

# MAINE STATE LEGISLATURE

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EMPLOYEE BENEFIT PLANS

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October 3, 1973

Senator Harrison L. Richardson, Chairman  
Committee on Veterans & Retirement, State of Maine  
Augusta, Maine 04330

Dear Senator Richardson:

The first interim report on our study of the Maine State Retirement System is submitted herewith. The area of the study covered by this report is the coverage of the system as respects membership in the system and the benefits of the system.

Sincerely,



Robert J. Towne,  
Fellow Society of Actuaries

RJT:ata

INTERIM REPORT ON  
STUDY OF  
MAINE STATE RETIREMENT SYSTEM

10/3/73

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## PART I - INTRODUCTION

### A. Meetings with Employee Organizations and Others

Following the procedures for this study as presented in my memorandum to yourself dated August 31, 1973, my associates, Rudolf Lohse and Ed Walter, and I have held meetings with representatives of the following organizations and administrative personnel of the Retirement System :

1. Maine Teachers Association represented by Dr. John H. Marvin, Executive Secretary and Richard Mersereau, Director of Research.
2. Maine State Employees Association represented by David G. Carnevale, Executive Director and Robert Parent, Assistant Executive Director.
3. Fred Berry, Retired Member, Board of Trustees.
4. Bob Montminy, representing American Federation of State, County and Municipal Employees AFL-CIO.
5. Maine State Retirement System, represented by William Blodgett, Executive Director, and Gary King, Actuarial Accountant.
6. Roland Berry, administrative assistant to Committee on Veterans & Retirement, State of Maine.
7. Maine Municipal Association represented by Robert D. Curley, Labor Relations Director and John E. Menario, Chairman of the Board of Trustees of the Retirement System.

In each of our meetings, we informed these groups that a primary purpose of our study project is (a) to pinpoint the differences in benefit structure and benefit eligibility criteria of the various employee classifications covered by the Retirement System and (b) to provide objective bases to evaluate whether such differences are justifiable from standards of equity or, if not, to recommend such changes as would most appropriately restore the equities. In this connection, we have requested from each of the above groups their viewpoints on the inequities which presently exist and which they feel should be changed.

The results of these meetings are reflected in this interim report.

As we develop our interim reports, we have assured these interested parties that we will meet with them again to review the progress of our study so that they will have ample opportunity to provide their comments on our reports. Thus, definite arrangements were made for us to meet during the period November 1 to November 3 with the about 20 representatives of the Teachers Association and 14 members of the State Employees Association at their regularly scheduled meetings on such dates. A meeting has also been scheduled with a representative of the Maine School Superintendents Association for November 1, 1973, at his request. At such meetings it is intended that the subject matter of such of our interim reports that have been completed will be presented for discussion.

Arrangements are also being made to set up a similar meeting with the State and Municipal Employees Union AFL-CIO.

It is expected that these meetings will provide ample opportunity for fruitful discussion of our reports by the principal officers of each employee organization, who represent their employee groups. Thus, their points of view can be fully evaluated and assessed by us on an objective basis prior to rendering our final report on December 15.

B. Material Included In Report

The material contained in the other parts of this report is as follows :

1. Part II - Primary Benefit Problems of Maine State Retirement System

This material reflects all the benefit problems raised during the meetings stated in the preceding section. It includes, as well, an analysis of certain areas of possible inequities which we believe may exist. It is hoped it may pinpoint in layman's language the scope of the primary benefit areas to be investigated by the Committee.

For convenience, this benefit analysis has been performed in the same numerical sequence as the Retirement Law is established. As an additional aid, the L.D.s considered by the 1973 Legislative Session have been reviewed and reference has been made to all L.D.s bearing on the benefits which are under discussion.

Group life insurance and health insurance benefits are not covered in this report. The necessary information concerning such coverages is being acquired and a separate report will be made on our analysis of the problems thereof.

## 2. Part III - Outline of Principal Benefit Provisions of Maine State Retirement System

This outline has been prepared as a convenient reference to the benefit provisions of the Retirement System, particularly for the identification of the differences in benefits for the various employee groups.

PART II - PRIMARY BENEFIT PROBLEMS OF MAINE STATE RETIREMENT SYSTEM

Section 1001 Paragraph 3  
AVERAGE FINAL COMPENSATION

A. Current Law

Most State employees and Teachers retiring under the Retirement System receive benefits determined as a portion of "Average Final Compensation", i.e., the average rate of the employee's earnable compensation during the 3 years of service, not necessarily consecutive, during which his compensation is highest.

B. Problem Areas

Several special classifications, including state police, law enforcement officers in the Departments of Inland Fisheries and Game or Department of Sea and Shore Fisheries, forest rangers, wardens, prison guards and some participating district employees currently receive benefits determined as a percentage of "current annual salary" instead of "average final compensation" in the case of service retirement or death benefits, although in the case of disability retirement, their benefits remain based on "average final compensation". Current annual salary is more favorable to these employees since it represents the employee's pay in his final year of employment or, in some cases, 52 times the employee's final week's pay prior to retirement.

In addition, under either compensation base for benefit purposes, there appears to be significant abuse of the intended method for calculating the appropriate compensation base. For example, some State employees receive up to 6 weeks leave or vacation at time of retirement which is then included in computing their "average final compensation". In effect, such employees receive a bonus payment which distorts their final 3 year average earnings to their advantage. Some school districts and participating districts reward their employees by including unused sick leave in the determination of the compensation base



for benefit purposes. Other groups could promote employees to higher positions a few weeks or months prior to retirement, so that they can receive benefits based on "current annual salary" determined as 52 times their final week's pay.

C. Comments

The justification for benefiting relatively few people by a more favorable compensation base is being examined in relation to the special characteristics of each type of occupation, as well as the personnel practices of other states and municipalities and by consideration of the costs involved.

Section 1092 Paragraph 1  
MEMBERSHIP OF CERTAIN  
EMPLOYMENT UNITS IN RETIREMENT SYSTEM

A. Current Law

This Section of the Retirement System Laws provides for optional membership in the Retirement System by any county, city, town or other quasi-municipal corporation of the State, including educational institutions in the State teaching courses equivalent to or higher than secondary institutions, as well as a variety of other organizations.

B. Problem Areas

The Maine State Employees Association (MSEA) is one of the units specifically permitted optional membership in the Retirement System, although to date they have declined such participation. The MSEA believes that the same eligibility rules for membership, whether they be optional or compulsory, should be applied to all similarly constituted groups.

During the 1973 Legislative Session, requests were made by additional groups for coverage under the Retirement System including :

1. L.D. 866 which provided for coverage of teacher aides, not by classification as a separate participating district but by classification as Teachers.
2. L.D. 962 which provided for coverage of employees of Council 74 of the State County and Municipal Employees Union AFL-CIO.
3. L.D. 918 which provided for coverage of the Maine County Commissioners Association.
4. L.D. 1171 which provided for the Maine School Management Association to

become a participating district.

Furthermore, Council 74 of the State, County and Municipal Employees Union raises their concern over part of their membership, who are State Employees, being covered only under the Retirement System without Social Security Coverage while the remainder of their membership who are employees of participating local districts are generally covered both under the State Retirement System and under Social Security as well. This inconsistency of coverage is a problem for Council 74 representatives.

C. Comments

An examination is being made of the rules for membership of all such classifications in the Retirement System with a view to establishing objective standards for consideration of their membership requests. The cost of the benefits secured by participation in the Retirement System is borne entirely by the employees and their employer organizations, resulting in no additional cost to the State.

The primary reason given by the teacher aides representatives for wishing classification as Teachers was to avoid Social Security taxes. Currently, teacher aides are subject to such taxes if their employing participating district has elected Social Security coverage.

States and their political subdivisions are, essentially, the only employers able to choose whether or not to include their employees under Social Security coverage. The choice involves various benefit objectives of retirement plans and the costs, which are not identical for all groups. This problem is being analyzed and our conclusions will be reported later.

At present, Maine Municipal Association and Maine State Principals Association are the only non public employer districts in the System with retirement benefits.

Section 1094 Paragraph 12  
OUT-OF-STATE SERVICE CREDIT

A. Current Law

This Section of the Retirement System Law permits employees to increase their retirement allowances by including credit for out-of-state service in either of the following ways:

1. If the employee has at least 20 years aggregate creditable service in Maine and a specified number of years immediately preceding retirement are in Maine, generally at least 10 years of out-of-state service may be included in the determination of his retirement allowance providing the employee pays over to the Retirement System the same contributions he would have made had such service been in Maine.
2. Any out-of-state service, not permitted in item 1 preceding, may be credited to the employee for purposes of increasing the employee's retirement allowance if the employee pays the entire cost therefor, i.e., both his own required contributions as well as the employer contributions paid entirely by the State.

B. Problem Areas

Questions have arisen from interested employee groups as to the equity of continuing the 20 year requirement for the employee to receive a State-financed subsidy for the cost of the additional retirement allowance resulting from out-of-state service credit. Proposals have been made to reduce this 20 year requirement to 15 or 10 years. In this connection, L.D. 1248 proposed a 10 year requirement.

### C. Comments

Evaluation of the problems in this area involves the reasons for such credits as well as the equities of various limitations.

The purchase of an additional amount of retirement allowance, where the employee pays the entire cost, is in the nature of the purchase of annuities from an insurance company. Currently, an employee is allowed, in Section 1062 par.2C, to make additional contributions to increase his benefits up to  $\frac{1}{2}$  average final compensation. The problems involved in such a provision are being analyzed and our conclusions will be reported later.

Section 1094 Paragraph 13  
MILITARY SERVICE CREDIT

A. Current Law

Military service credit is presently granted pursuant to this Section as well as Section 1091 par.6 of the Retirement System Laws as follows:

1. Section 1091 par.6 generally provides for military service credit up to a maximum of 4 years for military service during wartime or similar national emergency periods as may be approved by the Board of Trustees of the Retirement System. The advantage to an employee of receiving military service credit under this Section is that such years of military service credit count both for meeting the number of years required for eligibility for benefits as well as for increasing the amount of benefits. Moreover, any employee qualifying for military service credit under this Section will have the entire cost therefor, i.e., both his own required contributions as well as the employer contributions, paid entirely by the State.
2. Section 1094 par. 13 provides for military service credit for employees not qualifying under Section 1091 par. 6 above. Specifically, it provides that a maximum of 4 years credit may be granted for military service at any time, providing that at time of retirement, the employee shall have 15 years of credited service in the Retirement System. Unlike Section 1091 par. 6 above, the employee is required to pay the System contributions he would have made during that period, although the employer portion of the contribution is paid by the State.

B. Problem Areas

Questions have, however, arisen as to the equity of the current Law as follows:

1. Specifically, during the 1973 Legislative Session, L.D. 267 proposed that the service requirement for an employee to purchase military service credit under Section 1094 be reduced from 15 years to only 10 years of total creditable service in the Retirement System at time of retirement.
2. A member of the state police who can retire after 20 years of service currently can credit Section 1091 military service toward meeting such 20 year eligibility but cannot credit Section 1094 military service therefor.
3. Proposals have also been made by L.D. 1322 to expand military service credit to include merchant marine service under Section 1094.

C. Comments

Cost estimates are being made of the effect of the above proposals so that they can be properly evaluated from that standpoint.

With respect to the proposal for counting Section 1094 military service for eligibility purposes it is also recognized that considerations of cost and equity must also be balanced against the State Police Department's need for trained and experienced personnel and that by crediting up to 4 years of Section 1094 military service for retirement eligibility, the department would be losing such experienced personnel to retirement after only 16 years instead of the current 20 years of service. Our ultimate recommendations will reflect our evaluation of these considerations.

The same problems are involved with respect to employee purchase of additional amounts of retirement allowance as commented on under Section 1094 par. 12., as well as the reasons for such credits.

Section 1094 Paragraph 14  
PRIVATE AND PAROCHIAL SCHOOL SERVICE CREDIT

A. Current Law

This Section of the Retirement System Law permits public school teachers to increase their retirement allowances by purchasing up to 10 years creditable service performed in private or parochial schools. Such prior service credit can only be purchased after 10 years of service in the public schools. The cost of the additional retirement allowance resulting from this credit is entirely paid by the employee.

B. Problem Areas

Proposals have arisen to raise the 10 year maximum credit that can be purchased, as well as to reduce the 10 years service required in public schools before such credit can be purchased.

C. Comments

It is observed that L.D. 703 enacted by the 1973 Legislature made the purchase of private and parochial school service credit more uniform. Previously, such service had to be performed in a school approved in Maine but this legislation extended the applicability of this Section to private schools in all other states as well.

The same problems are involved with respect to employee purchase of additional amounts of retirement allowance as commented on under Section 1094 par. 12.



Section 1121  
and  
Section 1092 Paragraph 3  
SERVICE RETIREMENT

A. Current Law

Normal service retirement at full benefits generally occurs at age 60 for most members of the Retirement System including regular State employees and Teachers. Early service retirement after 25 years regardless of age is available but at a reduced benefit rate to the extent such early retirement precedes age 60. Compulsory retirement generally occurs at age 70 with continuance thereafter subject to the request of the Governor and approval of both the Council and the Board of Trustees of the Retirement System. In the case of employees of participating local districts only the municipal officers and the Board of Trustees are involved.

Certain employee groups in special classifications are permitted normal retirement at full or greater benefits prior to age 60, including :

<u>Category</u>	<u>Normal Retirement After</u>
State Police	20 years service, mandatory at age 55, with exceptions
Law enforcement officers of Dept. of Inland Fisheries & Game, or Dept. of Sea & Shore Fisheries	20 years service, mandatory at age 55 or later attainment of 20 years, with exceptions
Forest rangers	25 years service and attainment of age 50, mandatory at age 60 or later attainment of 25 years, not beyond age 63
Wardens, prison guards	20 years service and attainment of age 50, mandatory at age 60

Airplane pilots	25 years service and attainment of age 55, mandatory at age 60, unless extended.
Liquor inspectors	25 years service and attainment of age 55, mandatory at age 65, with exceptions may be to age 70.
Participating district employees	20 to 25 years service, no age requirement, or attainment of age 55, mandatory at age 70.

The regular retirement allowance formula for State employees and Teachers where retirement is at normal retirement age produces a benefit of 2% of compensation for each year of service or 40% for 20 years service increasing to 50% for 25 years service. The allowance for the special groups where retirement is at their special normal retirement age is 50% of compensation except that the allowance may be 66 2/3% of compensation for police officers and firefighters employed by a participating district.

#### B. Problem Areas

Questions have been raised as to the equity of permitting employees in special classifications to retire normally with full or greater retirement benefits at significantly earlier dates than for most regular members of the Retirement System.

Traditionally, such retirement differential has been justified because the work required by special groups was especially hazardous requiring extreme youth and athletic ability. However, it is recognized that not all members of a special group perform similar type work. For example, some policemen routinely engage in administrative and clerical work comparable to that of regular State employees of Teachers so that it is argued that they should not be entitled to special benefits. Also employees working as accountants or chaplains in prison are not directly engaged in hazardous work. On the other hand, employees regularly involved in highway maintenance for the Department of Transportation

are exposed to certain hazards in their occupation from automobiles speeding past them while they work. Similarly, employees directly involved in handling patients in State mental hospitals can argue that their occupation is as hazardous as that of the special groups cited above for whom normal retirement is permitted with full benefits significantly earlier than age 60. In this connection, L.D. 225 proposed to the 1973 State Legislature that liberalized normal retirement be extended to the highway maintenance group; L.D. 285 proposed a similar extension to the employees handling mental patients in State hospitals.

In addition, the employee groups currently benefiting from their classification also insist that the demands of their work should permit full normal retirement even earlier than provided by their current special rules. In this connection, L.D. 1628 considered by the 1973 Legislature proposed that liquor inspectors be permitted to retire with full benefits after 20 years rather than after the later of 25 years of service and attainment of age 55. Moreover, L.D. 650 proposed that liberalized normal retirement be extended to certain employees of the Department of Mental Health and Corrections after 20 years service and attainment of age 50. L.D. 1695 proposed full retirement at one-half pay for attorneys general. Its purpose was cited as the need to provide attractive benefits as an incentive to encourage careers in public service.

Council 74, State, County and Municipal Workers AFL-CIO state that they recognize that everyone cannot be granted lower normal retirement benefits at once because of the costs involved. Nevertheless they maintain this does not excuse inaction, but rather should lead to systematic lowering of normal retirement for all groups over a period of time, in a similar way to the gradual extension of the Minimum Wage Law and the Fair Labor Standards Act to one group of employees after another. Under their proposal, it is

acceptable for hazardous occupations to initially benefit from lower normal retirement but then the less hazardous and finally all employees should receive the same retirement benefits. Ultimately, this proposal visualizes normal retirement at one-half pay after 25 years service for all employees.

### C. Comments

The above conflicting proposals for equity and uniformity among various groups participating in the Retirement System are being evaluated by three primary criteria in order to determine whether and to what extent special benefit differentials between certain groups are justified.

1. Philosophical rationale based on intrinsic nature and characteristics of each group's work.
2. Practices of other state systems, especially in the New England area, and business and industry. In this connection, up-to-date information is being collected on the practices of other state systems as a guide to determining the appropriateness of the benefit levels in Maine from a comparative and competitive standpoint.
3. Cost determination, reflecting total cost for different types of employees. In this connection, salary data is being obtained for all employment classifications so that not only the cost of the special retirement benefits available to a specific group but also the salary level of that group can be compared with similar costs for other groups. By developing the total pay (salary plus pension contribution) for each employee classification, it will be possible to make more informed judgments as to whether additional costs appear to be justified or not for such different employee groups.

Any conclusions must reconcile the deferred compensation basis of retirement

benefits, job requirements and sound personnel practices.

Similar problems arise with respect to mandatory retirement conditions as to normal and early retirement conditions. The same considerations are involved in evaluating those problems as in the case of normal or early retirement. L.D. 1093 provided for the compulsory retirement of Teachers at age 65.

An evaluation of variations in conditions and benefits for normal retirement must consider variations in employee contributions. Regular contribution rates for State employees and Teachers are now 6.5% of compensation while those of special classification are as follows :

<u>Classification</u>	<u>Employee Contribution Rate</u>
Law enforcement officers, including state police, forest rangers, wardens and prison guards	7.5%
Other state groups	6.5
Political subdivisions	6.5, 5 or 8

There is a wide variety of choices available as to the conditions for normal retirement benefits for participating district employees. Maine Municipal Association representatives expressed the view that a more uniform basis for benefits is desirable.

At the present time there are 175 participating districts in the Retirement System. 149 of these districts also include their employees under Social Security coverage. An evaluation of the benefits provided such employees must include the benefits of both the Retirement System and Social Security. Several of the larger districts are included in those districts which do not provide Social Security coverage, viz:

City of Augusta

City of Bangor

City of Brewer

City of Gardiner

City of Portland

Rumford Fire and Police

Waterville Fire and Police

Westbrook Fire and Police

Section 1121 Paragraphs 1A and 1B  
VESTED RIGHTS

A. Current Law

The Retirement System Law provides that any member not in service may retire at age 60 or thereafter on a service retirement allowance provided that he has at least 10 years of creditable service, any part of which service must have been rendered when he was, or could have been under then existing law, a contributing member to the Retirement System.

B. Problem Areas

Interested groups, including the State employees and Teacher Associations, are desirous of the following potential changes in the current law regarding entitlement to vested rights under the Retirement System:

1. Reduction in the presently required 10 years of creditable service to possibly 7-1/2 years or 5 years of creditable service. In this connection L.D. 699 was proposed in the 1973 Legislative Session to permit vesting after only 7-1/2 years service for employees of the local districts participating in the Retirement System.
2. Elimination of present restriction which requires that employees earn some portion of their 10 years creditable service when they were or could have been members of the Retirement System. At present, certain employees who have had 10 years of creditable service entirely prior to the membership period of the Retirement System are thus excluded from entitlement to vested retirement allowances. In this connection, the Legislature has periodically been asked to enact Special Resolves, similar to L.D. 276, on an individual employee basis to provide benefits which it is argued should more equitably be provided to all former employees and not specific individuals,

through an amendment to the Retirement System Laws.

C. Comments

It is recognized that potential legislation is presently being actively considered by the Federal Government to mandate certain minimum vesting eligibility criteria in private pension plans and that such proposals should be considered to assess their impact on public retirement systems as well. Also, it may be that such legislation is enacted to include public employee plans. In this connection, the vesting practices of other State Systems throughout the country are also being obtained and reviewed so that a determination can be made as to whether Maine is more or less liberal than other States in this regard.

A cost analysis is being undertaken to assess the financial impact of any liberalization in the present vesting eligibility. Vesting provisions are directly related to the deferred compensation basis of retirement benefits.



Section 1121 Paragraphs 1C and 1D  
AUTOMATIC WIDOW'S BENEFITS AT RETIREE'S DEATH

A. Current Law

These Sections of the Retirement System Laws provide for special death benefits to be automatically continued to the widows of retired State Police or widows of retired law enforcement officers in the Department of Inland Fisheries and Game or the Department of Sea and Shore Fisheries. The pension continued to the widow is one-half of the employee's pension and payable for life as long as the widow does not remarry.

B. Problem Areas

Almost all State employees in the Retirement System who have retired only provide death benefit protection for their designated beneficiaries by electing a joint and survivorship option or other specific option. In each such case, these employees accept a reduced pension benefit as their cost of providing subsequent death benefit protection under the option. On the other hand, the special classifications of State Police and law enforcement officers described above who have retired have automatic survivorship protection extended to their widows at no cost to them, since the benefit is financed entirely by the State.

It is noted that L.D. 374 was proposed to the 1973 State Legislature, which would have extended the benefits of this special benefit to the widows of retired Forest Rangers as well.

It is also noted that any participating local district (See Section 1092 par. 4 of the Retirement System) may elect the so-called "straight life plan" which would automatically provide for continuation to an unremarried widow for life or to children up to age 18

of one-half the lifetime pension paid to the retired employee at the time of such retiree's death. In the case of the participating districts, the entire cost is borne by the district, however, and no portion of the cost is borne by the State.

In addition, the Maine State Employees Association and the Maine Teachers Association have also expressed great interest in obtaining such a benefit for the employee groups they represent. They point out that such benefits are not provided to widows of employees dying in line of duty in hazardous occupations but rather only to widows of employees dying after retirement has occurred. They also argue that the same need exists in all cases for protecting the widow after the retiree's death.

#### C. Comments

The justification for benefiting relatively few people by a more favorable widow's benefit is being examined in relation to the characteristics of each type of occupation, as well as the retirement planning practices of other States and municipalities and by consideration of the cost involved.

