

MAINE STATE LEGISLATURE

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HAND DELIVERED

February 10, 2017

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

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

Please accept the Maine Public Employees Retirement System's (MainePERS) report prepared in response to 5 M.R.S. § 17760(6), which requires MainePERS to submit information annually to the Legislature regarding military service credit purchase requests received from certain categories of members.

Under Maine law, eligible members may purchase military service credit toward increasing their total service credit and thus increasing their overall retirement benefit. There are two methods by which the cost to purchase military service credit is calculated. Under one method, the member is required to pay only the member contributions related to the time being purchased. The remainder of the cost, that is, the difference between the cost the member must pay and the full actuarial cost of the additional service credit, is added to the liabilities of the plan. This is commonly referred to as paying a "subsidized rate." Under the second method, the member pays the full actuarial cost associated with the additional service credit. The purchase of military service credit by a member under this alternative results in no costs to the plan.

In accordance with 5 M.R.S. § 17760(3)(A)(3), recipients of specific military awards and medals may purchase military service credit to be used toward a retirement benefit at a subsidized cost only if MainePERS has received an appropriation in the amount of the difference between the actuarial cost of that member's military service credit and the subsidized amount that would be paid by the member under 5 M.R.S. § 17713(2).

Title 5 M.R.S. § 17760(6)(A) requires MainePERS to report the following information annually to the Legislature:

- (1) The amount, if any, in the account maintained for the purposes of this subsection;
- (2) The cost to subsidize the purchase of service credit under this subsection for members who applied and were determined eligible in the calendar year immediately preceding the report; and
- (3) The cost to subsidize the purchase of service credit under this subsection for members who applied and were determined eligible in each of the calendar years before the immediately preceding calendar year for which full appropriations were not made.

The following chart provides information regarding requests and associated costs for members who have been found eligible to purchase military service credit, contingent upon the required appropriation, who have *not yet* made the purchase.

Calendar Year	Number of Requests	Subsidy Cost
2016	2	\$ 98,362.22
2015	1	\$ 91,459.73
Total	3	\$ 189,821.95

Total Subsidy Cost	\$ 189,821.95
Beginning Account Balance	(\$ 152,863.55)
Remaining Subsidy Cost	\$ 36,958.40

The beginning account balance stated above includes funds appropriated in the FYs 2016-2017 biennial budget for specific members determined to be eligible for this subsidy. (P.L. 2015, c. 267, Pt. A, §A-63.) Some of those members subsequently declined to purchase their military service credit or were found eligible to complete the purchase without the subsidy, and the funds have remained in the account.

It is our understanding that funds that are appropriated for the purchase of military service credit by specific members who do not, in fact, make those purchases, or for whom the funds are found not to be necessary, cannot be used to subsidize the purchase

of military service by other eligible members. MainePERS has submitted proposed legislation that would permit the use of those funds for other eligible members pursuant to 5 M.R.S. § 17760(6)(C). This proposal is part of L.D. 409, An Act to Amend the Laws Pertaining to the Maine Public Employees Retirement System, MainePERS' omnibus bill. If passed, this change would permit the one eligible member who requested to purchase service in 2015 to make that purchase at a subsidized rate. An additional appropriation of the remaining subsidy cost, \$36,958.40, would be required in order for the remaining members to make a subsidized purchase.

The following chart provides information regarding the history of the funding of subsidized military service purchases under 5 M.R.S. § 17760(6).

Date	Amount Appropriated	Covered Members
FY 2009-10	\$ 55,600	2*
FY 2011-12	\$ 116,617	1
FY 2013-14	\$ 282,404	3
FY 2015-16	\$ 98,983	2*
FY 2016-17	\$ 262,893	3*
Total	\$ 816,497	11

*Some members for whom funds were appropriated did not complete the purchase or were found eligible to complete the purchase without the subsidy.

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

Sincerely,



Kathy J. Morin
Manager, Actuarial and Legislative Affairs

cc: Michael J. Colleran, General Counsel
Rachel Tremblay, Office of Fiscal and Program Review