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maine PERS Public Employees Retirement System

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HAND DELIVERED

January 8, 2015

Senator James Hamper, Senate Chair
Representative Margaret R. Rotundo, House Chair
Members, Joint Standing Committee on Appropriations and Financial Affairs
5 State House Station
Augusta, ME 04333-0005

Dear Senator Hamper, Representative Rotundo and Members of the Appropriations Committee:

Please accept the attached report written and developed in response to Private and Special Law 2013, Chapter 30, "An Act to Review the Laws Governing Retirement Benefits for Certain State Employees". MainePERS worked with its actuaries to develop the information requested.

Please let us know if you have any questions about this report.

Sincerely,

Sandra J. Matheson

Sandra J. Matheson
Executive Director

SJM/mg

Attachment

cc: John C. Milazzo, General Counsel and Chief Deputy Director
Kathy J. Morin, Manager, Actuarial and Legislative Affairs

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Background

The Maine Public Employees Retirement System administers defined benefit plans for State employees, public school teachers, judges, legislators and employees of participating local districts.

The majority of State employees are covered by a so-called "regular" retirement plan, which provides for retirement after twenty-five (25) years of service credit or attainment of normal retirement age, with a reduction for retirement prior to reaching that age. Members who had accrued at least 10 years of service credit on July 1, 1993 have a normal retirement age of 60, with an early retirement reduction factor of approximately 2-1/8% for each year before age 60. Members who did not have 10 years of service credit on July 1, 1993 have a normal retirement age of 62, with an early retirement reduction factor of 6% for each year before age 62. Members who did not have 5 years of service credit on July 1, 2011 have a normal retirement age of 65, with an early retirement reduction factor of 6% for each year before age 65.

Certain groups of State employees are covered by a so-called "special" retirement plan (See Attachment A). A special plan typically provides a more favorable retirement benefit than does a regular plan, either through permitting retirement with fewer years of service credit or at a younger age or by providing a higher accrual rate. The System administers a number of different special plans, and coverage in those plans for specific classifications of State employees has changed over time as the legislature has provided more favorable retirement benefits for certain employee groups. Because the retirement benefits are more favorable, special plans are more costly than a regular plan in terms of both the employee and the employer contribution rates.

The 1998 Special Plan

The so-called 1998 Special Plan was established effective July 1, 1998. At that time, several groups of State employees were moved from coverage in the regular plan for State employees to the new special plan. In order to avoid an unfunded liability relating to past service, groups were moved into the new plan for prospective service only. When the plan was implemented in 1998, the majority of the groups included in the plan had previously been included in some sort of special plan, the provisions of which varied from group to group. As the System understands it, there were a number of reasons for creating a new special plan, including the policy position that employees in certain types of positions could not reasonably be expected to work until age 60, 62 or age 65. Additionally, covering all of the groups in the same special plan provided uniformity and portability of benefits.

Since its initial implementation in 1998, groups have been added to and removed from the 1998 Special Plan. Groups that have been added are groups that had not previously been covered by a special plan. Groups that have been removed are groups that have now been moved to a more favorable special plan. Additionally, some groups have been added to the plan with special conditions such as inclusion of all service in the plan or inclusion in the plan dependent upon funding by the Federal Government. Still other groups have put forth proposals to the legislature for inclusion in the plan, but have not met with success.

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

Benefits are calculated based upon the plan under which service was earned. For example, a member who earned service credit under a regular plan until 1998 and then under the 1998 Special Plan will have benefits calculated under the regular plan for the earlier years and under the 1998 Special Plan for the later years. If that member retires before normal retirement age, the result is a "split age reduction," such that the benefit for service earned under the regular plan is reduced for early retirement based on the normal retirement age of that plan (i.e., 60, 62 or 65), and the benefit for service earned under the 1998 Special Plan is reduced based on the normal retirement age of that plan (i.e., 55). Members with all or a high percentage of their service under the 1998 Special Plan are more greatly advantaged by that plan.

1998 Special Plan Funding

As previously stated, the 1998 Special Plan was implemented in such a way that no unfunded actuarial liability was created for the plan. Plan costs are analyzed each time a plan change is under consideration. The level of costs that result from placing a group in a special plan is dependent upon whether the group is added on a prospective or retroactive basis. If coverage is on a prospective basis and only service earned in a covered capacity on and after the date of coverage in the plan is included as special plan service, there is no unfunded liability cost. However, there is an increase in the normal cost rate for the group of members covered by the special plan, effective with the effective date of the plan change. If a group is placed in a special plan on a retroactive basis, there are also costs in the form of unfunded liabilities that require immediate funding.