Section 1121 Paragraph 2  
MAXIMUM RETIREMENT BENEFIT

A. Current Law

This Section of the Retirement Law provides the rules for the determination of the actual amount of retirement benefit payable to an employee covered by the Retirement System. These rules generally provide that benefits will be directly related to the employee's average final compensation prior to retirement as well as to the length of the employee's credited years of service during his working career, subject to certain minimums.

B. Problem Areas

Under certain circumstances, the actual amount of retirement benefits payable to retiring employees have approached or exceeded the pay such employees were receiving at the time of their retirement. It has been recognized that retired employees no longer have certain work related expenses, such as transportation and clothing and also are generally subject to a lesser level of income tax in retirement status. From this point of view, it has been argued that a maximum benefit limitation should be introduced into the Retirement System at least with respect to employees at the higher income levels, such as \$17,000 or so, with the cost savings from such unnecessary benefits used to provide necessary benefits in more meaningful areas.

It has also been said that a maximum limitation would encourage earlier retirement of employees after they had reached such maximum with the useful effect of providing more promotional opportunities for younger personnel who would be encouraged to remain in State employment.

### C. Comments

Consideration is being given to assessing the impact of possible maximum benefit limitations on the cost of the Retirement System. Various limitations are being explored, including specific overall maximums of a fixed dollar amount or designated percentage, such as 80%, of average final compensation for all employees. Alternatively, a graded scale of maximum percentages is being explored, which would restrict benefits from a range of 95% of pay at the lower pay levels to 80% of pay at the higher pay levels.

The equity relationship of a maximum retirement benefit limitation to the deferred compensation basis of retirement benefits is also being analyzed, as well as its relationship to employee contributions.

Section 1121 Paragraph 2A(2)  
PRIOR SERVICE BENEFIT FOR TEACHERS

A. Current Law

The formula benefit of the Retirement System currently provides a uniform benefit accrual for State employees and Teachers of  $1/50$  of the employee's average final compensation for each year of service after 1942. However, prior to 1942, a distinction is maintained in that the benefit accrual for State employees is  $1/50$  per year of service and the benefit accrual for Teachers is  $1/60$  per year of service.

B. Problem Areas

It has been suggested that the  $1/50$  accrual should be made uniform for all service credit prior to 1942 for all employees, including Teachers.

C. Comments

The historical development of the State Retirement System as it applies to the State employees and to Teachers is being examined to determine to what extent, if any, there is justification for different prior service benefit accruals from the standpoint of equity. In addition, the cost of eliminating this benefit differential is also being developed.

In this connection, specific attention is being given to Senator Richardson's September 10, 1973 letter containing an enclosure from a retired teacher suggesting that some retired teachers made contributions prior to 1942 and other retired teachers did not, but both received the same past service benefits.

Section 1121 Paragraph 2A(4)  
MINIMUM RETIREMENT ALLOWANCE

A. Current Law

This Section provides that any member who has 10 or more years of creditable service at retirement shall receive a minimum retirement allowance of \$100 per month.

B. Problem Areas

The intent of the law seems to be circumvented in the case of members in seasonal and part time employment where the amount of the minimum retirement allowance may exceed the amount of actual earnings.

On the other hand, certain other groups, including Council 74 of the State, County and Municipal Employees Union, believe the \$100 per month minimum is inadequate, considering the persistent inflation in the past year, especially for employees who are not also receiving Social Security benefits.

C. Comments

The intent of the law should be more clearly defined so that pensions bear a reasonable relationship to the employee's actual pay in the years immediately preceding retirement. In this connection, consideration is being given to the advisability of directly limiting the minimum pension as a designated fixed percentage of the employee's actual compensation. Alternatively, the personnel law is being examined to determine whether it may be preferable to limit the applicability of this minimum provision by having it apply only to employees in full-time employment as defined by the State Personnel Law. By such a procedure, part-time and seasonal employment would be directly excluded.

With respect to the suggested inadequacy of the \$100 minimum for State

employees not covered by Social Security, it appears that the minimum is generally paid only to such State employees with only 10 years or slightly more State service; otherwise the employee's longer service would generate greater benefits under the regular formula benefit. Moreover, if employees had only the limited 10 years or so of State service to qualify for the minimum, there is good reason to expect that the remaining 20 to 30 years of their working careers were spent in employment covered by the Social Security Act. Therefore, it appears reasonable to expect that most such employees receiving the minimum pension will receive a reasonable Social Security benefit to supplement their minimum pension.

Section 1122 Paragraphs 1 and 2  
DISABILITY RETIREMENT

A. Current Law

The current Retirement Laws generally provide the following level of disability benefits:

1. In event of ordinary disability retirement, prior to attaining age 60

a. if employee has at least 10 but less than 25 years service, (1) an annual benefit based on his accrued service to time of disability, if such benefit is greater than 25% of employee's average final compensation; otherwise (2) an annual benefit based on his anticipated total years of creditable service, including future service to attainment of age 60, up to a maximum of 25% of employee's average final compensation.

b. if employee has 25 but less than 30 years service, the annual benefit described in a(2) above, disregarding the 25% of compensation maximum.

c. if employee has at least 30 years of service, an annual benefit determined as for regular service retirement, but without actuarial reduction for retirement prior to age 60.

2. In event of occupational disability retirement, regardless of attained age

An annual benefit equal to  $66\frac{2}{3}\%$  of the employee's average final compensation.

B. Problem Areas

Certain inconsistencies exist in the relationship of the above described disability benefits and normal service retirements as follows:



1. An employee who qualifies for ordinary disability retirement after having completed 30 years service may receive less disability benefits than if he had completed 25 to 29 years of service. Consider that an employee ordinarily disabled at age 50 after 30 years would receive benefits described at item A1c above. Specifically, it would equal  $30/50$  or 60% of compensation. If the same employee had only 29 years of service, his benefit would have been 90% of  $39/50$  or 70% of compensation, the difference resulting from including credit for the ten years of service from age 50 disability to age 60 normal service retirement date in the latter calculation.
2. In order to qualify for an ordinary disability retirement, an employee must have been disabled prior to age 60. However, an employee who continues in active employment beyond age 60, if then occupationally disabled as a result of injuries incurred during line of duty, may receive the occupational disability benefit in lieu of the normal service retirement benefit available at or after age 60. Thus such a disabled employee might qualify for disability benefits which are of greater amount than the regular normal retirement benefits, even though he has passed the regular normal retirement age for employees of the Retirement System.

#### C. Comments

The above described inconsistencies in the Retirement System should be eliminated. It appears that the anomaly described at item B1 above partly results from the fact that the early service retirement eligibility requirement of 30 years was reduced to 25 years (See Section 1121 par. 3 of the Retirement Law) by the 1973 Legislature but a corresponding adjustment was not made to simultaneously lower the ordinary disability benefits available after 30 years service (which benefits are patterned after the regular early service retire-

ment benefits) to 25 years service. Then the same type of disability benefit formulas could be made available, in the event of ordinary disability after 25 or 30 years.

Since disability, in a real sense, is premature old age, it is also logical to provide a disabled employee with the same level of benefits as he would have received, if he were retiring normally, by applying the same benefit formula as in the case of normal retirement but crediting not only accrued service credits but also crediting the anticipated years of service the employee would have had, if he had in fact remained in active employment until his normal retirement age. This is a reasonable procedure, since the employee's disabled condition is involuntary and it may be presumed that the employee would have continued in employment if his health permitted.

The viewpoint of total and permanent disability as premature old age recognizes that the same needs for an adequate level of income exist in both cases. The disabled employee's financial needs are indeed similar to those of the employee who retires normally. Since the same need for an adequate benefit exists in these cases, it may be desirable to eliminate the distinction between ordinary disability retirement and occupational disability retirement, as well as between normal service retirement and disability retirement.

Since the need for ordinary disability income exists not only after completion of the current 10 year service eligibility requirement but before as well, consideration should be given to eliminating such service requirement and providing eligibility for such benefit immediately upon employment in the same way that no service requirement is needed to qualify for occupational disability.

Section 1123  
REEMPLOYMENT AFTER RETIREMENT

A. Current Law

This Section of the Retirement System provides, in effect, that any retired employee who is rehired at a salary greater than his average final compensation at point of prior retirement will forfeit his entire retirement benefits. If such retired employee is rehired at a salary level less than his average final compensation at point of prior retirement, he will retain such portion of his currently payable retirement benefit as is needed to bring his total income, including salary and retirement benefit, up to but not exceeding his former average final compensation.

Upon subsequent retirement, the employee will receive a recomputed benefit to reflect his total coverage under the Retirement System before and after his former retirement.

B. Problem Areas

Retired employees who obtain subsequent employment outside the scope of coverage under the Retirement System are able to continue receiving their retirement benefits as well as their entire new salary, regardless of its level. Thus, it is argued that retired employees who are subsequently rehired within the scope of employment covered by the Retirement System are penalized since their benefits are temporarily reduced or eliminated. Even the subsequent increase in benefit resulting from the recomputation at subsequent retirement to take into account the employee's additional service and compensation at that time frequently does not offset the loss due to the forfeited retirement benefits during the period of reemployment. It is pointed out that the present benefit forfeiture or reduction

occurs, even if an employee such as a member of the state police, retired in one line of work, is rehired in another line of work, such as a teacher, as long as the work is covered within the scope of the Retirement System. In this connection, L.D. 775 was proposed in the 1973 Legislature to permit the reemployment of retired police, wardens or firefighters after normal retirement without loss of benefits. In addition, L.D. 1123 was proposed to permit a retired teacher to work 90 days or less without losing retirement benefits.

C. Comments

The above problems are being examined with a view to developing recommendations that would provide the maximum degree of equity in such situations. Consideration is being given to the cost factors involved as well as to comparable practices in other States. The evaluation of these problems involves reconciling the deferred compensation basis of retirement benefits and sound personnel practices.

Section 1125 Paragraphs 1-4  
ACCIDENTAL DEATH BENEFITS

A. Current Law

This Section of the Retirement System Laws provides special death benefits for the surviving widow and children under 18 of active employees in certain hazardous occupations who are killed in line of duty. These special benefits are in lieu of the lesser level of death benefits payable if the active employee had died under ordinary circumstances.

These death benefits apply only to members of police and fire departments, State Police, and law enforcement officers in the Department of Inland Fisheries and Game or in the Department of Sea and Shore Fisheries.

Generally the benefits provide continuation of one-half to full pay to surviving unremarried widows for life and to surviving children under age 18.

B. Problem Areas

It is noted that the above accidental death benefits would have been extended to game biologists in the Department of Inland Fisheries and Game by L.D. 791 which was considered by the 1973 State Legislature.

The question also arises as to covering employees in other hazardous work by these special benefits.

From another point of view, it is also argued that the same need exists for adequate death benefits of the same amount, regardless of the circumstances under which death occurred, whether in line of duty or under normal circumstances. Therefore, no special benefits should be provided to special classifications of personnel.

### C. Comments

The entire question of death benefits is being examined from a total point of view, rather than isolating specific types of benefits to be examined independently. Therefore, our actuarial investigation is analyzing the total death benefits from all sources as to justification for comparability and differences as well as determining the adequacy of the amounts provided in relation to the costs therefor.

Section 1126  
OPTIONAL METHODS OF RETIREMENT PAYMENTS

A. Current Law

Under the present Retirement System Law, any retiring employee, in lieu of the pension regularly payable for life, may elect a variety of optional methods of retirement payments in order to provide a benefit, after his death, for a designated beneficiary.

Under this optional benefit payment procedure, the employee receives a lesser pension than the regular lifetime pension otherwise payable to him in turn for the additional death benefit protection to be provided to the designated beneficiary.

Such election of an option must be made by the employee within 30 days from the date he elects to make his benefit effective. After 30 days have expired from the applicable effective date, or after the first payment has been made, whichever is earlier, there may be no change in the selection.

B. Problem Areas

The Maine Teachers Association has pointed out in a recent letter, dated September 8, 1973, that the need for an irrevocable choice of pension option within 30 days is a hardship for people in certain special circumstances who do not possess the necessary information concerning their health that would enable them to make the most advantageous choice for themselves and their family members they may wish to protect. The Maine Teachers Association, in its above letter, cites the example of a woman retired for 6 weeks who is receiving her regular pension for life. Her doctor has informed the family that she only has a very brief time to live but recommends that the woman should not be told the severe extent of her impaired health. Thus this woman by accepting the lifetime pension

rather than electing a joint and survivor or other option, if she dies at an early date, will forfeit a substantial part of the contributions she previously made to the Retirement System.

Another problem of this type arises when a retiring employee has to make decisions about the election of various options during the bereavement period following the death of a spouse.

C. Comments

The requirements and timing for election of optional methods of payment of pension benefits are being reviewed to determine the extent to which they are fulfilling the intended purposes of meeting the needs of employees in differing family circumstances.



Section 1128 Final Paragraph  
EFFECTIVE DATE OF TEACHERS RETIREMENT

A. Current Law

This Section of the Retirement System Law relates to the benefits of a Teacher, eligible to retire, at any time during the school year when a general salary adjustment becomes effective for state employees. In such instances, the Teacher is entitled to defer actual retirement to the end of the contractual school year and yet receive a cost-of-living benefit adjustment based on the general salary adjustment made during the year.

B. Problem Areas

It has been argued that this provision is inequitable to all other State employees covered under the Retirement System. All other State employees must retire no later than the effective date of the general salary adjustment to State employees in order to qualify for the cost-of-living percentage increase related thereto. The Teachers, however, have the dual advantage of continuing in service to the end of the year rather than initially retiring at an earlier date and receiving a reduced benefit. Moreover, the Teachers then receive the added advantage of the cost-of-living adjustment superimposed on the larger deferred retirement benefit.

C. Comments

Consideration is being given to developing more uniform rules for the effective date of retirement benefits as they affect State employees in all classifications.

In addition, the surplus of Teachers available to replace the retiring Teachers could have a positive effect on the employment status of all Teachers.

Part III - OUTLINE OF BENEFIT PROVISIONS

An outline of the conditions under which benefits become payable in accordance with the provisions of the Retirement System is presented in this part of the report. Benefits become available when an employee's status is changed for the following reasons:

- A. Retirement from employment under
  - 1. Normal, mandatory or early conditions,
  - 2. Ordinary disability conditions, or
  - 3. Occupational disability conditions.
- B. Death while
  - 1. In active employment, or
  - 2. After retirement;and
- C. Termination of employment before retirement when
  - 1. Retirement benefits are vested, or
  - 2. No benefits except refund of employee contributions are payable.

## A - BASES FOR BENEFITS

Employee  
Classification

## Compensation

## Years of Service Credits

1. State employees and teachers	average during 3 highest years, not necessarily consecutive	The following service credits are provided for state employees and teachers and may be chosen by any political subdivision:
2. Political subdivision employees -regular benefits	same as 1 or may be 5 year average	
3. Special early retirement benefits :		<ol style="list-style-type: none"> <li>1. Service prior to commencement of system.</li> <li>2. Service while member contributes.</li> <li>3. Out of state service - with any other state or political subdivision; members pay regular contributions or entire cost.</li> <li>4. Military service - members pay regular contributions or none.</li> <li>5. Federal employment service - members pay regular contributions.</li> <li>6. Private and parochial school credit - members pay entire cost.</li> </ol>
a) State police	annual salary at retirement	
b) Law enforcement - Inland Fisheries and Game or Sea and Shore fisheries	same as a)	
c) Forest rangers	same as a)	
d) Law enforcement - Maine State Prison	same as 1	
e) Airplane pilots	same as 1	
f) Liquor inspectors	same as a)	
g) Political subdivisions	may be same as a) or annual rate at retirement	

B -

## RETIREMENT CONDITIONS

Employee  
Classification

Normal Retirement	Mandatory Retirement	Early Retirement	Disability Retirement Regular	Retirement Occupational
-------------------	----------------------	------------------	-------------------------------	-------------------------

1. State employees and teachers	age 60	age 70, unless extended	25 yrs service before age 60	10 yrs service before age 60	anytime while in service
2. Special classifications					
a) State police	20 yrs	age 55, exceptions	same as normal	same as 1	same as 1
b) Law enforcement - Inland Fisheries and Game or Sea and Shore Fisheries	20 yrs	age 55 or later 20 yrs, exceptions	"	"	"
c) Forest rangers	25 yrs and age 50	age 60 or later 25 yrs up to age 63	"	"	"
d) Law enforcement - Maine State Prison	20 yrs and age 50	age 60, unless extended	"	"	"
e) Airplane pilots	25 yrs and age 55	age 60, unless extended	"	"	"
f) Liquor inspectors	25 yrs and age 55	age 65, exceptions to age 70	"	"	"
g) Political subdivisions - all or only policemen or firemen	20 to 25 yrs or may, for policemen or firemen, be 25 yrs and age 55	same as 1	"	"	"

C -

# RETIREMENT BENEFITS

## 1. Benefit Formulas

### Employee Classification

	Normal Retirement	Mandatory Retirement	Early Retirement	Disability Retirement Regular	Disability Retirement Occupational
a) State employees and teachers	2% of pay per yr service; e.g. - 10 yrs - 20% 20 40 25 50 35 70 50 100 - \$100 minimum, 10 yrs service	normal retirement formula	normal retirement formula, reduced by age, e.g. - 25 yrs service, e.g. age 25 50% reduced to age % 55 44 50 39 45 35	90% normal retirement formula, with adjustments; e.g. age 25 at employment, age % 35 25 40 27 55 60	66-2/3% of average final pay, reduced by workmen's compensation benefits
- teachers only		1-2/3% for yrs before 1942			
b) Political subdivision employees - regular benefits	same as a) or 1-2/3% per yr or 1-3/7% per yr	same as a)	same as a) or 30 yrs service	same as a)	same as a)
c) Special classifications					
i) State group	50% of pay	normal retirement formula	same as normal	same as a)	same as a)
ii) Political subdivisions	50% of pay may be 66-2/3% for policemen or firemen	normal retirement formula	same as normal	same as a)	same as a)

C -

**RETIREMENT BENEFITS****2. Optional Methods of Retirement Payment**

An employee may elect to receive his retirement allowance, normally payable only during his lifetime, under one of the following methods of payment:

- |                            |  |
|----------------------------|--|
| 1. Cash refund option      | a reduced allowance with refund at death if payments have not totalled employee contributions. |
| 2. 100% survivor option    | a reduced allowance which is continued to another person after the employee's death.           |
| 3. 50% survivor option     | a reduced allowance 50% of which is continued to another person after the employee's death.    |
| 4. Equivalent value option | benefits paid under some arrangement of equal value, as agreed to by the Board of Trustees.    |

**3. Cost of Living Adjustments**

Upon each general adjustment in state employees' salaries the then amount of allowance being paid to a retired member or a beneficiary is increased or decreased by the percentage of salary adjustment.

These adjustments apply to all state and teacher employees and to participating district employees if elected by a district.

D - DEATH BENEFITS
--------------------

Conditions for  
Death Benefits

Employee Contribution Refund	Group Life Insurance	Survivor Benefits
------------------------------------	----------------------	-------------------

1. Death In Active Employment

a) Before eligibility for retirement

i) <u>Ordinary death</u>	yes	1 or 2 yrs salary	\$100 to \$300 per month, lieu of contribution refund
ii) <u>Service connected death</u> - all employees	yes	same as ordinary	same as ordinary plus contribution refund
- state police, fisheries and game,	no	same as ordinary	66-2/3% to 100% salary, lieu of other benefits
- policemen and firemen	yes	same as ordinary	50% of salary plus contribution refund, lieu of other benefits

b) After eligibility for retirement same as before eligibility for retirement except survivors benefits based on option 3 or 4 of retirement payment methods

2. Death After Retirement

a) Regular retirement

- all employees	if elected under option	1 yrs salary reducing to 25% at age 70; 10 yrs service required, exceptions	if elected under option
- state police, fisheries and game, political subdivision election	no	same as above	50% of allowance to widow without option 3 reduction; political subdivision includes children

b) Ordinary disability

- all employees	yes	same as regular retirement	if elected under option
- special groups	no	same as regular retirement	same as regular retirement

c) Occupational disability

- all employees	no	same as regular retirement except benefits reduced after age 60 and no yrs of service required	if elected under option
- special groups	no	same as regular retirement	same as regular retirement

E - TERMINATION OF EMPLOYMENT BEFORE RETIREMENT
---



Members contributions with interest credits are refunded except no interest is credited for any period beyond 5 years after termination of employment.

Retirement benefits will commence at age 60 based upon credited service and compensation during employment, unless member withdraws contributions prior to the commencement of benefits.

F - EMPLOYEE CONTRIBUTIONS
----------------------------

Employee contribution rates are currently as follows:

<u>Classification</u>	<u>Employee Contribution Rate</u>
Law enforcement officers, including state police, forest rangers, wardens and prison guards	7.5%
Other state groups and teachers	6.5
Political subdivisions	6.5, 5 or 8



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October 30, 1973

Senator Harrison L. Richardson, Chairman  
Committee on Veterans & Retirement, State of Maine  
Augusta, Maine 04330

Dear Senator Richardson:

The second interim report on our study of the Maine State Retirement System is submitted herewith. This report presents the rationale of the Maine State Retirement System, an evaluation of the primary benefit problems discussed in our first interim report with respect to such rationale and certain preliminary conclusions as to the solutions of those problems.

Sincerely,



Robert J. Towne,  
Fellow Society of Actuaries

RJT: ata

SECOND INTERIM REPORT ON  
STUDY OF  
MAINE STATE RETIREMENT SYSTEM

Submitted  
October 30, 1973

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## PART I - RATIONALE OF MAINE STATE RETIREMENT SYSTEM

### A. Type of Program

The Maine State Retirement System is an employee benefit program established by the employer. Such type of program has the following advantages:

1. Savings to the employees from lower cost of the benefits provided by the program than when provided by an individual's efforts alone. The savings result from the following:
  - a) the lower expense charges of a group program,
  - b) no income tax payable by employee on employer contributions made to provide benefits of plan or deferment of tax on such contributions until benefits received, which will probably be in a period of lower tax base of employee, and
  - c) deferment of income tax on investment earnings of funds accumulated to provide benefits until benefits received, which will probably be in a period of lower tax base of employee.

Individual employees may also be able to secure benefits otherwise not obtainable by the employees themselves.

2. The employer can establish uniform employment practices as to benefits and retirement of employees.

### B. Benefits of System

The benefits of the system, known as fringe benefits vs cash compensation, are of two types:

#### 1. Retirement income benefits

These benefits are intended to provide income to an employee after termination of employment, which, in effect, arise from a compulsory savings program.

## 2. Ancillary insurance benefits

These benefits are intended to provide reimbursement coverage for catastrophic losses, primarily income loss, due to the death or disability of an employee. Insurance benefits for other losses due to the health impairment of an employee or his dependents are provided under other employee benefit programs.

