a part of the Retirement Law.
Consideration might be given to determining interest credits at the rate of 2% in the event of payment of accumulated contributions on termination of employment for other than retirement.	Rejected	The recommendation is considered restrictive by the committee.
The logic of allowing terminating employees to leave their contributions in the system indefinitely after termination of employment should be re-examined.	Accepted in part	Any account with less than 10 years service would draw interest for 5 years after terminating of service and then be considered dormant.

RECOMMENDATION BY ACTUARY

COMMITTEE ACTION

COMMITTEE COMMENTS

The provision allowing members to redeposit contributions previously withdrawn should be questioned.

Rejected

Members will retain the right to redeposit contributions but in the future they will be required to repay interest refunded as well as interest that would have accrued.

The basis for the funding of costs of service with a former employer in the case of an employee transferring employment between employers included in the system should be re-examined.

Rejected;

The present method of employer assuming balance of costs is retained.

The consolidation of certain of the funds of the system should be considered.

Accepted

This has no effect on rights or benefits but provides for simpler operation.

The problem of special resolves should be examined and consideration be given to the means of curtailing such special bills.

Accepted

The acceptance of this recommendation protects the trust funds against unauthorized or unappropriated use.

The extent to which members of the system are protected against reduction of accrued rights to benefits should be examined.

Principal
Accepted

It would be necessary to have a constitutional amendment to execute this recommendation. The committee did not consider this essential.

<u>RECOMMENDATION BY ACTUARY</u>	<u>COMMITTEE ACTION</u>	<u>COMMITTEE COMMENTS</u>
The definition of average final compensation should perhaps include "consecutive" years of service.	Rejected	The five highest years should be retained.
The date for the first payment of retirement allowances should be definitely stated in the law.	Rejected	A member should be permitted to nominate the date himself.
The provisions concerning cessation of membership and return of employee contributions in the event of termination of membership should perhaps be clarified to specify directly that an employee has the right to leave contributions in the system and retain membership for whatever period desired.	Accepted	The recommendation appears in the new draft.
The salary basis on which members' contributions, payable by the employer, while the employee is in the armed service should probably be specified more clearly.	Accepted	The basis of salary shall be at point of induction.
The effect on service credits for teachers in the event another state provides benefits for a teacher who is a member of the Maine System should be specified in the law.	Considered	The committee makes no comment.

RECOMMENDATION BY ACTUARY

COMMITTEE ACTION

COMMITTEE COMMENTS

The qualification of "state" service in the vesting provision should perhaps be deleted.

Accepted

The qualification of service should cover teaching and participating district members and new draft so provides.

The date of commencement of retirement allowances in the even of termination of employment with vested benefits should perhaps be more definitely spelled out.

Accepted

The recommendation is spelled out, to wit: at age 60 or thereafter.

The restrictions in the law for correcting prior service certificates should be changed to conform to equitable practices.

Accepted

The new draft corrects this technicality.

The provision for prior service credits for teachers who were members of the Maine Teachers Retirement System should perhaps be amended to cover service during the six year waiting period as well as service before age 25.

Accepted

Previously the law referred to these periods but language is cleared in new draft.

The deletion in 1953 of the words "in service" in the section concerning qualifications for retirement should probably be reconsidered because of the possible unintended results. The purpose of the change can probably be accomplished by other phraseology.

Accepted

The use of the wording "then or thereafter" appear in new draft.

RECOMMENDATION BY ACTUARY

COMMITTEE ACTION

COMMITTEE COMMENTS

The sections providing for special retirement benefits for certain occupational groups might be rearranged to avoid possible ambiguous interpretation.

Accepted

The new draft is so rearranged.

Some amendment is probably necessary in connection with the 1953 law which includes members of local police departments in the special occupational groups in order to make clear that age 55 is a requirement as well as 25 years of service.

Accepted

The new draft so stipulates.

The section concerning early retirement should specify when retirement allowances can commence.

Accepted

The new draft states "anytime prior to age 60".

The application of the early retirement provision to special benefits for teachers hired prior to 1924 should probably be specified in the law.

Accepted

The new draft sets forth minimums.

The intent of the law to allow retirement after 25 years of service without regard to age in the case of members with 22 years of prior service should probably be more clearly mentioned in the law.

Accepted

The new draft so provides.

<u>RECOMMENDATION BY ACTUARY</u>	<u>COMMITTEE ACTION</u>	<u>COMMITTEE COMMENTS</u>
The deletion of the words "in service" in 1953 in the provision concerning disability retirement benefits should be reconsidered.	Accepted	The use of the wording "in service" appears in the new draft.
The restrictions of the Board of Trustees in respect to reducing disability retirement allowances in the event a disability beneficiary engages in a gainful occupation should probably be restated.	Rejected	It is the prerogative of the Board of Trustees to make its own rules and regulations where not spelled out by the Legislature.
The method of offsetting workmen's compensation benefits should be specified more clearly in the law.	Accepted	The new draft clarifies this recommendation.
The law should probably specify the exact period for crediting interest in the event of payment of employees' accumulated contributions at death or termination of employment.	Rejected	The committee felt that the Board Rulings are sufficient and provide leeway for changes in practice if any are needed.

RECOMMENDATION BY ACTUARY

COMMITTEE ACTION

COMMITTEE COMMENTS

Investments

A review of the investment portfolio reveals the excellent quality of the securities contained therein. It is apparent that the administration of the account has been on the ultra-conservative side. However, for an account of this nature it is unnecessary to live so closely to the line of conservatism which penalizes unduly the income necessary to adequately service the Fund.

Accepted

Accepted in part.

Committee recommends:-
Employment of Investments
Counsel purchase of
equities under the
prudent man theory up
to 10% of corpus.

In summary we recommend that the System:

- (a) Reduce government holdings.
- (b) Increase holdings in industrial company bonds.
- (c) Increase Canadian government and municipal holdings.
- (d) Consider purchase of World Bank bonds.
- (e) Confine future commitments in utility issues to companies having diversified load and serving wide spread urban areas with interspersed good rural areas.
- (f) Be alert to opportunities of investing in private placements.
- (g) Increase preferred stock holdings in both utility and industrial companies.
- (h) Seek to have the investments statute liberalized to allow more latitude in investment of funds.
- (i) Employ competent investment counsel to aid the investment officers in their task.

RECOMMENDATION BY ACTUARY

COMMITTEE ACTION

COMMITTEE COMMENTS

Present Value July 1, 1953 of Special
Resolves

<u>Year</u>	<u>Number</u>	<u>Value</u>	<u>Accepted</u>	<u>To protect funds of Retirement System.</u>
1943	1	\$ 8,018		
1945	5	34,413		
1947	8	49,377		
1949	8	20,978		
1951	7	67,361		
1953	17	160,468		
<hr/>				
Totals	46	\$340,615		

It is recommended that if special bills are to be passed providing benefits that are not available under the System, that either the benefits should be paid directly out of state funds outside of the System or the legislature should appropriate the amount of money necessary to meet the entire cost of the benefits. It will be noted that this appropriation would have amounted to a total of \$340,615 to cover the cost of the additional benefits granted so far by the special bills.