Recent Legislative Action

During the Second Regular Session of the 126th Legislature, the Appropriations Committee considered a bill (L.D. #1175) that proposed to permit retroactive coverage to one classification of State employees that had previously been added to the 1998 Special Plan on a solely prospective basis. As a result of its deliberations, the Committee amended the bill and the Legislature enacted P & S Law Chapter 30, effective August 1, 2014, as follows:

An Act To Review the Laws Governing Retirement Benefits for Certain State Employees

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

Sec. 1. Production of analysis. By January 2, 2015, the Executive Director of the Maine Public Employees Retirement System, referred to in this Act as "the executive director," shall:

1. Determine the number of active members of the Maine Public Employees Retirement System who, after having earned creditable service in the regular retirement program of the Maine Public Employees Retirement System in a capacity included in the Maine Revised Statutes, Title 5, section 17851-A, subsection 1, have earned creditable service under the 1998 Special Plan;

2. Identify changes to the current law governing qualification for retirement benefits under the Maine Public Employees Retirement System that are needed to allow all the creditable service benefits of an active member identified pursuant to subsection 1 earned in a capacity included in Title 5, section 17851-A, subsection 1 to be calculated as if earned under the 1998 Special Plan, regardless of when the creditable service was earned; and

3. Determine the cost to the State of implementing the changes identified in subsection 2.

Sec. 2. Report. The executive director shall report the results of the analysis, including any necessary implementing legislation, to the joint standing committee of the Legislature having jurisdiction over retirement matters by January 15, 2015. The joint standing committee of the Legislature having jurisdiction over retirement matters may submit a bill related to the report to the First Regular Session of the 127th Legislature.

Results of Analysis

MainePERS has worked with its actuary to identify the current active members of the 1998 Special Plan who previously earned service in the regular plan in a capacity subsequently included in the 1998 Special Plan. The calculation of retirement benefits for these individuals is based on the "split age reduction" as previously described.

As of the 2014 census data, there were approximately 275 active members in the 1998 Special Plan who had previous service under the regular plan in a capacity subsequently covered by the 1998 Special Plan. Amending the 1998 Special Plan provisions such that current active members would be allowed to include all service in specific covered capacities toward the calculation of benefits under that plan would increase the costs of the plan in two ways. First, it would increase the normal cost of the plan by .09% of the entire payroll of participants in the plan. Based on the 2014 census data, that would result in an additional cost of approximately $48,200. This normal cost impact will decline as the number of members in the affected group retires. Second, the change would result in an increase in the unfunded actuarial liability (UAL) in the amount of approximately $6.5 million. Under Article 9, Section 18-A, of the Maine Constitution, the State would be required to pay this cost in its entirety at the time the plan change became effective.

Implementing Legislation

MainePERS has placed the drafting of implementing legislation on hold for this change pending further legislative discussion of the data submitted in this report. This is because the statutes governing the 1998 Special Plan are long and complicated and language would take an extensive amount of time and resources to draft. The System will work with the Committee analyst and the Office of the Revisor of Statutes to draft the required legislation in a timely manner if legislative action is taken to implement this change for all or part of the covered population.

Attachment A - MainePERS State Employee Special Plans

	25 Year No-Age	1998 Special	Closed Plans*
Member Count	461	1,296	15
Groups included	IF&W and Marine Resources Wardens hired after 8/31/84 State Police hired after 9/15/84	Department of Corrections, Liquor Inspectors, Airplane pilots, Forest Rangers, federally-funded Bangor Int'l Airport firefighters, Baxter St. Park Rangers, Fire Marshals, Capital Security, Oil & Hazardous Waste Emergency Response employees	Forest Rangers (5), Game Warden (3), Prison employees (1), State Police (6),
Member Contribution Rate	8.65% for the first 25 years of service, 7.65% thereafter 1.15% for those with employer-paid contributions	8.65% for the first 25 years of service, 7.65% thereafter 1.15% for those with employer-paid contributions	Varies
Normal Retirement Age	Any age at which member meets service	55	Varies
Service Eligibility	25 years of covered service	10 years under the plan if at least age 55 <u>or</u> 25 years in a covered position	Varies
Accrual Rate	2%	2%	2.5% or 2%
Early Retirement Reduction Factor	N/A	2.125% or 6% per year based on years of service on 7/1/93	N/A

***Closed plans do not accept new members.**