The insurance benefits included in the retirement system are ancillary to the retirement benefits, which are the primary benefits of the system. The insurance benefits could be provided under a separate system, although there are relationships between such benefits and the retirement benefits that make their coordination in one system desirable.

## C. Cost of Benefits of System

The cost of the benefits is provided partly by employee contributions and partly by employer contributions. The value of the benefit provided by employer contributions is in the nature of additional compensation, other than in cash. For insurance type benefits the additional compensation is disbursed each year while for retirement benefits the disbursement of the additional compensation is deferred until retirement, accumulating with investment earnings during the deferment period.

In effect, the total compensation of an employee for his services is divided between cash and the value of fringe benefits. The relative proportions, for any particular employee benefit program, may be decided by the employer alone, the employer and employees jointly or by the employees alone. The considerations involved in deciding on the exact division include relative cash, insurance coverage, and deferred income needs. The desired proportions will vary from individual to individual but, in an employee benefit

program, the proportions are decided on for groups of employees and not for individuals. The purpose is to recognize the needs of the majority. Competitive practices, legal restrictions, income tax regulations and desirable employment practices will also affect the decisions.

#### D. Retirement Conditions and Amount of Benefits

##### 1. Objective of benefits

The primary objective of retirement benefits is to provide income that will assist in the maintenance of a person when he is no longer sufficiently productive to secure income from employment which may be due to:

- a) "old" age - general infirmities of age or the physical requirements of a specific position, not necessarily rendering a person incapable of filling other positions.
- b) disability - physical or mental deterioration prior to "old" age.

The amount of retirement benefits will generally be geared to provide the major income needs of the retired person.

##### 2. Early retirement

Retirement benefits may also be allowed where individuals desire to retire early, while they are still able to secure income from employment but wish to cease or change employment. The amount of such income, however, will normally not meet the levels of "old" age income since they will be based upon the accumulations, for a shortened period, of deferred compensation geared to the longer period of employment to "old" age. If such "early" retirement benefits are to be increased to the "old" age income levels for a particular group of employees, the amount of deferred compensation must be increased, which will increase the total compensation

of the group unless cash compensation is decreased.

Retirement conditions and benefits for a group of employees should be compatible with the personnel needs of the group. In general, normal, or "old" age, retirement conditions and benefits will be such that persons will be removed from active employment with an adequate retirement income when they can no longer adequately perform the services required. If early retirement conditions and benefits are such as to encourage terminations of employment prior thereto, the results may be undesirable even though the higher deferred compensation cost is properly accounted for.

### 3. Special conditions and benefits

For a particular group, retirement conditions may be liberalized, or retirement benefits increased, over the conditions and benefits otherwise considered to be adequate for "old" age income purposes. In such case, the additional cost to provide the benefits is additional deferred compensation which is a bonus that increases the total compensation of the employees. Presumably, the provision for such a bonus is desirable, in order to meet the personnel needs of the particular group, and the resulting total compensation is proper for the positions involved.

Special provisions for a particular group of employees should be based upon the following considerations:

- a) The need for a lower "normal" retirement age span, that reflects the physical requirements of the position,
- b) The establishment of a maximum employment age so that an employee hired at such age may secure an adequate income at or before the mandatory retirement age.



- c) The reasons for using additional retirement benefits that are of a bonus nature in lieu of cash or other forms of additional compensation, and the need for such bonus, in any event.
- d) The effect of the special provisions on the personnel standards of the particular group of employees.
- e) The effect on other groups of employees of providing the special provisions for the particular group of employees, and
- f) The total compensation that results for employees of the particular group.

E. Insurance Benefit Provisions

The level of insurance benefits may be at any level desired, although it may logically be related to the level of retirement benefits where income benefits to dependents are provided. The amount of additional compensation resulting from the cost of such benefits may be the primary consideration. There is little variation between groups of employees as to benefits provided except for certain accidental death benefits related to the extra risks arising from employment. Where such benefits are provided they may be in the nature of bonus compensation.

## PART II - EVALUATION OF SPECIFIC PROVISIONS OF MAINE STATE RETIREMENT SYSTEM

This Part presents the rationale and general conclusions for the primary benefit problems discussed in our Interim Report on the Study of the Maine State Retirement System, submitted October 8, 1973

It should be noted that any conclusions drawn in this Report are purely tentative, indicating possible recommendations. The cost effect of the possible changes in the Retirement System discussed herein has not yet been completed, but will be presented in a subsequent report at which time specific recommendations will be made.

## A. Bases for Benefits

### 1. Compensation

#### a. Average Final Compensation (Section 1001 par. 3)

The rationale for the use of average final compensation as the basis for determining benefits under the Retirement System is to reasonably relate such benefits to the standard of living the State employee has achieved at the time of his retirement. In this connection, it should be noted that the use of only the employee's final year of compensation is neither necessary nor fair in meeting this retirement planning objective, since the amount of the employee's deferred compensation benefits can be unusually influenced by payroll practices occurring during such final year of employment, resulting in substantial pension increases which are not in line with the employee's normally attained compensation level at the completion of his employment career. If equal treatment is to be given to all employees, the compensation used as the basis for determining the pension benefits of all employees should be determined in a uniform and consistent manner by applying a simple definite standard. This objective could more readily be accomplished by basing benefits for all State employees on their earnable compensation during the three (3) years of service during which their compensation is the highest as is currently the practice for most State employees. Such earnable compensation should properly exclude payment for unused sick leave and also exclude payment for unused accumulated leave or vacation in the determination of the compensation base at time of retirement.

In this connection, it should be observed that the Taft-Hartley Law which sets Federal requirements for collective bargaining provides that negotiated pay settlements between employers and employees distinguish between employer contributions allocated among (a) sick pay programs, (b) vacation pay programs and (c) retirement income programs. Each such program is intended to be separately funded on its own merits to fulfill its own specific purpose, without overlap among the various programs. Thus the Taft-Hartley law has traditionally recognized the distinction between retirement income and sick leave or vacation pay, whereby the latter forms of remuneration are not normally included in determining the pension payable from the retirement plan. It is common for an employee to receive payment for unused sick time or vacation time from programs earmarked for such designated purposes so that the employee is properly remunerated for such benefits to which he is entitled. However, it should be recognized that such remuneration is not direct cash compensation for his actual job performance, and as such should not be taken into account in determining his eventual retirement income, which should be related to the actual cash compensation associated with a specific employment position and with his standard of living resulting therefrom. It might be noted that New York State in its special 1973 legislative session similarly restricted the inclusion of termination pay, lump sum sick leave benefits and vacation credits in the determination of average final compensation for benefit purposes.

Within the past few months, New York State has similarly discontinued the procedure of using actual compensation during the one year prior to the employee's retirement and now requires pension benefits to be based on the employee's

pay during his final 3 years of employment. In making a transition from the use of the current year's pay at time of retirement to a 3 year average compensation for special classifications of personnel currently receiving the more favorable treatment, it is necessary from the standpoint of equity to provide that all present employees will receive no less in benefits than they have accrued under the operation of the present Retirement System to date.

## 2. Years of Service Credits

Credit for years of service may generally be considered to fall into two categories, viz service in employment covered by the Maine State Retirement System and service with other employers. The latter category includes out-of-state service, military service and private and parochial school service for which credit is currently granted under the Maine State Retirement System.

### a. Out-of-State Service Credit (Section 1094, par. 12)

It should be noted that permitting employees to increase their retirement allowances by including credit for out-of-state service involves the same considerations as in purchasing private and parochial school service credit (See Section 1094, par. 14 of the Retirement System) and, to a lesser extent, in purchasing military service credit (See Section 1091, par. 6 and Section 1094, par. 13 of the Retirement System).

From the deferred compensation point of view, only actual service rendered during compensated employment covered by the Maine State Retirement System should receive service credit for benefit computation purposes. It is not justifiable from a retirement planning standpoint to differentiate the granting of additional service credit to members of the Retirement System, depending on the type and extent of their prior employment before joining the Retirement System. There is no intrinsic reason from equitable retirement planning considerations to logically distinguish prior public service rendered in other States or service previously rendered in private or parochial schools from any prior employment in private industry or business. Therefore, the permission to purchase such additional

service credit in certain specified instances must be justified as a "bonus" or "incentive payment" rather than as a pension benefit. Initially, for example, credit for such out-of-state service was made available to encourage teachers to move from other States to Maine, especially when there was a significant shortage of teachers. It would have been just as logical to pay such teachers a specific cash bonus, moving expense, or some other specified bonus payment in lieu of such extra pension credits in addition to their regular compensation to attract such personnel into the State. Thus the State's decision as to continuation of this arrangement should be based on the State's employment practices and should be justified entirely from the point of view of sound personnel practice and not by basic retirement planning considerations.

The following points should be carefully noted from a cost standpoint:

- (1) The present requirement of 20 years service in Maine, or alternate liberalized requirements of perhaps only 15 years or 10 years for an employee to qualify for receiving a State-financed subsidy for the cost of the additional retirement allowance resulting from out-of-state service credit has no specific justification from a retirement planning standpoint. It only measures the amount of the bonus payment available to certain employees and can only be justified on that basis.
- (2) The purchase of additional years of out-of-state service credit should never be counted toward meeting the eligibility requirement for any benefits provided by the Retirement System such as vested termination benefits or minimum retirement benefits. Such service credits should only be used to increase

the actual amount of pension benefit but should be excluded from consideration in qualifying for such benefits. Consider, for example, the extra cost consequences to the State where an employee with 9 years service purchases 1 additional year service. Even though such employee pays the entire cost for such 1 year benefit credit, it should be recognized that such 1 year extra credit could presently enable the employee to qualify for the \$100 per month minimum pension, which such employee would have forfeited in the absence of receiving the 1 year credit needed to qualify for the entire pension. This compound cost effect to the State, viz of enabling the employee to receive credit for a major portion of his pension for which he otherwise would not have qualified in the absence of purchasing additional service credit required for such eligibility, becomes an additional liability to the State for which it is not properly paid by the employee who, at most, purchased only the additional years needed for pension eligibility.

The inequity of the current provisions for purchasing out-of-state or other special prior service credit such as in private and parochial schools or government service could be eliminated by granting all employees the same opportunity for increasing their pension through additional personal voluntary contributions as are universally permitted in plans of business and industry. The Internal Revenue Service enables all pension plans operated by private companies to permit employees to contribute any amount up to 10% of their actual earnings during each year of participation to the pension fund. Such voluntary employee contributions are completely in addition to the regular



benefit provisions of the pension plan and have no effect on the employee's qualification for the regular benefit provided by the program. This voluntary employee contribution, credited with interest, is merely accumulated to the employee's date of retirement, termination or death when it is used to provide additional benefits to the employee equal to the value of such accumulated contributions. If, however, an employee is presently entitled to contribute greater than 10% of his earnings per year on a voluntary basis, such higher level of payment would continue to be permitted.

Such purchase of an additional amount of retirement allowance, where the employee pays the entire cost, is in the nature of the purchase of annuities from an insurance company. Currently an employee is allowed, in Section 1062, par. 2c, to make additional contributions to increase his benefits up to  $1/2$  average final compensation. In this connection, it may be noted that a bill was recently enacted in the 1973 Legislative Session enabling the State or other political subdivisions to enter into a deferred compensation plan with any employee. Under this type plan, an employee could defer part of his direct cash compensation and the State would arrange to fund such deferred benefits by purchasing a life insurance or annuity contract from an insurance company, or shares of a registered investment company. It appears that this new Act is deficient in that it states that the portion of the employee's cash compensation which was reduced to be converted to deferred compensation shall not be considered in calculating any employee benefits. Thus, any employee entering into such a deferred compensation arrangement would seem to be automatically reducing his benefit from the Retirement System which would

be based on such reduced pay. Consideration should be given to eliminating such a benefit reduction, so that the employee would have his retirement benefits based on his total pay (cash plus deferred compensation) in the same manner that Section 1001, par. 9 of the Retirement System Law already provides that salary reductions of teachers used to purchase annuity contracts shall be included as compensation for purposes of the Retirement System Law. Moreover, the provision of the new deferred compensation law seems unnecessarily restrictive in that it limits the funding of deferred compensation to insurance or annuity contracts and registered investment company shares. It might be possible to provide that such monies be accumulated in the Retirement System as an alternate medium.

b. Military Service Credit (Section 1091, par. 6 and Section 1094, par. 13)

A distinction should be made between Section 1091 military service credit and Section 1094 military service credit.

Section 1091 provides military credit in time of war or national emergency when an employee is forced to serve in the armed forces. Therefore, this credit is not granted to the employee as a bonus but rather is intended to preserve the pension rights the employee would have had if he had remained in active State employment. Such credit is entirely consistent with the pension planning practices of most State retirement systems. Although the common practice of business and industry is to preserve accrued pension credits without forfeiture for an employee who serves in the armed forces in wartime or national emergency, and subsequently returns to employment upon discharge from the military, it is not as customary to grant specific additional pension

credit to the employee for the years served in the military. From a theoretical basis however, it is more justifiable to continue such credit, since it is reasonable to assume he would have continued in employment if he was not required to serve in the military.

On the other hand, Section 1094 provides military service credit which should properly be considered as bonus compensation. It was originally introduced into the Retirement System with the intent that it be a form of Veteran's bonus provided by the State. Therefore, the same considerations apply to this type of military service credit, which was generally voluntary on the part of the employee, as apply in the case of granting out-of-state service credits as previously discussed. Such Section 1094 military service, however, should never be used to enable the employee to qualify for retirement benefits where service credits are the determining factor in determining eligibility for benefits. Thus it would not be logical, from a retirement planning viewpoint, to enable State Police to serve only 16 actual years and then credit 4 years of such bonus credits to qualify for 20 year retirement.

It would appear that merchant marine service might be of two types. To the extent that it represents military service in time of war, credits should be the same as for actual military service. If, however, merchant marine service cannot be so classified, then it can only be justified as an extra bonus to such personnel and it is not properly required by any retirement planning criteria.

c. Private and Parochial School Credit (Section 1094, par. 14)

Exactly the same rationale applies in granting such credit as was fully discussed under Out-of-State Service Credit (item 2a preceding).

## B. Retirement Conditions and Benefits

### 1. Service Retirement (Section 1121 and Section 1092, par. 3)

The establishment of specific retirement conditions and benefits in the Retirement System should be based on employees' desires as to distribution between cash and deferred compensation as well as on sound employment practices. To the extent that employees prefer more direct cash or bonus compensation, less of their total compensation appropriate to their specific employment positions can be paid to them on a deferred basis through the Retirement System. On the other hand, if less of the total compensation appropriate to their jobs is paid to them in cash, more can be provided in the form of increased benefits from the Retirement System.

It should be recognized that no specific chronological age is a universal standard normal retirement age before which all employees continue to maintain their peak working efficiency and after which they can no longer satisfactorily perform their duties. "True" normal retirement varies over a duration of ages depending on the physical requirements of the specific type of work and on the individual employee. Certain categories of employees, whose work involves greater physical demands than other occupations, may pass the stage of reasonable efficiency for their work at an earlier age than for other types of employees. The normal retirement span for such employee classification should be set at a somewhat earlier age span than for other occupations. It is properly the function of the State personnel department, as part of sound personnel practice, to establish the age span during which most people in a designated category of employees should retire because of inability to do their jobs.

In this connection, it is generally felt that clerical type positions, including general State employees and teachers, normally lose their efficiency over a span of years

between attainment of age 60 to age 70. The majority of State Retirement Systems as well as the practice of business and industry testify to the appropriateness of such normal retirement ages. By contrast with such provision, certain special categories of Maine employees are permitted to retire primarily after completion of a certain number of years service, such as 20 or 25 years, rather than after attainment of a specific age. Such service requirements alone do not conform to the fundamental purpose of a retirement plan which is to provide benefits upon superannuation of employees. The need to retire is obviously related to age and not years of service. Permitting retirement after completion of a designated number of years rather than attainment of an appropriate retirement age can only be considered as a bonus or reward for services rendered. The proper retirement planning procedure is for the State personnel department to establish appropriate normal retirement ages for particular classes of personnel. For example, members of the State Police cannot be hired over age 27 because of the physical job requirements. By having their entry ages into police service so controlled or restricted, their retirement ages, which presently occur after completion of 20 years service, are already being indirectly controlled. Based on these considerations and in the absence of a specific determination by the State personnel department, it appears reasonable to consider the age span from 45 to 55 as permissible normal retirement ages for State Police. To the extent that these conclusions are borne out by the State personnel department, the present full 50% of pay pension benefit currently available to Police after 20 years is really a bonus payment and not retirement income. From an actuarial point of view, a member of the State Police typically hired at age 25 and normally retiring at age 50 (the mid-point of the age 45 - 55 span) might be deemed to have earned his 50% pension then payable

over such 25 year working career at the same 2% ( $50\% \div 25$  years) per year rate of benefit credit as in effect for regular State employees. However, since such Police now actually earn their 50% of pay pension over only 20 years of service, they are really presently accruing benefits at the rate of  $2\frac{1}{2}\%$  per year instead of 2%. The only justification for this  $\frac{1}{2}\%$  ( $2\frac{1}{2}\% - 2\%$ ) extra benefit accrual over the first 20 years is a bonus or additional compensation (albeit deferred compensation) for the job and its continuance should be judged on that basis. As a partial offset to such bonus pay, the Police are required to contribute at a special rate of pay each year rather than the standard contribution rate required of regular State employees. Furthermore, under the present Retirement System Law, retiring members of the State Police receive no additional benefits after completion of 20 years of service, although they are still required to contribute during that time. It may be desirable for State Police to also receive benefit credit for years after the first 20 years since they are then continuing to make contributions. Based on the foregoing considerations of benefit accrual, it might be preferable for members of the State Police to continue to accrue retirement benefits after 20 years of service in the same manner as regular State employees (i.e., at the benefit rate of 2% per year) with a corresponding standard employee contribution rate instead of the special rate they now pay. The more rapid benefit accrual of  $2\frac{1}{2}\%$  per year with the present special employee contribution rate would be provided until he accrues his 50% of pay benefit recognizing that such more rapid accrual rate represents a bonus or reward for services rendered. On such a basis, a member of the State Police typically hired at age 25 and continuing in police service to age 55 would receive an annual pension equal to 70% of pay (50% for first 20 years plus 2% for next 10 years).

It is interesting to note that this 70% pension for the State Police compares with the same 70% ( $2\% \times 35$  years) pension now available to typical general employees of the State who are hired at age 25 and work until their present age 60 normal retirement age.

Such an improved pension benefit for Police would not only restore the equities of benefit accrual during periods of required employee contributions but would encourage experienced personnel to remain in service. Chart A of Part III illustrates that the deferred compensation value to provide a 50% of pay pension for State Police funded over the years from age 25 employment to age 45 retirement would be 34.7% of each year's pay. By contrast, the same 50% of pay pension funded over the years from age 25 employment to age 55 retirement would only be 15.8% of each year's pay. So, even by increasing the 50% benefit to 70%, as herein discussed, the deferred compensation value would only be 22% of each year's pay compared with the current 34.7% required to finance the retirement of the current employee and to be continued in future years to finance the retirement of the replacing employee. There are two reasons for this substantial differential. First of all, the employee who retires at age 55 will receive benefits for a 10 year shorter period of time than the employee who retires at age 45. Secondly, the funding for the pension benefits occurs over a 10 year longer period of time in the case of the employee who retires at age 55 than if such employee retires earlier at age 45. Exactly the same recommendations, as discussed above for the State Police, would apply to other employees currently entitled to retire after 20 years service, such as the law enforcement officers of the Department of Inland Fisheries and Game or the Department of Sea and Shore Fisheries.

In a similar manner, wardens and prison guards might be considered to have a normal retirement age span from age 50 to age 60. To the extent that benefits accrue to 50% over 20 years at the rate of  $2\frac{1}{2}\%$  per year, such extra  $\frac{1}{2}\%$  per year benefit accrual over the regular 2% should be justified as to its bonus compensation. Also, either the mandatory retirement should be age 55, as for State Police, or the accrual rate changed to 2% for all years.

With respect to forest rangers, liquor inspectors and airplane pilots now generally eligible for retirement after completion of 25 years service, such employees can be deemed to presently accrue their 50% of pay pension over their 25 year careers at the rate of 2% per year. It would seem, therefore, that such employees should all contribute at the standard rate instead of a special rate, assuming their presently established normal retirement age span of ages 50 to 60 for forest rangers, ages 55 to 65 for liquor inspectors and ages 55 to 60 for airplane pilots properly reflects the needs of their particular job situation. Such classes of employees should also continue to accrue benefits at the rate of 2% per year after completion of 25 years service. This is the same 2% accrual as for general State employees and involves no bonus unless their present normal retirement age ranges do not conform to their job requirements. Also, the employment practices for occupations requiring relatively younger normal retirement ages should be such that employees are not hired into such occupations at older ages, since such older employees would be severely limited in their ability to accrue adequate retirement benefits over such relatively short working careers. Special occupations requiring low retirement ages require low employment ages.



Implementation of the foregoing benefit changes would result in a very equitable benefit accrual from a retirement planning standpoint of 2% per year for all categories of personnel with a concomitant standard rate of required annual contribution, except where a special contribution requirement offsets the more rapid  $2\frac{1}{2}\%$  bonus accrual per year during the first 20 years. Under such an arrangement, almost all employee categories essentially accrue benefits on the same 2% basis providing 50% of pay benefits after 25 years.

For convenience in assessing the effect of these benefit alternatives, we have presented in Chart C of Part III an example of the benefits provided by the present Retirement System and compared them in Chart D of Part III with benefits provided under the alternate retirement structure. In addition, Chart A and Chart B of Part III have been developed on reasonably realistic assumptions to facilitate your understanding of the relative deferred compensation value, as a percent of pay, of currently providing the present Retirement System benefits to employees in various categories, based on alternative combinations of employment and retirement ages. It should be noted that these charts are useful as comparative indices and frames of reference as to the relative value of deferred compensation that is used to provide benefits upon retirement after a specified period of years and for measuring the values of the recommended benefit proposals. However, they should be carefully distinguished from the actual funding procedures of the Retirement System reported in the annual valuation. These charts show the percent of each employee's pay that would have to be set aside each year, in lieu of having such amount paid directly to him as part of current cash compensation, to be invested at the  $6\frac{1}{2}\%$  per year investment growth assumed for the Retirement System trust funds, to provide the System's benefits. By so setting aside such funds, these monies actually become

deferred compensation eventually paid in pension benefits to the employee rather than current cash compensation but the benefits so provided are equivalent, on the actuarial assumptions made, to the cash compensation that the employee could have directly received in wages.

## 2. Prior Service Benefits for Teachers (Section 1121, par. 2A(2))

There is no rationale for distinguishing the benefit accrual prior to 1942 between teachers and State employees. However, it should be noted that in total the prior service benefits currently provided to the one group may not differ as much as expected from the other group. In this connection, consider that the State employees currently accrue prior service credit prior to 1942 at the rate of  $1/50$  per year of service, but up to a maximum of 25 years credit. The teachers, on the other hand, accrue prior service credit prior to 1942 at the lesser rate of  $1/60$  per year of service without any maximum on the years of service credit. Therefore, a teacher with 30 years of prior service credit receives  $30/60$  or a 50% benefit just as a State employee with 30 years service receives  $25/50$  or a 50% benefit too. Thus individual teachers with more than 30 years prior service will receive greater prior service benefits than State employees with comparable periods of prior service. However, teachers with less than 30 years prior service will receive less prior service benefits than State employees with the same periods of prior service.

In addition to the foregoing considerations, certain problems as to the funding and cost of these benefits are being examined and will be explained in more detail in our next report.

### 3. Minimum Retirement Allowance (Section 1121, par. 2A(4))

The rationale of a minimum retirement allowance is that it should only be required where the benefit levels produced by the regular benefit formula are not reasonable. No minimum benefits need be established, where a properly designed retirement formula already exists to provide adequate old-age income, as is the case with the Maine Retirement System, under which an employee accrues a 20% pension in 10 years at the rate of 2% per year.

If, however, it is desired to justify minimum benefits from the point of view of additional compensation, rather than a retirement planning viewpoint, the intent of the law should be more clearly defined so that such minimum pensions bear a reasonable relationship to the employee's actual pay in the years immediately preceding retirement. At the present time, seasonal employees who work only 3 or 4 months per year, if such 3 or 4 months constitute a full season, receive one year's credit for each such season and thus qualify for the minimum benefit in 10 years. While any minimum should be applicable to all employees, it would appear preferable that a total period of 10 full paid years of employment (120 paid months) should be required to meet the 10 years of service eligibility criteria for the minimum pension. In this connection, members already employed would have their accrued years of service for meeting the minimum preserved on the standards of service credit presently in use but each future year's service credits would be based on 12 paid months of employment.

In addition, the minimum benefit should be no greater than 100% of the employee's final average compensation on which his regular formula retirement allowance is computed.

4. Maximum Retirement Benefit (Section 1121, par. 2)

There is no rationale from a retirement planning standpoint to limit the period over which a member accrues benefits.

To the extent that it is argued that such a maximum is desirable, it is important to understand that recognition of pension benefits as deferred compensation requires that:

- a. Employee contributions should be discontinued after the maximum pension is reached.
- b. An employee should receive a salary increase based on the employer contribution which is no longer required to be made to the pension plan on his behalf.

## 5. Disability Retirement (Section 1122, par. 1 and 2)

Since disability is, in a real sense, premature old age, the same needs for an adequate level of income exist in both cases. It is also desirable to eliminate the distinction between ordinary disability and occupational disability retirement, since the disabled employee's needs do not vary based on his particular type of disability condition, be it accident or sickness. Consistent with the practices of business and industry, benefits paid to a disabled employee prior to age 65 are primarily intended as salary replacement, while benefits paid after attainment of age 65 are primarily intended as retirement income. This concept is accepted by the Federal Social Security System which pays disability benefits to a disabled employee prior to attainment of age 65 and then pays retirement benefits thereafter, regardless of continued disability.

Based on the above rationale in which pre-retirement benefits are primarily intended as salary continuance, such benefits are more reasonably related to the pay the employee was receiving prior to disablement rather than on the particular number of years of service that the employee had completed. Therefore, in the event of an employee's disability at any time after membership in the System, it would be appropriate to provide an annual benefit equal to  $\frac{2}{3}$  of the employee's salary. Such employee would also be treated similarly to an active employee for continued accrual of retirement credits, since it was presumed that his disabled condition was involuntary and it is reasonable to consider that the employee would have continued in employment if his health permitted.

The  $\frac{2}{3}$  of pay disability income salary replacement would be continued until the employee eventually qualified for service retirement benefits at early or normal retirement in the same amount of  $\frac{2}{3}$  pay, at which date the employee would be con-

sidered to retire and his service retirement benefit computed and paid. In any event, such service retirement recomputation would occur no later than attainment of age 65.

The above described benefits would be paid without offset for disability Social Security benefits, except where the members were employed by participating districts which paid for coverage in the Social Security System. In such cases, Social Security disability benefits are payable prior to age 65 and would be used to reduce the gross benefit payable. Subsequent to age 65, however, no offset would be made since Social Security payments then payable, as noted earlier, are not for disability but for regular old-age retirement.

The adequacy of a disability benefit equal to  $\frac{2}{3}$  of the employee's salary is related to the fact that the disabled employee no longer incurs any work related expenses, such as for transportation and special clothing needs. He also receives certain income tax savings, since the first \$5,200 of such disability income financed by the State are received tax-free by the employee.

6. Effective Date of Teachers Retirement (Section 1128, final par.)

From a retirement planning standpoint, there is no reason for preserving the distinction in retirement dates applicable to teachers and all other State employees. Considerations of equity indicate that all employees should be treated in a uniform manner.

It is also noted that the surplus of teachers available to replace the teachers, who might retire during the school year rather than deferring retirement until the end of such year, could improve the overall employment status of all teachers.



## 7. Reemployment After Retirement (Section 1123)

The question of reemployment of employees retired under the Retirement System is properly one of employment needs and practices and not a problem of retirement planning. In this connection, it is noted that the present personnel law generally does not permit the reemployment of a retired member for more than 90 days in any one year, although such personnel law does not apply to teachers or unclassified State employees.

Assuming that it is deemed desirable to rehire retired members, there are basically two approaches with regard to benefits which might be taken from a retirement planning standpoint as follows:

- a. The present retirement benefit could continue to be paid and the employee treated exactly the same way as any new employee with respect to future accrual of retirement benefits.
- b. The present retirement benefit could be discontinued and upon subsequent re-employment, the employee would receive a recomputed benefit to reflect his total coverage under the Retirement System before and after his former retirement.

It would appear, from a retirement planning standpoint, that the approach, described in item b above, which is currently used in the Retirement System, is satisfactory and no change appears to be necessary.

## 8. Optional Methods of Retirement Payments (Section 1126)

Death benefit protection after retirement may be provided in either of two ways, viz at employee expense or at State expense. All retiring employees presently have the right to select from a full range of possible optional methods of retirement payments in order to provide some degree of income protection to a designated beneficiary after their death. Employees are currently also permitted to take up to 12 months before deciding upon which option to make effective. Such options are obviously paid for by the employees in the form of reduced benefits.

It is noted, however, that special widow's benefits are automatically payable to the widows of deceased retirees who had been employed in certain special occupations entirely at State expense (See item C1 of this Part). Extension of such automatic coverage to general State employees and teachers would, of course, obviate the need for employees selecting the most appropriate payment option in light of their particular family circumstances. However, such extension must be viewed in relation to the additional cost to the State of the benefits involved.

An alternative benefit which might steer a middle course between insuring that employees properly protect their beneficiaries and recognition of the costs involved might be to arrange that in the event of any member's death within the first 12 months subsequent to retirement, a lump-sum refund will be made to the beneficiary of the unconsumed employee contribution account. This means, in effect, that a death benefit would be paid in the event of death during the first year of retirement equal to the difference between the member's accumulated contributions and the total retirement benefits paid to the deceased employee.

### C. Death Benefits

Certain special death benefits are presently provided by the Retirement System, including automatic widow's benefits at a retiree's death and accidental death benefits to surviving widow and children of active employees in certain hazardous occupations who are killed in line of duty. Such special benefits, however, are not justified by retirement planning considerations but rather as an additional fringe benefit type of extra compensation. These special death benefits are as follows:

#### 1. Automatic Widow's Benefit at Retiree's Death (Section 1121, par. 1C and 1D)

This automatic widow's benefit at the death of the retiree involves a three-fold inequity from a retirement planning standpoint as follows:

- a. Inequities exist between the employee groups eligible for this special benefit and those groups that are not so eligible.
- b. Inequities exist between single and married employees in that such benefits are provided to widows of deceased married employees but no benefits of comparable value are provided for single employees.
- c. Inequities exist between male and female employees in that benefits are payable only to widows of deceased male employees. While it is recognized that the group presently eligible for such benefits are almost entirely composed of male employees, it might be noted that the Equal Employment Opportunity Commission administering the Civil Rights Act has declared that if an employer provides unequal benefits for men and women employees, he is violating the Civil Rights Act. In order to comply with the Act, such death benefit must be provided to the spouse of a deceased female employee as well.

The rationale for this automatic widow's pension is entirely one of extra fringe benefits. Its justification must be based on considering that these extra benefits are an appropriate reward for employees who had engaged in hazardous occupations in the same manner that full retirement after 20 or 25 years must be justified by bonus rather than retirement planning considerations.

It is important to recognize that employees without this automatic death benefit protection are nevertheless now able to provide similar death benefit protection for their spouse or other designated person by electing one of the full range of joint and survivor or other special optional methods of retirement payment already available from the Plan by reducing their retirement benefits, otherwise payable to them on the normal lifetime basis (See item B8 in Part II of this Report). Thus alternatives exist for all employees in the System to provide death benefit protection for their desired beneficiaries. Therefore, the extension of this special death benefit coverage to other groups of employees should especially be based on consideration of the extra costs involved.

It should be noted that this automatic widow's benefit is not included in many plans and that this feature results in the Maine Retirement System providing more attractive levels of benefits compared with many other such systems.

## 2. Accidental Death Benefits (Section 1125, par. 1-4)

These benefits are paid to the surviving widow and children under age 18 of active employees in certain hazardous occupations who are killed in line of duty, compared to the preceding automatic widow's benefit which is paid only to the widow and not to surviving children of deceased retired employees. This benefit must similarly be evaluated as an additional fringe benefit. From a financial standpoint, however, this benefit involves substantially less cost than the automatic widow's benefit payable at the retiree's death.

**D. Benefits at Termination of Employment (Vested Rights - Section 1121, par. 1A and 1B)**

Vested rights are not primarily a question of equity between employees but rather, since costs are involved, a question of the split between cash or deferred compensation payable to the employees. Since vested benefits are really deferred compensation, in lieu of current cash compensation, all benefits should be immediately vested as they are accrued upon membership in the Retirement System if such compensation is to be retained.

Vesting generally provides that an employee who has met the specified eligibility conditions is entitled to deferred commencement at normal retirement date of the accrued pension credits he had earned up to date of termination from the Plan.

It gives employees assurance that their status in the employer's plan is not merely a contingent one which does not materialize at all unless they remain in service until retirement age.

Vesting is based on the premise that the employee who does not work until retirement age is nevertheless entitled to some portion of the employer contributions made on his behalf during his actual working years, usually in the form of accrued benefit credits earned under the plan during his years of participation. The liberalizations in recent years in the private pension plans of business and industry as well as in State and municipal plans resulted in large part from the increasing acceptance of the philosophy that pensions are not gratuities but a form of deferred compensation, which the individual employee earns through service with the employer. Originally vesting was not included in plans because of the costs involved and because a pension plan was intended to be a means of curtailing turnover. More recently, as discussed above, vested benefits have become regarded more as deferred compensation which would have been payable directly to the employee in cash if there were no plan. As a result, during the past few years, there have been increasing pressures for

legislation to protect the pension security of employees covered under private pension programs. The importance of the subject of vesting was initially underscored by the President's Special Committee which specifically recommended that the Internal Revenue Code be amended to require, as a condition for a private plan continuing to qualify for tax-exempt treatment, that the following minimum vesting provisions should be included:

1. After 15 years of service, an employee should be entitled to a deferred retirement allowance equal to at least 50% of the amount of normal retirement benefit that he had accrued to the date of his severance from employment, and
2. After 20 years service, an employee should be entitled to a deferred retirement allowance equal to the full amount of normal retirement benefit that he had accrued to his severance from employment.

More recently, the Senate Labor Subcommittee on Pension under the direction of Senator Harrison Williams (N.J.) and Senator Javits (N.Y.) has stated that they believe that vesting eligibility requirements are too restrictive in most plans and, as a result, most employees who terminate employment prior to retirement receive little or no pension benefits. Therefore, they are pressing strongly for federal legislation in this area.

A recent proposal of theirs would require that an employee be 30% vested in his accrued pension after 8 years of service. Thereafter he would vest an additional 10% per year so that every employee would be fully vested after 15 years of service. It should be noted in the application of the formula, that "service" refers to all service with the employer, not merely the period during which the employee was a plan participant. An exception, however, is provided in that an employee's service prior to his attaining age 25 may be excluded to the extent he was not a plan participant during that time.

Most significant of the legislative proposals currently under consideration by the Congress is the Comprehensive Private Pension Security Act of 1973. Under this Act, pension plans must provide a participant with vested rights to accrued benefits in accordance with the following schedule:

<u>If years of service are:</u>	<u>Percent vested in accrued pension</u>
Less than 5 years	0%
5 years but less than 6 years	25
6 years but less than 7 years	30
7 years but less than 8 years	35
8 years but less than 9 years	40
9 years but less than 10 years	45
10 years but less than 11 years	50
11 years but less than 12 years	60
12 years but less than 13 years	70
13 years but less than 14 years	80
14 years but less than 15 years	90
15 or more years	100

It should be noted that the present 10 year vesting criteria in the Retirement System compares very favorably with what has been proposed in the Congress.

To the extent that vesting is really deferred compensation which the employee could otherwise have received in current cash salary, immediate vesting of all future benefit credits should be provided in the Retirement System, immediately from date of membership. This means, in effect, that an employee who participates in the plan in future years for perhaps 8, 4 or even 1 year will be fully vested in the benefits he earns based on such 8, 4 or 1 year actual participation.

As a transitional procedure, all benefits accrued under the Plan for service prior to the present year could continue to be vested under the same rules as presently in effect, i.e., based on completion of 10 years service. Under this procedure, an employee who now has 4 years service and works 3 more years in the future before terminating employment will



be fully vested in the benefit earned during his 3 future years of service but will not be vested at all in the benefit he accrued based on his 4 prior years of service. In order to vest in his 4 prior years of service, it would be necessary for him to work 6 years in the future so that his 10 total years of employment would qualify him for vesting.

It should be recognized that the Retirement System Law does not permit any vesting of accrued pension credits unless the employee leaves his own required contributions in the trust fund and does not receive a refund of such personal contributions. This requirement serves as a control on the cost involved, since employees with relatively short periods of service tend to withdraw their accumulated contributions, thus forfeiting their vested benefit credits.

It should also be understood that while the above discussion was based on the underlying rationale that pension accruals are deferred compensation the practicality of implementation of more liberalized vesting must consider the costs involved. From the point of view of employees, especially those with longer periods of service, it may even be that they would prefer to have such costs spent on other additional benefits rather than on additional termination benefits for relatively short service employees.

E. Membership of Certain Employment Units in Retirement System (Section 1092, par. 1)

From a standpoint of consistency of membership in the Retirement System, it is logical to limit membership only to such organizations as can be considered to be affiliated groups. Such affiliated groups would be those covering public employees and teachers as well as the employees of public employee and teacher organizations.

On this basis, other than affiliated groups would not be eligible for Retirement System membership in the future except that all groups now participating would be permitted to continue Retirement System membership. The membership of affiliated employment units in the Retirement System would continue to be optional. It should be recognized there is no additional cost to the State by permitting such optional membership, since the cost of benefits secured by participation in the Retirement System is borne entirely by the employees and their employer organizations.

PART III - DEFERRED COMPENSATION VALUE OF RETIREMENT BENEFITS  
(Including Illustrations Comparing Present and Alternate Retirement Benefits  
under Maine State Retirement System)

The various benefits of the Retirement System are being evaluated so that the additional compensation provided by such benefits may be included in the employees' total compensation for the year. In this connection the following charts in this Part indicate the deferred compensation value of the retirement benefits of the System under certain assumptions:

CHART A - SPECIAL PERSONNEL CLASSIFICATIONS - DEFERRED COMPENSATION  
YEARLY ACCRUAL AS PERCENT OF ANNUAL SALARY

This chart presents the deferred compensation value yearly accrual for those personnel classifications currently entitled to receive retirement benefits equal to 50% of final average salary, primarily upon completion of a specified number of years service. (e.g. State Police, law enforcement officers in Department of Inland Fisheries and Game or Sea and Shore Fisheries, forest rangers, liquor inspectors, airplane pilots, wardens and prison guards).

CHART B - GENERAL STATE EMPLOYEES AND TEACHERS - DEFERRED COMPENSATION  
YEARLY ACCRUAL AS PERCENT OF ANNUAL SALARY

This chart presents the deferred compensation value yearly accrual for those personnel currently entitled to receive retirement benefits under the regular benefit formula providing benefits equal to 2% of final average salary per year of employment, upon normal retirement at attainment of ages 60 to 70. (e.g. general State employees and teachers)

As an additional frame of reference in evaluating the benefit alternatives discussed in Part II of this Report, the following charts have been developed to facilitate the comparison of benefits provided by the present Retirement System with the benefits provided under the alternate retirement structure:

CHART C - ILLUSTRATION OF PRESENT RETIREMENT BENEFITS UNDER MAINE STATE RETIREMENT SYSTEM

CHART D - ILLUSTRATION OF ALTERNATE RETIREMENT BENEFITS UNDER MAINE STATE RETIREMENT SYSTEM

CHART A  
Special Personnel Classifications  
DEFERRED COMPENSATION YEARLY ACCRUAL  
AS PERCENT OF ANNUAL SALARY

---

- Assuming: 1. Salary increases of 3-1/2% each year.  
2. Investment yield of 6-1/2% each year.  
3. Annual benefit of 50% of final average salary.  
4. Pensions adjusted subsequent to retirement in accordance with change in cost-of-living index.

<u>Employment Age</u>	<u>Retirement Age</u>	<u>Deferred Compensation Yearly Accrual as a Percent of Annual Salary</u>
25	45	34.7%
	50	23.2
	55	15.8
30	50	31.2%
	55	20.5
	60	13.7
35	55	27.6%
	60	17.8
	65	11.5
40	60	23.9%
	65	14.9
	70	9.4

Notes:

1. Above accruals are for pension only and exclude death, disability and other supplemental benefits provided by Maine State Retirement System.
2. The automatic widow's benefit applicable to the State Police and law enforcement officers in the Dept. of Inland Fisheries and Game and Sea and Shore Fisheries would increase above accruals by 20%.
3. The use of final year's salary rather than final 3 year average compensation would affect the above accruals between groups.
4. The deferred compensation percentage includes the applicable percentage of employee contributions.

CHART B  
General State Employees and Teachers  
**DEFERRED COMPENSATION YEARLY ACCRUAL**  
**AS PERCENT OF ANNUAL SALARY**

---

- Assuming: 1. Salary increases of 3-1/2% each year.  
2. Investment yield of 6-1/2% each year.  
3. Annual benefit of 2% of final average salary per year of service.  
4. Pensions adjusted subsequent to retirement in accordance with change in cost-of-living index.

<u>Employment Age</u>	<u>Retirement Age</u>	<u>Deferred Compensation Yearly Accrual as a Percent of Annual Salary</u>
25	60	15.2%
	65	11.8
	70	8.9
35	60	17.8%
	65	13.8
	70	10.5
45	60	20.6%
	65	16.1
	70	12.2

Notes:

1. Above accruals are for pension only and exclude death, disability and other supplemental benefits provided by Maine State Retirement System.
2. The deferred compensation percentage includes the applicable percentage of employee contributions.

# CHART C

## ILLUSTRATION OF PRESENT RETIREMENT BENEFITS UNDER THE MAINE STATE RETIREMENT SYSTEM

Service at Retirement	AGE AT EMPLOYMENT							
	Age 20				Age 25			
	Regular Retirement	Ordinary Disability	20 year Retirement	25 year Retirement	Regular Retirement	Ordinary Disability	20 year Retirement	25 year Retirement
10	\$ -	\$ 1,703	\$ -	\$ -	\$ -	\$ 1,703	\$ -	\$ -
20	-	3,460	4,806	-	-	3,460	4,806	-
25	4,035	8,219	5,708	5,708	4,452	7,192	5,708	5,708
Age at Retirement								
55	\$ 9,864	\$11,273	\$ 9,864	\$ 9,864	\$ 7,118	\$ 8,135	\$ 7,118	\$ 7,118
60	15,301	-	15,301	15,301	11,273	-	11,273	11,273
65	20,444	-	-	20,444	15,301	-	-	15,301
70	26,980	-	-	-	20,444	-	-	-

## FINAL AVERAGE SALARY AND OCCUPATIONAL DISABILITY BENEFITS BASED UPON YEARS OF SERVICE

Years of Service	Final Average Salary	Occupational Disability Benefit
10	\$ 6,814	\$ 4,543
15	8,095	5,397
20	9,612	6,408
25	11,416	7,611
30	13,559	9,040
35	16,104	10,736
40	19,127	12,751
45	22,716	15,145

Note: Based upon a \$5,000 annual starting salary increasing 3-1/2% per annum.

# CHART C

## ILLUSTRATION OF PRESENT RETIREMENT BENEFITS UNDER THE MAINE STATE RETIREMENT SYSTEM

### AGE AT EMPLOYMENT

Service at Retirement	Age 30				Age 35			
	Regular Retirement	Ordinary Disability	20 year Retirement	25 year Retirement	Regular Retirement	Ordinary Disability	20 year Retirement	25 year Retirement
10	\$ -	\$ 1,703	\$ -	\$ -	\$ -	\$ 1,703	\$ -	\$ -
20	-	3,460	4,806	-	-	3,460	4,806	-
25	4,994	6,164	5,708	5,708	5,708	-	5,708	5,708
Age at Retirement								
55	\$ 4,994	\$ 6,164	\$ 5,708	\$ 5,708	\$ -	\$ 3,460	\$ 4,806	\$ -
60	8,135	-	8,135	8,135	5,708	-	5,708	5,708
65	11,273	-	-	11,273	8,135	-	-	8,135
70	15,301	-	-	-	11,273	-	-	-

### FINAL AVERAGE SALARY AND OCCUPATIONAL DISABILITY BENEFITS BASED UPON YEARS OF SERVICE

Years of Service	Final Average Salary	Occupational Disability Benefit
10	\$ 6,814	\$ 4,543
15	8,095	5,397
20	9,612	6,408
25	11,416	7,611
30	13,559	9,040
35	16,104	10,736
40	19,127	12,751
45	22,716	15,145

Note: Based upon a \$5,000 annual starting salary increasing 3-1/2% per annum.



# CHART C

## ILLUSTRATION OF PRESENT RETIREMENT BENEFITS UNDER THE MAINE STATE RETIREMENT SYSTEM

### AGE AT EMPLOYMENT

<u>Service at Retirement</u>	<u>Age 40</u>				<u>Age 45</u>			
	<u>Regular Retirement</u>	<u>Ordinary Disability</u>	<u>20 year Retirement</u>	<u>25 year Retirement</u>	<u>Regular Retirement</u>	<u>Ordinary Disability</u>	<u>20 year Retirement</u>	<u>25 year Retirement</u>
10	\$ -	\$ 1,703	\$ -	\$ -	\$ -	\$ 1,703	\$ -	\$ -
20	3,845	-	4,806	-	3,845	-	-	3,845
25	5,708	-	-	5,708	5,708	-	-	-
 <u>Age at Retirement</u>								
55	\$ -	\$ 2,186	\$ -	\$ -	\$ -	\$ 1,703	\$ -	\$ -
60	3,845	-	4,806	3,845	2,428	-	2,428	2,428
65	5,708	-	-	5,708	3,845	-	-	3,845
70	8,135	-	-	-	5,708	-	-	-

### FINAL AVERAGE SALARY AND OCCUPATIONAL DISABILITY BENEFITS BASED UPON YEARS OF SERVICE

<u>Years of Service</u>	<u>Final Average Salary</u>	<u>Occupational Disability Benefit</u>
10	\$ 6,814	\$ 4,543
15	8,095	5,397
20	9,612	6,408
25	11,416	7,611
30	13,559	9,040
35	16,104	10,736
40	19,127	12,751
45	22,716	15,145

Note: Based upon a \$5,000 annual starting salary increasing 3-1/2% per annum.

# CHART D

## ILLUSTRATION OF ALTERNATE RETIREMENT BENEFITS UNDER THE MAINE STATE RETIREMENT SYSTEM

Service at Retirement	AGE AT EMPLOYMENT							
	Age 20				Age 25			
	Regular Retirement	Ordinary Disability	20 year Retirement	25 year Retirement	Regular Retirement	Ordinary Disability	20 year Retirement	25 year Retirement
10	\$ -	\$ 4,543	\$ -	\$ -	\$ -	\$ 4,543	\$ -	\$ -
20	-	6,408	4,806	-	-	6,408	4,806	-
25	4,035	7,611	6,850	5,708	4,452	7,611	6,850	5,708
Age at Retirement								
55	\$ 9,864	\$10,736	\$12,883	\$11,273	\$ 7,118	\$ 9,040	\$ 9,491	\$ 8,135
60	15,301	-	17,214	15,301	11,273	-	12,883	11,273
65	20,444	-	-	20,444	15,301	-	-	15,301
70	26,980	-	-	-	20,444	-	-	-

## FINAL AVERAGE SALARY AND OCCUPATIONAL DISABILITY BENEFITS BASED UPON YEARS OF SERVICE

<u>Years of Service</u>	<u>Final Average Salary</u>	<u>Occupational Disability Benefit</u>
10	\$ 6,814	\$ 4,543
15	8,095	5,397
20	9,612	6,408
25	11,416	7,611
30	13,559	9,040
35	16,104	10,736
40	19,127	12,751
45	22,716	15,145

Note: Based upon a \$5,000 annual starting salary increasing 3-1/2% per annum.

# CHART D

## ILLUSTRATION OF ALTERNATE RETIREMENT BENEFITS UNDER THE MAINE STATE RETIREMENT SYSTEM

Service at Retirement	AGE AT EMPLOYMENT							
	Age 30				Age 35			
	Regular Retirement	Ordinary Disability	20 year Retirement	25 year Retirement	Regular Retirement	Ordinary Disability	20 year Retirement	25 year Retirement
10	\$ -	\$ 4,543	\$ -	\$ -	\$ -	\$ 4,543	\$ -	\$ -
20	-	6,408	4,806	-	-	6,408	4,806	-
25	4,994	7,611	6,850	5,708	5,708	-	6,850	5,708
Age at Retirement								
55	\$ 4,994	\$ 7,611	\$ 6,850	\$ 5,708	\$ -	\$ 6,408	\$ 4,806	\$ -
60	8,135	-	9,491	8,135	5,708	-	6,850	5,708
65	11,273	-	-	11,273	8,135	-	-	8,135
70	15,301	-	-	-	11,273	-	-	-

## FINAL AVERAGE SALARY AND OCCUPATIONAL DISABILITY BENEFITS BASED UPON YEARS OF SERVICE

<u>Years of Service</u>	<u>Final Average Salary</u>	<u>Occupational Disability Benefit</u>
10	\$ 6,814	\$ 4,543
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40	19,127	12,751
45	22,716	15,145

Note: Based upon a \$5,000 annual starting salary increasing 3-1/2% per annum.

# CHART D

## ILLUSTRATION OF ALTERNATE RETIREMENT BENEFITS UNDER THE MAINE STATE RETIREMENT SYSTEM

Service at Retirement	AGE AT EMPLOYMENT							
	Age 40				Age 45			
	Regular Retirement	Ordinary Disability	20 year Retirement	25 year Retirement	Regular Retirement	Ordinary Disability	20 year Retirement	25 year Retirement
10	\$ -	\$ 4,543	\$ -	\$ -	\$ -	\$ 4,543	\$ -	\$ -
20	3,845	-	4,806	3,845	3,845	-	-	3,845
25	5,708	-	-	5,708	5,708	-	-	-
Age at Retirement								
55	\$ -	\$ 5,397	\$ -	\$ -	\$ -	\$ 4,543	\$ -	\$ -
60	3,845	-	4,806	3,845	2,428	-	2,428	2,428
65	5,708	-	-	5,708	3,845	-	-	3,845
70	8,135	-	-	-	5,708	-	-	-

## FINAL AVERAGE SALARY AND OCCUPATIONAL DISABILITY BENEFITS BASED UPON YEARS OF SERVICE

Years of Service	Final Average Salary	Occupational Disability Benefit
10	\$ 6,814	\$ 4,543
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35	16,104	10,736
40	19,127	12,751
45	22,716	15,145

Note: Based upon a \$5,000 annual starting salary increasing 3-1/2% per annum.

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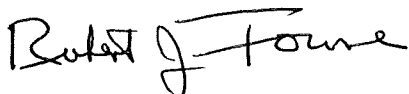
December 18, 1973

Senator Harrison L. Richardson, Chairman  
Committee on Veterans & Retirement, State of Maine  
Augusta, Maine

Dear Senator Richardson:

The third interim report on our study of the Maine State Retirement System is submitted herewith. This report presents an evaluation of the remaining aspects of the system which were not covered in our previous interim reports. An outline of the provisions of other state retirement systems is also included herein.

Sincerely,



Robert J. Towne,  
Fellow Society of Actuaries

RJT : ata

THIRD INTERIM REPORT ON  
STUDY OF  
MAINE STATE RETIREMENT SYSTEM

Submitted  
December 18, 1973

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## PART I - SUMMARY OF REPORT

This report completes the presentation of the results of our evaluation of the various problem areas of the Maine State Retirement System. It also includes such other material that we had expected to include in our study. Such areas covered in this report are as follows:

- A. Additional Benefit Provisions
- B. Administration
- C. Financing
- D. Life and Health Insurance Benefits
- E. Amendments
- F. Chart of Administration, Financing and Amendment Provisions
- G. Summary of Other State Systems

It is our intent that our final report will summarize the conclusions contained in the interim reports and add items that have been omitted or not completely covered in the interim reports. In particular, cost evaluation of various items not available at the time of this report will be included in our final report.

**PART II - EVALUATION OF ADDITIONAL BENEFIT PROVISIONS OF  
MAINE STATE RETIREMENT SYSTEM**

This Part of the report presents the rationale and general conclusions for additional problems not included in our previous interim reports. As in our previous reports, any conclusions drawn in this Part are purely tentative.

The subject matter of the problems consists of the following items:

- A. Participating Districts
- B. Mandatory Retirement
- C. Early Retirement and Vesting
- D. Workmen's Compensation Offset to Disability Benefits
- E. Benefits in Event of Employee's Death Prior to Eligibility for Retirement
- F. Benefits in Event of Employee's Death After Eligibility for Retirement
- G. Benefits in Event of Disabled Employee's Death
- H. Past Membership Contributions
- I. Social Security Coverage

A. Participating Districts (Section 1092)

The Retirement System generally permits participating local districts to select certain features of the Retirement System, which are uniformly applicable for State employees, for its own employees on an optional basis. In this connection, certain problems arise as follows:

1. Reemployment With New Employer

Under the present provisions of the Retirement System, any district hiring an employee who previously participated in the Retirement System as an employee of the State or another participating district must grant such employee all creditable service resulting from such prior employment for benefit purposes. Requiring a district to inherit such a liability, which may be greater than the employee's accrued benefit from prior employment, provides additional benefits to the employee as deferred compensation which he has not earned. It is suggested that an employee should retain only his accrued benefit, calculated in exactly the same way as for a terminated vested employee, when he transfers from one employer to another under the Retirement System, and should accrue future benefits based on future service with the new employer. However, at its own option, a participating district might be permitted to assume the greater liability, which it presently is forced to do, and pay the additional costs involved.

2. Election of Provisions

While there is no reason for the Retirement System to prevent participating local districts from adopting such of the provisions of the System as the districts deem are most appropriate for them as long as the districts are paying the entire cost of the

selected retirement benefit program, nevertheless the Retirement System should not include such provisions as are inherently unsound or intrinsically inequitable to the employees. For example, for the reasons presented in our Second Interim Report (See Part II pages 2-4) the use of only the employee's final year of compensation in determining his retirement benefits is neither necessary nor fair. Rather the average 3 year earnable compensation should apply in determining pension benefits for all employees. Therefore, it is believed that those provisions, presently contained in the Retirement System, basing benefits on an employee's final year's compensation, should be deleted.

On the other hand, if there is nothing basically unsound in its level of benefits or eligibility conditions therefor, the Retirement System should permit each participating district to elect those retirement provisions which are most appropriate for accomplishing its own goals. In this connection, for example, it is recognized that State employees have their past service credits prior to 1942 for benefit purposes limited to a maximum of 25 years service. This results from the fact that the State had in effect prior to 1942, an unfunded retirement program which provided a 50% of pay pension after completion of 25 years. This formula became the basis for the current 1/50 benefit accrual rate for State service prior to 1942 with its corresponding 25 year maximum past service credit resulting in a combination of the same 50% of pay pension under the current funded Retirement System. However, the participating districts should not have the benefits they wish to adopt limited by reasons inapplicable to them. Thus such districts should be permitted to credit all years of prior service, if they so wish, without the 25 year maximum.

### Mandatory Retirement

Under the present Retirement System law, regular State employees and Teachers may retire on a full retirement benefit anytime between the ages 60 and 70 with retirement at age 70 compulsory unless extensions beyond that age are granted. Other employee groups have similar type age spans for regular retirement.

LD 1093 was proposed in the 1973 Legislative Session which would have required all Teachers to retire at age 65. Also, in the Maine Management and Cost Survey, "Recommendation 2. make retirement at 65 mandatory", it was recommended that the mandatory retirement age be set at age 65 for all employees.

The arguments presented for the Teacher proposal were essentially related to creating openings for younger persons and reducing active employee payrolls by replacing older Teachers with higher salaries with younger persons with lower salaries.

The arguments presented in the Maine Management and Cost Survey are briefly as follows:

1. Employees past 65 frequently become less effective and prevent advancement of younger people,
2. Employees should be retired from service upon attaining age 65; however, elected and appointed employees could remain after 65 until expiration of their assignment but not beyond the age of 67,
3. 10% of the positions held by those over age 70 would be eliminated, 15% of those between the ages of 65 and 70, and
4. Long range savings of at least \$850,000 per year would result.

### Comments

1. The present normal retirement age span of 60 to 70 is intended to be the period

during which most employees will find it necessary to retire because they can no longer adequately perform the services required by their job.

Obviously, the performance of an individual may be difficult to measure at any age and the opinion and objectives of the individual performing the job may differ considerably from those of the persons evaluating his performance. The setting of a mandatory retirement age limits the freedom of an individual to choose whether to continue in his position, retire, or perhaps secure another position. Presumably, a mandatory retirement age should not impose arbitrary restrictions on such freedom without substantial needs for such restrictions. The personnel department should make the necessary evaluation of the proper retirement age requirements.

2. The use of a mandatory retirement age to create openings for younger persons may create an inequity to older persons who are forced to lower their income and may pose problems to the employer.

3. It would seem that if particular jobs are no longer needed they should be eliminated regardless of the age of the employee in the job. The elimination of such jobs through the device of changing mandatory retirement age is not a sound reason, per se, for making such change in the Retirement System provisions.

4. The lowering of the mandatory retirement age to 65 would increase the contributions required under the Retirement System through a lowering of the average retirement age of the employees. It would result in a greater number of retired employees receiving allowances and a greater total of benefits being paid at any particular time.

Based upon the current retirement age experience under the Retirement System

the required contributions of both the State and employees would be increased at least 11% if the mandatory retirement age were lowered to 65. This would increase State contributions by about .97% of payroll or about \$2,000,000 per year with current payrolls and increase employee contributions from 6.5% to about 7.2%

The increase in cost with a lower retirement age may be seen from the table of deferred compensation accruals on page 4 of Part III of our Second Interim Report. For example, the deferred compensation value as a percentage of salary, for employment age 25, is 33% greater for retirement age 65 versus retirement age 70, 29% greater for retirement age 60 versus retirement age 65 and 71% greater for retirement age 60 versus retirement age 70.

Apparently the long range savings estimated in the Maine Management and Cost Survey were not adjusted for the increased contributions to the Retirement System. It would appear that an increase in cost to the State would result from the lowering of the mandatory retirement age to 65 if such adjustments are made for the increased contributions to the Retirement System, instead of cost savings.

5. The ultimate deferred compensation cost of the retirement benefits is equal to the benefits paid out. The prefunding of such costs merely changes the incidence of cost charges and results in part of the benefit outlay being provided by investment income.

The total effect on employee compensation of a retirement program will be measured by the total payments for salaries to active employees and pensions to retired employees. For a fixed number of employment positions, assuming salaries

increase by age, the lower the retirement age the smaller the active payroll while the number of retired will be greater and the amount of pension payroll will be greater.

The ultimate total compensation costs, salaries for actives and pensions for retired, will be reached when the total employee group, actives and retired, reaches a stable position in which the number of new employees each year replaces the number of actives terminating and the number of retired employees then remains constant.

Under such conditions the following results will occur, comparing retirement at ages 60 or 65 with retirement at age 70:

- a. the number of retired employees will be:
  - i) 58% greater with retirement age 65, and
  - ii) 150% greater with retirement age 60.
- b. Assuming salaries increase  $3\frac{1}{2}\%$  by age, with similar increases in the retirement allowance adjustment,
  - i) active payrolls will be 9% less with retirement age 65, and 17% less with retirement age 60,
  - ii) retired payrolls will be 32% greater with retirement age 65, and 61% greater with retirement age 60, and
  - iii) total active plus retired payrolls will be 3% greater with retirement age 65 and 6% greater with retirement age 60.



C. Early Retirement (Section 1121 par. 3) and Vesting (Section 1121 par. 1A)

Some State employee groups have requested that consideration should be given to lowering the eligibility for early retirement under age 60 from the present requirement of completion of at least 25 years service to completion of only 10 years of service. These groups note that vested termination benefits are granted after completion of 10 years service and believe that early retirement benefits should similarly be made available at that time.

In evaluating the above proposal, it is necessary to understand the relationship between early retirement and vesting.

From a theoretical standpoint, early retirement provisions in pension plans were originally established to permit an employer to pension an employee who was unable to remain in service until his normal retirement date. It was recognized that any specific normal retirement age, such as age 60 for State employees, was not a universal retirement age before which every employee continued to maintain his peak working efficiency and after which he could no longer satisfactorily perform his duties. An age, such as 60, was merely a practical normal retirement age. Now and then, some employees would not be able to remain in service until normal retirement age. They did not need to be disabled in the proper sense of the word. They just were aging somewhat faster than people do on the average. If these people had been satisfactory employees, their employers were usually glad to make provision for their early retirement, i.e., for immediate early commencement of reduced pension payments under the plan. Most modern retirement programs provide for so-called early retirement within the 10 years or so preceding normal retirement age. In the Maine State Retirement System, such early retirement for State employees is permitted after 25 years of service regardless of the attained age.

On the other hand, vested rights to benefits on termination of employment originally differed in concept from such early retirement provisions. The original purpose of vesting was to create interest in the plan on the part of younger employees. It gave them assurance that their status in the employer's plan was not merely a contingent one which did not materialize at all unless they remained in service until retirement age. Vesting generally provided that an employee who had met the specified eligibility conditions was entitled to deferred commencement at his normal retirement date of the accrued pension credits he had earned up to his termination from the Plan. In the Maine State Retirement System, such vesting occurs upon completion of 10 years of service regardless of then attained age.

From a practical standpoint, however, it should be realized that these two concepts are obviously interrelated to a considerable extent. They are, in reality, two branches of the same tree. For example, both concepts are based on the premise that the employee who does not work until normal retirement age is nevertheless entitled to a portion of the employer contributions made on his behalf during his actual working years, usually in the form of accrued benefit credits earned under the plan during his years of participation. The liberalization in recent years in early retirement and vesting, both in State Retirement Systems and in plans of private business and industry, resulted in large part from the increasing acceptance of the philosophy that pensions are not gratuities but a form of deferred compensation which the individual employee earns through service with his employer. Thus, both concepts are identical in providing the withdrawing employee with entitlement to all or a portion of the accrued pension earned to his date of withdrawal. The only practical difference between these two concepts is the time at which payment of the employee's accrued pension credits commences. In the case of early retirement, it is common to permit

payment of the accrued pension credits immediately at early retirement. However, these payments are in reduced amounts since they reflect the conversion of the value of the employee's accrued pension regularly payable at, say, age 60 normal retirement to a smaller pension commencing perhaps at age 55 early retirement. If this conversion is performed on an actuarially equivalent basis, then the value of the smaller early retirement benefit payable for a longer period of time is equal to the larger normal retirement benefit payable for a shorter period of time. Thus, there is no additional cost to the employer when early retirement is granted on an actuarially equivalent basis. Some plans, however, provide more liberal early retirement benefits than based on true actuarial equivalence. Such plans subsidize early retirement benefits at additional cost to the employer.

It should be noted that the actuarial factors used for early retirement in the Maine State Plan are not true actuarial equivalent factors. Rather, these factors provide special early retirement benefits of substantially increased value. While this is a practice being adopted more and more by plans of business and industry as well as State and municipal retirement systems, it is suggested that this practice not be extended without a careful recognition of the costs involved. Thus, for example, while it is reasonable from a deferred compensation viewpoint to permit early retirement sooner than completion of 25 years of service, such as perhaps after attainment of age 50 and completion of at least 15 years of service in the State System, such practice requires that only true actuarial equivalent benefits be provided, if the value of the benefits is not to be greater than the value of the deferred compensation pension credits that the employee has accrued during his period of actual employment. Such benefits would tend to be very low and not of sufficient size to provide adequate retirement income. On the other hand, extension of early retirement to

State employees who have completed less than 25 years of service on the basis of the special factors now in use would involve significant additional cost in order to provide these higher levels of benefits.

In this connection, it should be observed that the vested pension benefits payable to a terminated employee upon attainment of age 60 are also too liberal in relation to the deferred compensation pension credits that such former employee had accrued during his period of actual employment and they result in substantial increased value. This results from the fact that improvements in retirement benefit formulas adopted by the State subsequent to the termination of the employee's service are used to determine the employee's pension at retirement. Proper recognition of the deferred compensation theory of pension credits would freeze the amount of the terminated employee's benefit based on the formula in effect at his severance and not grant him additional benefits which he had not earned.

D. Workmen's Compensation Offset to Disability Benefits (Section 1122 par. 5)

The present Retirement System Law properly offsets periodic Workmen's Compensation income payments from the gross disability benefits to which the disabled employee is entitled, except in the following instances:

1. Lump Sum

Lump sum Workmen's Compensation payments have generally been offset only against the initial monthly disability payment due the employee from the Retirement System. This inequity should be corrected by providing that when lump sum Workmen's Compensation payments are made, the equivalent periodic payout should still be used to reduce the gross disability benefits payable from the Retirement System. Otherwise an unintended duplication of benefit payments will result.

2. Particular Injuries

Under Title 39, Section 56 of the State's Workmen's Compensation Laws, compensation is made for particular injuries involving permanent impairments and loss of limbs. Such payments are presently not offset from the disability benefits payable to the employee from the Retirement System. This raises a question as to the equities of such practice, since there appears to be no reason for distinguishing the treatment of such injuries from other types which are properly offset against the gross Retirement System benefits.

It should be understood, however, that only disability income payments made under the Workmen's Compensation Law should be so offset. It is not intended that Workmen's Compensation benefits paid to the employee as reimbursement for medical expenses should be offset, since such payment is for a different purpose.

E. Benefits in Event of Employee's Death Prior to Eligibility for Retirement  
(Section 1124 par. 1)

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In the event of an employee's death before his eligibility for retirement, certain survivor benefits, generally of \$100 to \$300 per month, may be payable to the employee's unmarried spouse and to unmarried or disabled children or to parents. These survivor benefits are the same whether or not the employee's death is service-connected, except that an additional refund of the employee's contributions is also made to the beneficiary if the employee's death is service connected.

The above survivor benefits give rise to certain problems. The overall level of survivor benefits, generally in the range of \$100 to \$300 per month, has remained unchanged since the revision in 1965, the original enactment being in 1957. While these amounts may have provided reasonably adequate death benefit protection at that time, these amounts have become progressively outdated due to the inflationary conditions which have persisted since that time. It should be noted that such flat amounts of survivor benefits are unrelated to the earning's level of the employees and also are not subject to increase for general salary adjustments made to State employees until payment of such survivor benefits has commenced. Thus an employee who died several years ago would initially have had payments made to his survivors at the initial benefit levels described above but since that time such survivor payments would have increased substantially due to a series of general salary adjustments in State salaries which adjusted such payments upward in the same manner as for all retirement allowances. However, an employee dying at this present time will have survivor benefits commence at the initial amounts without similar adjustment for general salary increases in the past. Therefore, the basic level of survivor benefits should be increased to

a level which will reflect the compound increase in the cost of living adjustment since 1965; perhaps 50% to 75%.

To restore adequate levels of survivor benefits, consideration should be given to increasing the total amount of death benefits now available under the Retirement System and the Group Life Insurance Program. Since pension accruals are really deferred compensation to an employee in lieu of cash compensation, survivor benefits should properly be payable from the Retirement System to reflect the employee's accumulated interest in the Plan which he had earned during his years of participation. Provision for such death benefits recognizes that the employee who dies after 10 years or so of participation in the Retirement System, which is the time when the employer has already made a substantial investment to provide benefits which the employee would have enjoyed if he had lived to be eligible for retirement, is nevertheless entitled to some portion of the employer contributions made on his behalf during his working years. Without such a pre-retirement death benefit provision, this investment is entirely forfeited at the employee's death. Therefore, it is suggested that a death benefit be introduced into the Retirement System, in lieu of the present survivor benefits, to protect the spouse or other family members of the employee who dies in active service in the same manner as the beneficiary of the employee who retired early and was protected by the employee's election of a joint and 100% survivor option. (viz. Option 2 in Section 1126 of the Retirement System Law). It appears reasonable to require that the employee have completed at least 10 years of creditable service before being eligible for this benefit. Such a 10 year eligibility requirement would be identical to the present 10 years of service after which the employee is fully vested in the benefits he has accrued under the Retirement System. Moreover, such a death benefit would

normally be too small in amount to be meaningful, if the employee had completed less than 10 years of service at the time of his death.

All other survivor benefits, which are based on an employee's and his family's needs for death benefit protection, over and above his earned pension credits under the Retirement System, should more appropriately be provided through an expansion of the present group life insurance program without distinction as to whether death was service-connected. Thus all survivor benefits to spouses, children and parents presently provided in the Retirement System, except for the Option 2 type benefit described above should be transferred to the group life insurance program and in the future be provided from such source. Although the current group life insurance program is entirely voluntary, it is intended that such survivor coverage for family members be added on a basis providing automatic and immediate coverage entirely at State expense.



F. Benefits in Event of Employee's Death After Eligibility for Retirement  
(Section 1124 par. 2)

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If an employee dies in active service after eligibility for retirement, which occurs after age 60 or 25 years of service, an Option 2 type benefit is regularly payable. Under this provision, a retirement allowance will be continued during the lifetime of the first of the following persons, if any, alive at the death of the employee: designated beneficiary, wife, husband, mother or father. The amount of the monthly allowance will be determined on the assumption that the employee had retired on the date of his death and elected a regular joint and survivorship option providing continuing payments after his death to his beneficiary in the same amount as he would have received under such option.

As an alternative to the benefit described above, special death benefit arrangements may also be elected by employees under Option 4. As this option requires the employee to set up his own plan and few employees are sufficiently knowledgeable in such a technical area, it is not commonly used. However, when it is used, it distorts the intended actuarial equivalence which results in beneficiaries of such employees receiving an excessive amount of death benefit coverage at additional cost to the State.

Consideration should therefore be given to eliminating the present use of Option 4 special death benefit arrangements for employees in active service and require that the Option 2 type benefit described above be the sole death benefit permitted to the employee after eligibility for retirement. It is significant to note that this Option 2 is exactly the same death benefit which has been proposed in the Retirement System for employees who are not yet eligible for retirement. (See Part II E of this Report). Therefore, adoption of this proposal would result in a uniform, continuous type of death benefit protection, calculated in a consistent manner, to be provided from the Retirement System for all

employees in active employment, whether or not they are eligible for retirement. Such uniformity would restore equity with respect to death benefits among all active employees.

G. Benefits in Event of Disabled Employee's Death (Section 1124)

An additional problem presently exists in the Retirement System in connection with survivor benefits payable in the event of the death of an employee who has been retired for disability. Survivor benefits are presently payable if the disabled employee's death was service-connected, even if such death occurs after age 60. However, if the death was not service-connected, it must occur prior to the employee's attaining age 60 in order for his family members to be eligible to receive survivor benefits. If such disabled employee dies after attaining age 60, no survivor benefits of any kind can be payable since survivor benefits are not continued after age 60 as in the case of service-connected death and the employee cannot elect an optional form of pension payment to protect his beneficiary when he does retire.

It is suggested that this inequity be remedied by:

1. Eliminating the distinction in benefits based on whether the disabled employee's death was service connected, since the same need for adequate benefits exists in both cases.
2. Continuing survivor benefits after age 60, if necessary, until the disabled employee attains regular service retirement age.
3. Permitting any disabled employee, upon attainment of the regular service retirement age when his disability would be recomputed as a service retirement benefit, to elect one of the optional methods of payment of retirement allowances available to all regular service retirements.

## H. Past Membership Contributions (Section 1094 and 1096)

### 1. Withdrawal of Employee Contribution Account

It has been suggested that there has been certain abuse of the Retirement System by using it as a "savings bank". Whenever an employee needs funds, he arranges termination of employment, withdraws his contributions plus interest from the System (currently credited at 4% per year to his account) then resumes employment. This results in the loss of additional investment earnings to the Retirement System. As a result, it has been proposed that the Retirement System Law should prohibit interest to be paid upon withdrawal of contributions and that no withdrawals should be permitted to employees with less than a specified length of service.

Doubtless there are circumstances whereby a separation, a refund and a reemployment take place in a reasonably short period of time, but if these are accomplished for the sole purpose of obtaining the accumulated contributions of a member, it would appear to be a violation of ethical or moral procedure rather than of the retirement statute, since there is no evidence that other than proper procedure has been followed by the System. To the extent that there is abuse, the separation and reemployment practices should be scrutinized. It is not believed appropriate, however, to penalize an employee by requiring him to forfeit the interest on his account in the event of premature distribution, since the interest is really the employee's money. Possibly the Retirement System Law could be amended to require a strict refunding provision which would not permit any refunds of employee contribution accounts until at least 90 days after the employee's separation from service. Under this procedure, if the employee returned to active State employment prior to the 90 days after his initial termination, he would not qualify for a refund of his contributions.

## 2. Reinstatement of Withdrawn Employee Contribution Account

On subsequent reinstatement of such a refunded account in order to restore past membership credits, however, an employee is presently required to return the withdrawn contribution account together with regular interest (currently 4%) thereon from the date of withdrawal to the date the deposit payment is made. It is believed that this procedure is too liberal to the employee, since the Retirement System has lost the additional earnings it would otherwise have secured on such funds if they had remained invested in the Retirement System. It is suggested that a fixed rate, such as 6% per year compounded, or perhaps a rate 2% over that rate which is currently credited to members accounts should properly be charged. The 2% alternative would have the effect of paralleling any changes, upward or downward, that the Board makes in crediting interest to employee accounts and thus might be preferable.

## 3. Employee Purchase of Additional Service Credits

A similar problem of lost investment earnings exists when an employee purchases service credits for a period during which he was not a member of the System, such as to secure out-of-state service credits or military service credits. It is, therefore, suggested that employees purchasing such additional credited service make contributions including the higher interest charges as in the case of reinstatement of refunded accounts discussed above, to the extent the employees make such a pay back subsequent to their initial eligibility to do so. If the employees make such pay back at the time they are initially eligible, it would seem that the rates of interest charged should be the same rate (currently 4%) as that which had been granted to members during that period of time.

## I. Social Security Coverage

At the present time, neither the State employees nor Teachers are covered under the Federal Social Security System. State employees are excluded from such coverage by State statute and Maine teachers are excluded by Federal statute. However, these employees are provided with essentially the same coverages such as old age pension, death and survivor benefits, disability benefits and medical coverages through the Maine State Retirement System, the group life insurance program and the availability to employees of group health and major medical insurance programs. On the other hand, some local districts participate in the Maine State Retirement System and have adopted Social Security coverage for their employees as well.

There appears to be no need for the State to similarly embrace the Social Security program for the reasons discussed below. It should be understood that the Federal Social Security System, unlike a private program maintained by the employee himself or by his employer, is a social insurance system that is only intended to be sufficient to yield a satisfactory minimum standard of living when supplemented by the individual employee's other income and assets. Social Security is not intended to provide a comfortable standard of living in the absence of supplementation by private insurance programs. In this connection, Chart A on the following page compares the primary characteristics of private (individual or employer) old age income systems with a governmental program. From Chart A, it can be seen that the Social Security System provides benefits related more to basic needs than to the contributions made by the employee or the employer on his behalf. Thus, it provides benefits tending more toward social adequacy than individual equity.

## CHART A

CHARACTERISTICS OF OLD AGE INCOME SYSTEMS

	<u>Individual</u>	<u>Employer</u>	<u>Government</u>
1. <u>Type of Plan</u>	Individual savings	Employee benefit	Social insurance
2. <u>Objectives</u>	Capital accumulation to provide income during non productive years	Same as individual	A welfare system to lessen dependence on private charity
3. <u>Membership</u>	Voluntary	Voluntary or compulsory	Compulsory
4. <u>Benefits</u>	Related directly to individual savings	Related to service and earnings of employees	Related to basic needs - a floor of protection; may require a "means test" for payment
5. <u>Cost Provisions</u>			
a) <u>Individual contributions</u>	Direct payments	Direct or indirect as deferred compensation	Direct taxation or general revenue taxation
b) <u>Risk sharing</u>	Through use of annuities (mortality and investment)	Through use of annuities and "final salary" formulae	Complete risk sharing in all phases
c) <u>Capital accumulation</u>	Yes	Yes	No
d) <u>Reserves</u>	Yes	Yes	Only for fluctuations
e) <u>Investments</u>	All types	All types	Government bonds only
f) <u>Income tax</u>	Based on investment earnings	Based on investment earnings and deferred compensation	No consideration since employee contributions are taxes and benefits are welfare
6. <u>Individual Equity</u>	Automatic since entirely individual choice	Basic objective but group application may be used	Only with respect to general basic needs

From a financial standpoint, keeping the State System in existence without modification and also making Social Security available as a supplemental plan would produce increased total benefits as well as an extremely high level of employee and State contributions. For example, most State employees are currently required to personally contribute at least 6-1/2% of their pay to the Maine State Retirement System. If they were also covered under Social Security, they would have to pay an additional payroll tax of 5.85% of their pay up to \$12,600 per year (or possibly \$13,200 per year if legislation now proposed is enacted), resulting in a total employee contribution rate of 12.35%. The State would similarly have to pay 5.85% of each employee's taxable Social Security wages to the Federal Government in addition to the contributions it already is required to make to the Maine State Retirement System. Moreover, the amounts of State contributions (taxes) to Social Security would be subject to continual increase beyond its control, since the Federal Government establishes such tax rates. In fact, under present law, increases in such taxes would automatically result in future years resulting from a rise in the Federal Cost-of-Living Index which would directly extend the taxable wage base on which Social Security taxes are computed. Therefore, if Social Security were to be adopted, it would be desirable to coordinate the State Retirement System with Social Security in some manner that the combination of Social Security with reduced benefits available from the amended Retirement System would produce reasonable total benefits and total costs. This principle of coordination with Social Security is almost universally used in private retirement plans of business and industry. It is also frequently used in State and municipal retirement plans where Social Security has been adopted (See practices of other State Systems in Part VIII of this report). Assuming then that the State would decide to follow such an approach, the State could amend its plan to reflect the existence of Social Security benefits by adopting either:



- (1) An "offset" formula whereby the State's gross benefit is directly reduced by a percentage of the Social Security benefits to which the employee is otherwise entitled or
- (2) A "step-rate" formula which provides a higher benefit accrual rate on earnings in excess of the Social Security wage limit than on earnings up to that limit.

The use of a "step-rate" formula is generally more acceptable to employees than the offset formula since the "step-rate" formula eliminates the following disadvantages of the offset approach:

- (1) Psychological disadvantages: The benefits of an offset type plan are not readily appreciated by employees since the benefits are expressed in a negative manner. For example, if the plan provides that the employee is entitled to the State's plan benefits less 60% of his Social Security benefits, the employee might feel that such Social Security benefits have been taken away from him.
- (2) Administrative disadvantages: When calculating benefits under an "offset" plan at normal retirement, the State must first contact Social Security officials in order to ascertain the level of benefits or approximate them on some consistent basis. Only then can the State determine the net benefit payable from its plan. The problem is more acute at early retirement or termination prior to the employee's eligibility to receive Social Security benefits. The State must, by some method, estimate the Social Security benefits payable at age 65 or their actuarial equivalent at an earlier date. Only after these benefits have been estimated, can the net pension plan benefits be calculated.
- (3) Pressure to reduce offset: Employers whether they be states, municipalities or private companies tend to be under constant pressure from their employees to reduce the percentage of Social Security benefits to be offset. This is the trend followed by such companies as American Telephone and Telegraph whereby the offset was first reduced

from 100% to 50%. Later revisions eliminated the offset completely.

(4) Automatic Decrease in Net Benefit: Under recent amendments to the Social Security Law, at any particular earnings level benefits have been increased without a corresponding increase in the Social Security tax rate, which has remained the same. However, this increase in Social Security benefits has automatically reduced the net retirement benefits payable from the employer's offset plan, even though the employer is not required to pay increased Social Security taxes on the employee's behalf and does not require a reduction in his private retirement plan costs to offset increased Social Security contributions. Thus the Social Security program actually effects a decrease in the employee's deferred compensation that he earns from his employer.

It is also significant to note that some employees do not look with favor on any method of coordinating the State's retirement plan with Social Security, since they now receive Social Security plus the full benefits provided by the Retirement System without reduction. For example, many female employees of the State whose husbands work in private business and industry covered by Social Security now get Social Security benefits without themselves joining the Social Security System. Such married females whose retired husbands receive Social Security benefits automatically qualify for a wife's benefits, equal to 50% of their husband's primary Social Security benefit when they reach age 65 (or a reduced amount, commencing at age 62). If the Maine State Retirement System adopted Social Security, such retired females would only be increasing the amount they now receive anyway as a wife's benefit to the level of primary Social Security for which they qualify based on their own employment record. In addition, many employees may have worked in various industrial and commercial pursuits covered by the Social Security program prior to their entry into public service. Some employees may even have part-time extra jobs where they are covered by

Social Security. Large numbers of employees retiring from the State Retirement System may also work in private industry during which they will qualify for substantial Social Security benefits. All such individuals would lose rather than gain by a coordination of the State System with Social Security.

## PART III - ADMINISTRATION OF MAINE STATE RETIREMENT SYSTEM

The provisions concerning the administration of the Maine State Retirement System are contained in subchapter II and subchapter VII of the Retirement System Law. The board of trustees is established in the retirement law to be the trustees of the funds of the Retirement System and to administer the System. The various aspects of the administration are evaluated in this Part of the report.

### A. Structure of Administration

#### 1. Board of Trustees

The governing body of the Retirement System is a board of seven trustees. The members of the board are chosen as follows:

- i) one member designated by the Maine Teachers Association,
- ii) one member elected by the Maine State Employees Association,
- iii) one member appointed by the Maine Municipal Association, who shall be a member of the System and an employee of a participating district,
- iv) three members appointed by the Governor, with the advice and consent of the Council, at least two of whom shall be qualified through training and experience in the field of investments, and
- v) one member, currently receiving benefits under the System, selected by the other members of the board of trustees from lists of retired employees.

The term of office of the members of the board of trustees is three years.

## 2. Other Personnel

The board of trustees fills the following positions which have the responsibility for the performance of certain functions required in the administration of the System, except for the position of legal advisor which is prescribed in the Retirement System law:

### a. Executive director

The administrative duties of the board are vested in the executive director, who engages such services as required to transact the business of the System.

### b. Legal advisor

The attorney general is the legal advisor of the board of trustees.

### c. Medical board

A board of three physicians passes on all medical examinations required for disability benefits. The board of trustees may also employ other physicians as necessary.

### d. Actuary

The actuary is the technical advisor on matters regarding the operation of the funds of the System, and performs certain other duties related to the contributions required and amounts of benefits under the System.

### e. Investment and other counsel

A fiduciary is employed for investment purposes and other professional assistance may also be employed.

### f. Custodian of negotiable securities

A national bank, trust company or safe deposit company located in

New England or New York City may be selected for custodial care and servicing of the negotiable securities of the System.

B. Administrative Functions

The functions of the board of trustees cover the following areas:

1. Benefit determination,
2. Contribution determination,
3. Accounting,
4. Actuarial applications, and
5. Investments

The duties and responsibilities of the board of directors are stated in the law.

They include the following specifics, amongst others:

1. Perform the general administration and proper operation of the Retirement System
2. Formulate policies and exercise general supervision
3. Establish rules and regulations
4. Use its judgement in granting credits for unprovable service
5. Maintain public records of proceedings and publish a biennial report
6. Certify rates of employer contributions
7. Adopt a general investment policy
8. Make final and determining decisions on all rights, credits and privileges of members of the System
9. Increase or decrease, within limits, member contributions for survivor benefits and retirement allowance adjustments

10. Permit extensions of service beyond mandatory retirement age, and

11. Purchase policies of group life insurance

C. Appeals Procedure

Appeals from decisions or rulings of the board of trustees may be made to the Superior Court in the County of Kennebec.

D. Comments

Certain provisions of the administration of the System which may be considered for revision are discussed following:

1. Members of Board of Trustees

The control of the board of trustees may be exercised by present or potential beneficiaries of the System since at least four members must be in such categories and all seven members may be in such categories. LD 490 was proposed in the 1973 Legislative Session which would have increased the number of board members to nine by increasing the number of members appointed by the Governor to five, none of whom should be present or prospective beneficiaries of the System. This would have placed the control of the board in persons who were other than beneficiaries of the System, so called public members.

The constitution of the board of trustees should be determined in relation to the functions to be performed by the board and the ways in which the respective rights of the employees and the employer are affected. The following points may be noted:

a. Actions of the board of trustees cannot increase the amount of benefits payable under the provisions of the System to individuals but it can affect the cost of the total benefits of the System through i) the investment return secured on the assets of the System, ii) the administration of disability benefits, iii) the actuarial basis used for such benefits as retirement allowance options and iv) the level of employer contributions as required by actuarial assumptions.

b. It is argued that the administration of the System should be under the control of the beneficiaries of the System because the assets of the System represent employee contributions and accruals of employer contributions which are deferred compensation and such assets can be used only to provide benefits for employees. This is true but the benefits of the System are also dependent upon future contributions of employees and the employer, the amounts of which will be affected by the future investment return on such assets as well as on the level of benefits. Both the employee and the employer have an interest in such investment results as well as in the other results of the administrative actions stated above.

c. The administration of retirement plans of private employers has generally been under the following controls:

- i) employer only,
- ii) employer and employees equally as to administration of benefit payments, employer only as to levels of employer contributions,
- iii) employer and employees equally as to benefits payable from employer contributions which have been arrived at through labor negotiations; this is the typical administration required by Taft-Hartley labor legislation which



gives the employee equal rights with the employer, and

- iv) employees only, where the employer contributes, as a result of labor negotiations, a specified amount per employee into a fund operated by a union solely for union members; benefits arise only from the accumulations of such contributions.

The following basis is recommended for the membership of the board of trustees:

- a. The number of members shall be eight,
- b. All members shall be citizens of the State of Maine,
- c. Four members shall be determined as at present, representing the beneficiaries of the System, and
- d. Four members shall be appointed by the Governor with the consent of the Council, representing the public,
  - i) who are not beneficiaries of the System, present or potential, and
  - ii) two of whom are designated as qualified through training and experience in the field of investments.

## 2. Term of Membership of Board of Trustees

The present arrangement for appointment of trustees allows the term of all trustees to expire in the same year. This has resulted in several simultaneous expirations. It is recommended that the term be staggered and that where delays occur in an election or appointment the term of the new member be only for the balance of the fixed term.

## 3. Functions of Board of Trustees

The board of trustees presently authorizes all extensions of service beyond mandatory retirement age for any member of the Retirement System, State employees,

Teachers, and Employees of participating districts. Such extensions should be based upon employee needs and practices. There are no criteria involved related to the Retirement System operations. The board of trustees is not the proper body to pass on such extensions and it is recommended that extensions shall be authorized by the executive body of the employing entity in accordance with such employment practices as it adopts.

Under the present provisions of the Retirement System law the duties of the board of trustees appear to include certain administrative responsibilities that more properly should be vested in the executive director. Therefore it is recommended that the executive director, rather than the board of trustees, be responsible for approving retirement allowance payments, survivor benefits and other benefits prescribed in the Retirement System law.

The following additional duties are recommended for the board of trustees, which are related to other possible revisions:

- a. Review all legislation and report to the proper legislative authority, or committee, what the impact each amendment will have upon all the aspects of the System.
- b. Shall employ (professional services) (internal personnel) who shall review in depth each application for a disability retirement allowance and who shall grant or deny all claims. Further, shall at least once each year investigate the status, physical or mental, as well as the financial status (earned income) of each recipient of a disability retirement allowance.

c. Shall act as a board of review, before which any aggrieved person or persons may appear, with or without counsel, for the purpose of adjudicating any question, point or proposal directly related to the retirement statute and shall report to the Legislature if followed by legislation.

#### 4. Appeals

The present appeals procedure requires an aggrieved person to resort to court action for a hearing in the case of an adverse ruling by the board of trustees. It is suggested that a special appeals board be established composed of the following members:

- a) the chairman of the board of trustees of the Retirement System to represent such trustees,
- b) a public member (perhaps an attorney) appointed by the Governor to represent the public, and
- c) a person to represent all active and retired employees who is a member or beneficiary of the System.

The executive director and actuary would attend meetings and supply such information as required. The executive director would act as secretary to the special appeals board.

It would be the duty of the appeals board, in conjunction with the board of trustees, to review and to comment upon in writing, to the proper legislative committee, on any and all legislation presented to the Legislature in reference to all matters which have been, may be or should be a subject of its review.

## PART IV - FINANCING OF MAINE STATE RETIREMENT SYSTEM

The provisions concerning the financing of the cost of the benefits of the Maine State Retirement System are contained primarily in subchapters III and IV of the Retirement System law, with other provisions contained in subchapters V and VI relating to certain benefits. The various aspects of the financing are evaluated in this Part of the report.

### A. Method of Funding

#### 1. Funds

The assets of the System are credited amongst five funds for purposes of determining the contributions requirements of the various benefit payments and expense requirements of the system. They are the Members Contribution Fund, the Retirement Allowance Fund, the Survivors Benefit Fund, the Retirement Allowance Adjustment Fund and the Expense Fund. The various funds may be combined or eliminated if not needed for actuarial valuations. Separate accounts are maintained for each participating district.

#### 2. Accumulation of Funds

The Retirement System is an annuity savings plan for employees under which funds are accumulated with investment earnings during the employment period of employees to be disbursed to them, principal and investment earnings, over their retirement years. The financial solvency of the System will be maintained over the years as long as contributions of the employees and the employers, together with investment earnings on the funds of the System, are sufficient to meet the benefit payments.

B. Contributions

The contributions towards the cost of the benefits of the System are determined as follows:

1. Regular Retirement Benefits

a. Employer contributions

State contributions are determined to provide the cost of the following benefits for regular State employees and Teachers:

- i) one half the membership service credits of  $1/70$  per year, based on the five year average highest compensation, and
- ii) prior service credits of  $1/50$  per year, limited to 25 years for State employees, and  $1/70$  per year for Teachers, all based on the five year average highest compensation.

The State also contributes additional amount for the extra benefits of certain special State groups.

Participating district contributions are determined to provide the balance of the cost of benefits not provided by employee contributions.

b. Employee contributions

Regular State employees and Teachers currently contribute at the rate of  $6\frac{1}{2}\%$  of compensation and participating district employees contribute at the applicable rate for the benefit plan elected by the district. Higher rates of contribution are payable by certain special State groups.

Although the contribution rate of regular State employees and Teachers is currently set in the law at  $6\frac{1}{2}\%$  the limit on the benefits towards which the State will contribute, as outlined above, could require an increase in the

future in the employee contribution rate.

2. Survivor Benefits

a. Employer contributions

The State and participating districts contribute the necessary amount to meet the cost of the benefits not provided by employee contributions

b. Employee contributions

State employees and Teachers currently do not contribute towards the cost of survivors benefits although the board of trustees has the power to require a contribution of up to  $\frac{1}{4}$  of 1% of compensation. Participating districts also have the right to require employee contributions up to  $\frac{1}{4}$  of 1% of compensation.

3. Retirement Allowance Adjustment Benefits

a. Employer contributions

State contributions towards the cost of these benefits are included in the contributions which are made towards regular retirement benefits and are similarly limited.

Participating districts contribute the necessary amounts to meet the cost of the benefits not provided by employee contributions.

b. Employee contributions

State employees and Teachers currently do not contribute any specified extra amount towards the cost of retirement allowance adjustment benefits although the board of trustees has the power to require a contribution up to  $\frac{1}{2}$ % of compensation. Participating districts also have the right to require employee contributions up to  $\frac{1}{2}$ % of compensation. However, employee contributions towards the cost of regular retirement benefits must be sufficient,

over the years, to provide the cost of retirement allowance adjustments on the portion of the benefits not provided by State contributions.

4. Group Life Insurance

a. Employer contributions

State and participating districts contribute towards the cost of the basic life insurance benefits to the extent that employee contributions do not cover the cost of benefits; nothing towards the cost of the supplemental life insurance benefits or dependents insurance benefits.

b. Employee contributions

Active employees contribute at the monthly rate of 65¢ per thousand of insurance for their coverages and additional for dependents coverage.

C. Investment of Assets

1. Investment Policy

The assets of the system are invested in such types of investment as the board of trustees decides. There are no restrictions on the types of investment that may be used.

2. Investment Function

The board of trustees is required to employ a fiduciary to make the individual purchases and sales of securities, within the investment policy established by the board of trustees.

D. Participating District Liabilities

1. Payment of Benefits

The Retirement System is only liable for the payment of benefits with respect to

participating district employees if the accumulated funds arising from the contributions of a district and its employees are sufficient to provide the reserves for such benefits.

E. Comments

1. Determination of Retirement Benefit Contributions

a. Basic Equation

The contributions required to fund the retirement benefits under the System are determined from the basic equation:

$$\text{Benefit} = \text{Contributions Plus Investment Income}$$

b. Effect of Investment Income

The investment income secured on the assets of the System is a prime factor in determining the amount of contributions. This is particularly important for the Maine State Retirement System because of the inclusion of a cost of living provision. It has generally been considered that the rate of investment income rises with inflation. Therefore, if benefits for the retired are adjusted with increases in investment income such increases will offset the effects of inflation.

Most retirement plans that attempt to adjust the benefits of retired persons for the effects of inflation either a) adjust the benefits directly with investment results or b) adjust the benefits directly with changes in the consumer price index. The Maine Retirement System is somewhat unique in adjusting benefits directly with general salary changes which may be more or less than the rate of inflation changes.



Under the present actuarial assumptions used to determine the contributions it is anticipated that the cost of the retirement allowance adjustments will be met by investment earnings, income and capital appreciation, arising from an investment return in excess of  $4\frac{1}{2}\%$ . Thus, the following yearly rates of investment return will be required for yearly salary increases of the indicated amounts :

<u>Rate of Salary Increase</u>	<u>Rate of Investment Return</u>
$3\frac{1}{2}\%$	8%
$4\frac{1}{2}\%$	9
$5\frac{1}{2}\%$	10

Retirement allowance adjustments have been made as follows since the provisions therefor were enacted in 1965:

Increases were first made on September 3, 1965 in the amount of retirement allowances being paid to retired state employees. The increases ranged from 7% for those retired July 2, 1961 through December 31, 1963 to 48% for those retired March 5, 1951 and prior. Additional increases, on an accumulative basis, have been made which further increased retirement allowances as follows:

<u>Effective Date</u>	<u>Percentage Increase</u>
January 1, 1966	20.2%
January 1, 1968	10.0
July 1, 1969	7.5
December 1, 1971	11.5
June 23, 1973	5.5

A further 5.5% increase will be made in 1974 when the general salary increase becomes effective.

The accumulated retirement allowance adjustments through 1974 can amount to the following percentages for retirants in the specified calendar years:

<u>Retirement Year</u>	<u>Percentage of Accumulated Increase</u>
1973	5.5%
1972	11.3
1971 - 0	24.1
1969	33.4
1968 - 7	46.8
1966 - 4	76.4
1963 - 2	88.7
1961 - 0	113.3
---	---
1951 & prior	161.1

The average yearly compound increase in the retirement benefits during the period since the enactment of the retirement allowance adjustment provisions has been as follows:

<u>Period</u>	<u>Average Yearly Increase</u>
last 5 years	4.4%
last 10 years	5.8

Social Security benefits are now subject to increase when increases of as much as 3% occur in the consumer price index. The actuarial cost projections made to determine the effect of such increases included the following assumptions:

- i) the cost of the benefit increases would be provided by concurrent increases in the taxable earnings base,
- ii) a 2-3/4% long range annual rate of increase in the consumer price index,
- iii) a 5% long range annual rate of increase in average covered earnings, and
- iv) a 2 1/4% long range annual rate of increase in constant dollar average earnings.

The benefits of retired State employees and Teachers have also been increased since 1970 from the following changes in benefit provisions:

- i) increases in the yearly membership service credit from 1/70 to 1/60 to 1/50, resulting in a total increase of 40% in benefits from membership service,
- ii) increase in the yearly prior service credit for Teachers from 1/70 to 1/60, an increase of 16-2/3% in benefits from prior service,
- iii) the change from a 5 year average compensation base used in the determination of benefits to a 3 year base, resulting in an increase of at least 2% in benefits from all service, and
- iv) the adoption of a minimum monthly benefit of \$80.00 for 10 years of service, increased to \$100.00 in 1973.

All of the above increases are presumably intended to be funded by active employee contributions and investment earnings with no additional State contributions.

c. State Contributions

State contributions required for the regular retirement benefits indicated in section B of this part of the report are shown following for the 1973 - 4 fiscal period. Since benefits are directly related to salaries, such contributions are given as a percentage of salaries:

i) Current membership contribution	3.79%
ii) Accrued liability contribution	5.03
iii) Total contribution	8.82

The plan of liquidation that was adopted when the System was established in 1942 provided for yearly increases of 3% in the amount of accrued liability contribution in order that the interest on the unfunded liability, at a rate of 3%, would be contributed in addition to the principal amount. The 1972 actuarial valuation indicated that the then unfunded liability would be liquidated in slightly over 21 years if future experience coincides with then actuarial assumptions.

The Retirement System includes certain retired Teacher beneficiaries with service prior to 1924 whose benefits have been provided, for the most part, on a pay as you go basis, which has created a liability to be liquidated over future years.

Since State employees and Teachers are not included in the Federal Social Security system, the State does not incur Social Security taxes on account of their employment. Private employers commonly have both a retirement plan and Social Security coverage for their employees as well as well as many public employers. Social Security taxes, payable by the employees and employer each, are currently at the rate of 5.85% for all coverages. This should be considered in evaluating

the reasonableness of the State contributions under the Maine State Retirement System.

The State is also currently contributing .79% of State employees payroll and .25% of Teachers payroll towards the cost of survivor benefit payments, which is in the nature of term life insurance costs.

## 2. Employee Contributions

The board of trustees currently has the power to require employee contributions, up to stated limits, towards the costs of survivor benefits and retirement allowance adjustment benefits. It may be questioned whether the board should have such power to increase employee contributions as this, perhaps, should be legislative prerogative.

## 3. Group Life Insurance Costs

The group life insurance coverages are provided on a retention basis with the insurance company, whereby the premium charges, after reduction for the insurance company expenses and State premium taxes, are applied first to the payment of benefits and any balance is refunded.

This has resulted in the following experience over the years for the State employees and Teachers:

- a. Basic benefits - the cost of the benefits has increased over the years with an increase in the number of retired persons.
- b. Supplemental benefits - the cost of these benefits is paid for entirely by employee contributions. For a period of years the premium refund was accumulated with investment earnings and, at present, the accumulated fund and current premium refunds are used to provide 30% increased benefits for active employees and a continuance to retired employees of 30% of the scheduled benefits.

c. All benefits - for the last fiscal period contributions of employees and the State for all benefits were as follows:

- |              |             |
|--------------|-------------|
| i) Employees | \$1,156,362 |
| ii) State    | 497,770     |

The Maine Management and Cost Survey states that certain savings could be achieved by reducing the premium charges for the scheduled group life insurance and by a certain pooling of the experience of participating districts. The conclusions of the survey appear to overlook the following facts:

a. The excess of premium charges for active State employees and Teachers for the scheduled benefits has been used as follows:

- i) to meet part of the cost of the benefits for retired employees, for the basic coverage, and
- ii) to increase the scheduled benefits of the supplemental coverage by 30% for active employees and to provide benefits of 30% of scheduled benefits for retired employees. Any reduction in premium charges would result either in a decrease in benefits now provided or an increase in the State contributions.

b. The experience of the participating districts is presently pooled, only the experience of 2 districts being excluded of their own choice.

We believe the group life insurance program has been well conceived and well operated.

#### 4. Investments

The investments of retirement plan assets are usually of a long term nature and include debt securities such as bonds and mortgages and capital ownerships such as stocks and real estate. Such investments may be made by direct purchase or through pooled accounts as offered by banks and life insurance companies.

The objective of any retirement plan investment program is to secure the maximum investment return with a reasonable degree of safety of principal. Also, the use of all types of investments is desirable, adjustments between types being made at those times when one type is preferable to another due to the circumstances of the times.

Liquidity of investment is not a major criteria as to the type of investment while assets are increasing and there is an excess of contributions over benefit payments. When a plan attains a position of maturity, realized investment income will be needed to provide part of the cost of benefit payments.

In recent years some investment managers have advocated an investment program that is composed largely of common stocks with the balance in corporate bonds, influenced by the claims that over a long period of years the total investment return on common stocks will exceed that on fixed debt securities and will be closely correlated in its fluctuations to the cyclical changes in the economy. Such a correlation is desirable if retirement benefits also fluctuate with the cyclical changes in the economy. Such managers also believe that individual investments should be continually analyzed and changes made in the investment portfolio if market conditions indicate overall improvement in the investment return may be secured by shifts in specific securities.

The objective of the investment program of the Maine State Retirement System is currently to have not more than 75% of the assets of the System in stocks and the balance in bonds.

#### 5. Participating District Liabilities

The present law does not define the rights of employees in case a participating district ceases to be part of the Retirement System.

The law should be amended to provide that the Retirement System shall not be liable for the payment of benefits, other than the refunding of employee contributions to the personnel, or former personnel, of any participating district which is dissolved by statute or by the courts in due process, except to the extent that reserves for benefits are provided from the funds of the System allocated to the account of the district. Also, a specific method should be prescribed in the law for the allocation of funds amongst the reserve accounts of the individual members and beneficiaries at the time of such a discontinuance of participation by a district.



## PART V - LIFE AND HEALTH INSURANCE BENEFITS

Most employee benefit programs today include retirement, life insurance and health insurance benefits. Separate plans may be established for each type of benefit or one or more may be combined in the same plan. Life insurance is included in the Maine State Retirement System but health benefits are covered under other plans. These various benefits are discussed in this Part of the report.

### A. Life Insurance Benefits

Life insurance benefits are offered under a group life insurance policy to members of the Retirement System in the following amounts:

1. A basic amount on the employee's life equal to one year's salary which decreases in steps after retirement to 25% of the amount at retirement,
2. An additional or supplemental amount on the employee's life also equal to one year's salary during active employment only; however, the supplemental amount for State employees and Teachers is currently increased under a dividend program by 30% which is also provided retired employees, and
3. The following amounts on the lives of dependents of the employee:
  - a. spouse \$2,000
  - b. child 6 months to 19 years 500
  - c. child under 6 months 100

Employees pay the cost of all the benefits except for certain employer contributions towards the cost of the basic amount.

Enrollment in the group life plan is entirely optional with employees.

## B. Health Insurance Benefits

Health insurance benefits are offered to the following employee groups under separate programs for each group:

1. State employees ,
2. Teachers, and
3. Municipal employees .

The following benefits are provided for each employee group:

1. Blue Cross and Blue Shield benefits, and
2. Major Medical benefits.

All the benefits are offered for employees and their dependents. Benefits are continued after retirement and are coordinated with Medicare. Persons who are not covered under the Federal Social Security Act may purchase Medicare coverage.

Enrollment for health insurance benefits is optional with the employee. The State pays one half of the cost of employee coverage, before and after retirement, and employees pay the balance of the cost of their coverage and the cost of any dependent coverage. The payment by the employer of any part of the cost of the benefits for Teachers and Municipal employees depends upon the agreement entered into with their employer.

## C. Comments

### 1. Life Insurance Benefits

Certain aspects of the funding of group life insurance benefits are commented on in Part IV of this report. Overall, the benefits of the group life insurance program appear to be satisfactory and there are no problems of note.

2. Health Insurance Benefits

The programs for health insurance benefits appear to be providing reasonably adequate benefits. Problems, if any, seem to be related to the inevitable problem of trying to match contributions with benefit costs that increase with inflation.

Charges for coverages are determined on an experience basis reflecting administration costs of the insurance carrier, state premium taxes and benefit payments. No particular changes that would be advantageous are evident.

## PART VI - AMENDMENTS TO MAINE STATE RETIREMENT SYSTEM

The manner in which changes are made to the Maine State Retirement System, and certain problems in connection therewith, are evaluated in this Part of the report.

### A. Methods of Changing System

The System may be amended by the following actions:

1. Enactment of amendments to the Retirement System law applicable to all employees or specified group of employees,
2. Enactment of special resolves granting credits for individuals towards retirement benefits not provided under the Retirement System law,
3. Enactment of private laws granting benefits to individuals not provided under the Retirement System law, and
4. Actions by the board of trustees specifically allowed under the Retirement System law.

### B. Accrued Benefits

When the Retirement System law is changed it is customary to "grandfather" benefits that have accrued from service prior to the date of change so that they are not reduced due to the change, although they may be increased.

### C. Comments

#### 1. Statutory Amendments

As previously pointed out in our reports, the benefits provided by the Retirement System are an integral part of the employment structure which affects the total compensation received by employees and the employment tenure of employees. Therefore, we believe any proposed amendment should be carefully

evaluated in all such aspects. We suggest the following procedure should be specified in the law for proposed amendments:

- a. the board of trustees shall review all proposed legislation and report to proper legislative authority, or committee, the impact each amendment will have upon all the aspects of the System. In that connection the board shall grant a hearing to the sponsors of a bill who wish to present any facts with respect to the bill, and
- b. the personnel department shall review all proposed legislation affecting the receipt of benefits under the System and submit its evaluation thereof to the board of trustees.

## 2. Special Resolves

Special resolves, both under public and private laws, generally involve special benefits for individuals to which they are not entitled, as deferred compensation, under the provisions of the Retirement System. Therefore, the reason for granting such benefits is often from a needs point of view. This, of course, raises questions as to the equity of special benefits for certain employees who ask for them while other employees in similar circumstances do not receive them.

It is suggested that the board of trustees review all proposed special resolves in the same manner as for amendments to the Retirement Law.

Special resolves require the Retirement System to pay benefits to individuals for which no financing is provided in the regular State contributions. Therefore, the Retirement law now requires that the actuarial costs of the benefits shall be fully funded by legislative appropriation. However, the Retirement law does not

include benefits granted under private and special laws. The Retirement law should be amended to require the funding of such benefits in full when a private or special law is enacted.

### 3. Board of Trustees Actions

The actions by the board of trustees which can change the provisions of the System relate primarily to contributions of employees. As previously commented on, it is suggested that such power of the board of trustees should perhaps be eliminated.

### 4. Accrued Benefits

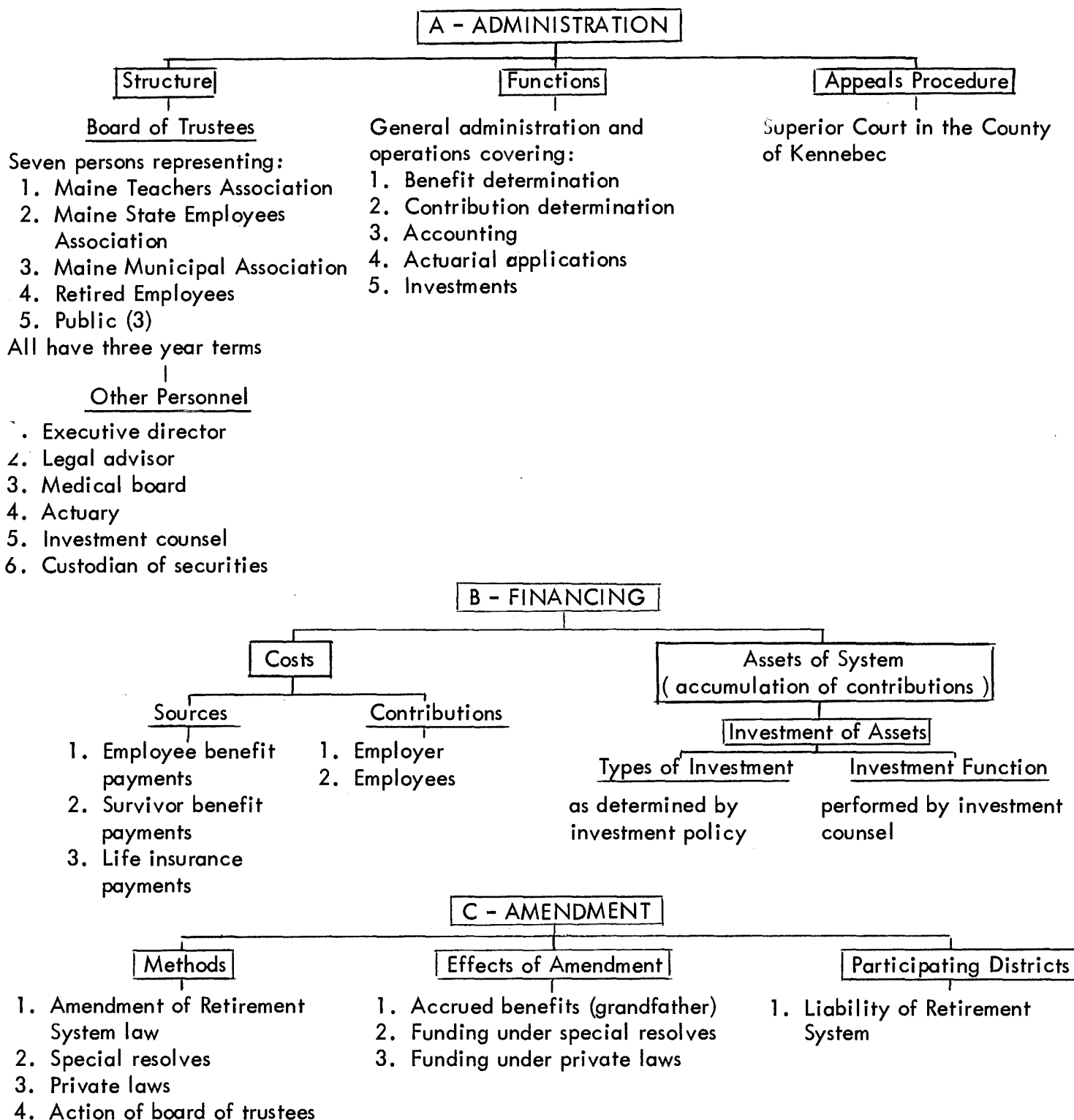
Since the financial basis of retirement benefits arises from the deferred compensation nature of the benefits, it is usual to guarantee that benefits based upon service and compensation prior to date of any amendment shall not be reduced by such amendment. This is commonly referred to as a "grandfather" provision. This is a required provision in pension plans subject to Internal Revenue Service regulations. Sometimes plan amendments also extend prior provisions to service after the date of the amendment which changes such provisions, and, in effect, such actions increase the benefits accrued to the date of the amendment.

The present Retirement System law does not specify the effect that amendments to the System may have on accrued benefits. It is suggested that such a provision be included in the Retirement System law.

If an amendment increases accrued benefits as well as future benefits the total increased cost is magnified to the extent of the amount of accrued benefits, both funded and unfunded.

**PART VII - CHART OF ADMINISTRATION, FINANCING AND AMENDMENT  
PROVISIONS OF MAINE STATE RETIREMENT SYSTEM**

The principal provisions with respect to the administration, financing and amendment of the Maine State Retirement System are outlined following:



PART VIII - SUMMARY OF PROVISIONS OF OTHER STATE RETIREMENT SYSTEMS

This Part contains an outline summarizing the provisions of other state retirement systems as follows:

CHART A - SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS

CHART B - SUMMARY OF STATE TEACHERS RETIREMENT SYSTEMS

The above charts show the major provisions of individual state employee and state teacher retirement systems. These charts are not meant to be complete descriptions but rather are intended to be used as a guide for comparison between systems. The information presented is based on currently available data.



## CHART A

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS

<u>State</u>	<u>Compensation Base for Benefits</u>	<u>Social Security</u>	<u>Requirements for Retirement Benefits</u>		<u>Normal Retirement Benefits for Each Year of Future Service</u>
			<u>Normal</u>	<u>Early Age</u>	
Alabama	5 Yr. Avg. Salary	Yes	At age 60	50 & 30 yrs.	1-3/4% Final Avg. Sal.
Alaska	3 Yr. Avg. Salary	Yes	5 yrs. & age 60; or 30 years	55 & 5 yrs.	1-1/2% each 1st 10 yrs. 1-3/4% each 2nd 10 yrs. 2% over 20 years
Arizona	5 Yr. Avg. Salary	Yes	At age 65	50 & 20 yrs.	1-1/2% sal.
Arkansas	5 Yr. Avg. Salary	Yes	20 yrs. & age 60; or 10 yrs. & age 65	-	1.6375% of salary
California	3 Yr. Avg. Salary	Yes	At age 60; or 5 yrs. & age 55	-	2% of salary
Colorado	5 Yr. Avg. Salary	No	30 yrs. & age 55; 20 yrs. & age 60	55 & 20 yrs.; or age 60 & 5 yrs.	2-1/2% of sal. 1st 20 yrs.; 1% of sal. thereafter
Connecticut	3 Yr. Avg. Salary	Yes	55 Male 50 Female	-	1% Salary to S.S. + 2% on excess
Delaware	5 Yr. Avg. Salary	Yes	15 yrs. & age 60 or anytime after 30 yrs.	-	1-2/3% of Salary
Florida	5 Yr. Avg. Salary	Yes	At age 62	After 10 yrs.	1.6% of Salary
Georgia	2 Yr. Avg. Salary	Yes	At age 65	60 & 10 yrs.; or anytime after 30 years	Various factors
Hawaii	3 Yr. Avg. Salary	Yes	5 yrs. & age 55	After 25 yrs.	2% of Salary
Idaho	Career Avg. Sal.	Yes	Age 65 & 5 yrs.	55 & 5 Yrs.	1% of 1st \$4,800 + 2% over \$4,800
Illinois	4 Yr. Avg. Salary	Yes	Age 60 & 8 yrs.	55 & 30; or anytime after 35 years	Various factors
Indiana	5 Yr. Avg. Salary	Yes	10 yrs. & age 65	50 & 15	1.1% of salary

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS  
(Continued)

<u>State</u>	<u>Additional Benefits For</u>			<u>Employee Contributions</u>	<u>Rate of Interest on Employee Money</u>	<u>Yield on Investments</u>
	<u>Disability</u>	<u>Survivors</u>	<u>Vesting</u>			
Alabama	Yes	Yes	15 yrs.	4% Salary	4%	6.06%
Alaska	Yes	Yes	After 5 yrs.	4-3/4% Salary	4%	N/A
Arizona	Yes	Yes	After 5 yrs.	5% Salary	4-3/4%	5.72%
Arkansas	Yes	No	After 20 yrs.; or 10 yrs. & age 50	5% up to \$12,000	3%	6.60%
California	Yes	Yes	After 5 yrs.	7% Salary	5%	5.37%
Colorado	Yes	Yes	After 5 yrs.	7% Salary	None	6.13%
Connecticut	Yes	No	After 10 yrs.	2% Salary to S.S.+ 5% over S.S.	None	N/A
Delaware	Yes	Yes	20 years	None	None	N/A
Florida	Yes	No	10 years	4% Salary	N/A	N/A
Georgia	Yes	Yes	After 10 yrs.	3% first \$4,200 + 5% over \$4,200	4%	5.12%
Hawaii	Yes	Yes	After 5 yrs.	7.8% Salary	4%	4.09%
Idaho	Yes	Yes	After 5 yrs.	3% first \$4,800 + 6% over \$4,800	5%	4.36%
Illinois	Yes	Yes	After 10 yrs.	4% Salary	2%	N/A
Indiana	Yes	Yes	After 10 yrs.	3% Salary	50% of Actual Earnings	Approx. 6%

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS  
(Continued)

<u>State</u>	<u>Compensation Base for Benefits</u>	<u>Social Security</u>	<u>Requirements for Retirement Benefits</u>		<u>Normal Retirement Benefits for Each Year of Future Service</u>
			<u>Normal</u>	<u>Early Age</u>	
Iowa	Career Avg. Sal.	Yes	At age 65	55	1.45% of salary
Kansas	Final Avg. Salary	Yes	At age 65	60 & 10	1-1/4% of salary
Kentucky	5 Yr. Avg. Salary	Yes	Age 65 & 4 yrs.	55 & 8 yrs.	1.6% of salary
Louisiana	3 Yr. Avg. Salary	No	60 & 10 yrs.; 55 & 25 yrs.; or anytime after 30 yrs.	-	2% of salary
Maryland	3 Yr. Avg. Salary	Yes	After 25 yrs. or age 60	After 25 yrs.	1-2/3% of salary
Mass.	3 Yr. Avg. Salary	No	At least 20 yrs. or age 55	-	Various factors
Michigan	5 Yr. Avg. Salary	Yes	10 yrs. & age 60	55 & 15 yrs.	1% of 1st \$4,200 + 1-1/2% over \$4,200
Minnesota	Career Avg. Sal.	Yes	At age 65	58 & 20 yrs.	1% each 1st 10 yrs. 1.3% each 2nd 10 yrs. 2% each 3rd 10 yrs. 2.5% over 30 yrs.
Mississippi	5 Yr. Avg. Salary	Yes	At age 65	55 & 30 yrs. or 60 + 10 yrs.	1-1/2% of salary
Missouri	5 Yr. Avg. Salary	Yes	Age 65 & 4 yrs.	55 & 15 yrs.	1% of salary
Montana	3 Yr. Avg. Salary	Yes	At age 60	55 & 10 yrs.	1/65 of salary
Nebraska	Career Avg. Sal.	Yes	At age 65	At age 60	Various factors
Nevada	3 Yr. Avg. Salary	No	Age 60 & 10 yrs.	55 & 30 yrs.	2-1/2% of salary first 20 yrs. - 1-1/2% next 10 yrs.
New Hamp.	Final Avg. Salary	Yes	At age 60	-	1-2/3% of salary first 30 yrs. & 5/6% thereafter
New Jersey	3 Yr. Avg. Salary	Yes	At age 60	After 25 yrs.	1-2/3% of salary

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS  
(Continued)

<u>State</u>	<u>Additional Benefit For</u>			<u>Employee Contributions</u>	<u>Rate of Interest on Employee Money</u>	<u>Yield on Investments</u>
	<u>Disability</u>	<u>Survivors</u>	<u>Vesting</u>			
Iowa	No	Yes	After age 55 or 8 years	3-1/2% up to \$7,800	2% + interest dividends	5.85%
Kansas	Yes	Yes	After 10 yrs.	4% Salary	Variable	4.46%
Kentucky	Yes	Yes	After 8 yrs.	4% Salary	3%	5.04%
Louisiana	Yes	Yes	No	6% Salary	4-1/2%	6.912%
Maryland	Yes	Yes	After 15 yrs.	Various	4%	5.50%
Mass.	Yes	Yes	After age 55	5% Salary	Variable	4.93%
Michigan	Yes	Yes	Various	3% first \$4,200 + 5% over \$4,200	3-1/2%	5.96%
Minnesota	Yes	Yes	After 10 yrs.	3% Salary	None	4.60%
Mississippi	Yes	Yes	After 20 yrs.	4-1/2% on earnings up to \$35,000	5%	6.49%
Missouri	Yes	Yes	After 15 yrs.; 35 & 10 yrs.	None	4% on prior contribution	5.93%
Montana	Yes	Yes	After 10 yrs.	5.75% Salary	5-1/2%	5.19%
Nebraska	No	Yes	After 5 yrs.	3% first \$4,800 + 6% over \$4,800	4%	N/A
Nevada	Yes	Yes	After 15 yrs.	6% Salary	None	5.75%
New Hamp.	Yes	Yes	After 15 yrs.	Various	4%	4.47%
New Jersey	Yes	Yes	After 15 yrs.	Various	4%	5.56%

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS

(Continued)

<u>State</u>	<u>Compensation Base for Benefits</u>	<u>Social Security</u>	<u>Requirements for Retirement Benefits</u>		<u>Normal Retirement Benefits for Each Year of Future Service</u>
			<u>Normal</u>	<u>Early Age</u>	
New Mex.	5 Yr. Avg. Salary	Yes	20 yrs. & age 60; 5 yrs. & age 65; or anytime after 30 yrs.	-	2% of salary
New York	3 Yr. Avg. Salary	Yes	At age 60	55	Various factors
No. Carolina	5 Yr. Avg. Salary	Yes	Age 65, 30 yrs. & age 62, or age 60	50 & 20 yrs.	1-1/4% first \$5,600 1-1/2% over \$5,600
No. Dakota	Career Avg. Sal.	Yes	At age 65	55	Various factors
Ohio	5 Yr. Avg. Salary	No	Age 65; or any- time after 35 yrs.	55 & 25 yrs.; or 60 & 5 yrs.	2% of salary
Oklahoma	5 Yr. Avg. Salary	Yes	At age 65	62 & 10 yrs.	1-1/2% of first \$12,000
Oregon	3 Yr. Avg. Salary	Yes	At age 65	60	Various factors
Pennsylvania	5 Yr. Avg. Salary	Yes	At age 60	After 25 yrs.	2% of salary
Rhode Island	3 Yr. Avg. Salary	Yes	Various	Various	1.7% each first 10 yrs. 1.9% each next 10 yrs. 2.4% after 20 years
So. Carolina	3 Yr. Avg. Salary	Yes	Age 60; or any- time after 35 yrs.	-	1% of first \$4,800 + 1-1/2% over \$4,800
So. Dakota	Career Avg. Sal.	No	Age 65 & 10 yrs.	55 & 20 yrs.	1% up to \$6,000
Tennessee	5 Yr. Avg. Salary	Yes	At age 65	55	1-1/8% of first \$7,800 + 1-3/4% over \$7,800
Texas	5 Yr. Avg. Salary	Yes	Age 60 with 10 yrs.	After 30 yrs. & age 55	1-1/4% each 1st 10 yrs. 1-1/2% next 20 yrs. 1-3/4% over 30 yrs.
Utah	5 Yr. Avg. Salary	Yes	Age 65 with 4 yrs.	63 & 10 yrs.; 60 & 20 yrs.; 55 & 30 yrs.	1.2% of salary
Vermont	5 Yr. Avg. Salary	Yes	Age 65 or at 62 with 30 yrs.	55 & 13 yrs.; or anytime after 30 yrs.	1-2/3% of salary
Virginia	5 Yr. Avg. Salary	Yes	At age 65	60	1-1/2% of salary in excess of \$1,200

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS  
(Continued)

<u>State</u>	<u>Additional Benefit For</u>			<u>Employee Contributions</u>	<u>Rate of Interest on Employee Money</u>	<u>Yield on Investments</u>
	<u>Disability</u>	<u>Survivors</u>	<u>Vesting</u>			
New Mexico	Yes	Yes	After 5 yrs.	5% Salary	None	6.10%
New York	Yes	Yes	After 10 yrs.	Various	3.8%	5.27%
No. Carolina	Yes	Yes	After 5 yrs.	5% first \$5,600 + 6% of excess	4%	5.89%
No. Dakota	Yes	Yes	Graduated Vesting	4% of salary	Variable	8.00%
Ohio	Yes	Yes	After 5 yrs.	7.7% Salary	None	5.23%
Oklahoma	Yes	No	After 10 yrs.	None	N/A	5.20%
Oregon	Yes	Yes	After 5 yrs.	Various	Variable	6.94%
Pennsylvania	Yes	Yes	After 10 yrs.	Various	4%	6.15%
Rhode Island	Yes	Yes	After 10 yrs.	5% Salary	None	N/A
So. Carolina	Yes	Yes	After 15 yrs.	4% first \$4,800 + 6% over \$4,800	4%	N/A
So. Dakota	No	Yes	After 10 yrs.	3.5% up to \$6,000	3%	5.10%
Tennessee	Yes	No	Various	3% first \$7,800 + 5% over \$7,800	4%	4.28%
Texas	Yes	Yes	After 15 yrs.	6% Salary	2-1/2%	5.28%
Utah	Yes	Yes	No	4-3/4% Salary	4-1/2%	5.94%
Vermont	Yes	Yes	After 13 yrs.	5% Salary	4.9%	5.39%
Virginia	Yes	Yes	After 5 yrs.	5-1/2% over \$1,200	4%	6.01%

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS  
(Continued)

<u>State</u>	<u>Compensation Base for Benefits</u>	<u>Social Security</u>	<u>Requirements for Retirement Benefits</u>		<u>Normal Retirement Benefits for Each Year of Future Service</u>
			<u>Normal</u>	<u>Early Age</u>	
Washington	2 Yr. Avg. Salary	Yes	Age 60 with 5 yrs.; or after 30 yrs.; age 55 with 25 yrs.	-	2% of salary
West Va.	3 Yr. Avg. Salary	Yes	Age 60 with 5 yrs.	-	2% of salary
Wisconsin	3 Yr. Avg. Salary	Yes	At age 65	55	1.3% of salary
Wyoming	Career Avg. Sal.	Yes	Age 60 with 4 yrs.	After 25 yrs.	Various factors

SUMMARY OF STATE EMPLOYEE RETIREMENT SYSTEMS  
(Continued)

<u>State</u>	<u>Additional Benefits For</u>			<u>Employee Contributions</u>	<u>Rate of Interest on Employee Money</u>	<u>Yield on Investments</u>
	<u>Disability</u>	<u>Survivors</u>	<u>Vesting</u>			
Washington	Yes	Yes	Immediate	5% Salary	5-1/2%	6.10%
West Va.	Yes	Yes	After 5 yrs.	4-1/2% Salary	4%	6.50%
Wisconsin	Yes	Yes	Immediate	5% Salary	Variable	5.32%
Wyoming	Yes	Yes	After 4 yrs.	5% Maximum \$9,100	5-1/2%	6.60%



# CHART B

## SUMMARY OF STATE TEACHERS RETIREMENT SYSTEMS

<u>State</u>	<u>Type of Plan</u>	<u>Social Security Benefits</u>	<u>Requirements for Retirement Benefits</u>		<u>Normal Retirement Benefits for Each Year of Future Service</u>	<u>Add'l Benefits for</u>		<u>Employee Contributions</u>
			<u>Normal</u>	<u>Early</u>		<u>Disability</u>	<u>Survivor</u>	
Alabama	Final Avg.Sal.	Yes	60 + 10 yrs.	None	1-1/4% Salary	10 yrs.	Yes	4% Salary
Alaska	Final Avg.Sal.	No	60 or 30 yrs.	55 + 15 yrs.	2% Salary	5 yrs.	Yes	7% Salary
Arizona	Final Avg.Sal.	Yes	65	62 or 50 and 20 yrs.	1-1/2% Salary	5 yrs.	Yes	5% Salary
Arkansas	5 Highest Years	Yes	60 + 10 yrs.	After 30 yrs.	1-1/4% Salary	10 yrs.	Yes	6% Salary
California	3 Consecutive Highest Years	No	60 + 5 yrs.	55 & 5 yrs.	1-2/3% of Salary	5 yrs.	Yes	Various
Colorado	Final Avg.Sal.	No	60 + 20 yrs. or 55 + 35 yrs.	60 + 5 yrs. or 55 + 20 yrs.	2-1/2% Salary first 20 yrs. 1% next 20 yrs.	15 yrs.	Yes	7% Salary
Connecticut	3 Highest Years	No	60 + 20 yrs. or 35 years	After 25 yrs.	2% of Salary	10 yrs.	Yes	6% Salary
Delaware	5 Consecutive Highest Years	Yes	65 + 5 yrs.; 60 + 15 yrs.; or 30 years	-	1-2/3% of Salary	15 yrs.	Yes	5% Salary over \$6,000
Florida	Final Avg.Sal.	No	62 + 10 yrs.	55 + 10 yrs.	2% of Salary	10 yrs.	Yes	6% Salary
Georgia	5 Consecutive Yrs.	Yes	62 + 10 yrs.	55 + 35 yrs. 60 + 10 yrs.	1-3/4% of Salary	15 yrs. or 60 & 10 yrs.	Yes	6% Salary
Hawaii	3 Highest Years	Yes	55 + 5 yrs.	After 25 yrs.	2% of Salary	10 yrs.	Yes	6% Salary

SUMMARY OF STATE TEACHERS RETIREMENT SYSTEMS  
(Continued)

<u>State</u>	<u>Type of Plan</u>	<u>Social Security Benefits</u>	<u>Requirements for Retirement Benefits</u>		<u>Normal Retirement Benefits for Each Year of Future Service</u>	<u>Add'l Benefits for</u>		<u>Employee Contributions</u>
			<u>Normal</u>	<u>Early</u>		<u>Disability</u>	<u>Survivor</u>	
Idaho	Career Avg. Sal.	Yes	65 + 5 yrs. or 60 + 30 yrs.	55 + 5 yrs.	1% first \$4,800 plus 2% over \$4,800	10 yrs.	Yes	3% of first \$4,800 plus 6% over \$4,800
Illinois	Final Avg. Sal.	No	60 + 20 yrs.	55 + 20 yrs.	Various factors	10 yrs.	Yes	8% Salary
Indiana	5 Highest Years	Yes	65 + 10 yrs.	After 15 yrs.	.6% first \$3,000 + 1.1% over \$3,000	7 yrs	Yes	3% of salary of first \$8,500
Iowa	Career Avg. Sal.	Yes	65	55	1.45% of Salary	None	Yes	3-1/2% of first \$7,800
Kansas	Final Avg. Sal.	Yes	65	60 + 10 yrs.	1-1/4% of Salary	Immediate	Yes	4% Salary
Kentucky	5 Highest Years	No	60	After 30 yrs.	2% Salary	10 yrs.	Yes	7% Salary
Louisiana	3 Consecutive Yrs.	No	60 + 10 yrs. or 20 yrs.	-	2% of Salary	5 yrs.	Yes	7% Salary
Maryland	3 Consecutive Yrs.	Yes	60 or 35 yrs.	After 25 yrs.	1-2/3% Salary	5 yrs.	Yes	Variable
Mass.	3 Consecutive Yrs.	No	65	55	2-1/2% Salary	15 yrs.	Yes	5% Salary
Michigan	5 Consecutive Yrs.	Yes	60 + 10 yrs.	55 + 30 yrs.	1% of first \$4,200 + 1-1/2% Excess Salary	10 yrs.	Yes	3% of first \$4,200 + 5% Excess
Minnesota	Career Avg. Sal.	Yes	65	55 + 10 yrs.	Various factors	10 yrs. or Age 50 + 5 yrs.	Yes	3-1/2% Salary
Mississippi	5 Consecutive Yrs.	Yes	65 + 10 yrs.	55 + 30 yrs.	1-1/2% Salary	10 yrs.	Yes	4-1/2% Salary
Missouri	10 Consecutive Yrs.	No	60 + 5 yrs.	After 30 yrs.	1-1/2% Salary	8 yrs.	Yes	Max. of 8% of Sal.

SUMMARY OF STATE TEACHERS RETIREMENT SYSTEMS  
(Continued)

<u>State</u>	<u>Type of Plan</u>	<u>Social Security Benefits</u>	<u>Requirements for Retirement Benefits</u>		<u>Normal Retirement Benefits for Each Year of Future Service</u>	<u>Add'l Benefits for</u>		<u>Employee Contributions</u>
			<u>Normal</u>	<u>Early</u>		<u>Disability</u>	<u>Survivor</u>	
Montana	3 Consecutive Yrs.	Yes	60 + 5 yrs.	-	1-3/7% Salary	5 yrs.	Yes	5% Salary
Nebraska	Final Avg.Sal.	Yes	65 + 5 yrs.	After 35 yrs.	1% of Salary	15 yrs.	No	3-1/2% Salary
Nevada	Final Avg.Sal.	No	60 + 10 yrs.or 55 + 30 yrs.	-	2-1/2% of Salary first 20 yrs., 1-1/2% next 10 yrs.	10 yrs.	Yes	6% Salary
New Hamp.	5 Highest Years	Yes	60	-	1-2/3% first 30 yrs. plus 5/6% thereafter	10 yrs.	No	Various
New Jersey	3 Highest Years	Yes	60	After 25 yrs.	1-2/3% of Salary	10 yrs.	Yes	Various
New Mexico	5 Yr. Avg. Sal.	Yes	65 + 5 yrs.; 60 + 15 yrs. or after 35 yrs.	30 yrs.	1-1/2% of Salary	10 yrs.	No	4% Salary
New York	Final Avg.Sal.	Yes	55 or 35 yrs.	-	2% of Salary	10 yrs.	Yes	None
No.Carolina	5 Consecutive Yrs.	Yes	65 or 62 and 30 years	50 + 20 yrs.	1-1/4% first \$5,600 + 1-1/2% excess \$5,600	5 yrs.	Yes	5% of first \$5,600 6% of excess sal.
No. Dakota	Career Avg. Sal.	Yes	65 + 10 yrs.	10 yrs.	1-1/2% of Salary	15 yrs.	No	4% Salary
Ohio	5 Highest Years	No	65 + 5 yrs. or after 35 yrs.	55 + 25 yrs.	1.9% of Salary each yr.	5 yrs.	Yes	7.8% Salary
Oklahoma	Career Avg.Sal.	Yes	62 + 10 yrs.	60 + 10 yrs.or after 30 yrs.	Various factors	10 yrs.	No	5% of first \$7,800
Oregon	Career Avg.Sal.	Yes	65	60	Various factors	10 yrs.	Yes	Various

SUMMARY OF STATE TEACHERS RETIREMENT SYSTEMS  
(Continued)

<u>State</u>	<u>Type of Plan</u>	<u>Social Security Benefits</u>	<u>Requirements for Retirement Benefits</u>		<u>Normal Retirement Benefits for Each Year of Future Service</u>	<u>Add'l Benefits for</u>		<u>Employee Contributions</u>
			<u>Normal</u>	<u>Early</u>		<u>Disability</u>	<u>Survivor</u>	
Pennsylvania	5 Highest Years	Yes	62 + 5 yrs.; 60 + 30 yrs.or after 35 yrs.	After 25 yrs.	2% of Salary	10 yrs.	Yes	5-1/2% Salary
Rhode Island	Final Avg.Sal.	No	60 + 10 yrs.; 58 + 30 yrs.or 35 years	30 yrs.	Various factors	7 yrs.	Yes	Various
So.Carolina	Final Avg.Sal.	Yes	65 or after 35 years	60	1% first \$4,800 + 1-1/2% of excess salary	5 yrs.	Yes	4% Annual Sal. to \$4,800,6% of excess
So. Dakota	Final Avg.Sal.	Yes	65 + 15 yrs.	55 + 20 yrs.	1.45% of first \$7,800 each year	10 yrs.	Yes	5% first \$7,800 Sal.
Tennessee	Final Avg.Sal.	Yes	60	After 30 yrs.	Various	10 yrs.	No	3% up to S.S. Cov. Compensation + 5% of excess sal.
Texas	5 Highest Years	Yes	60 + 20 yrs.or 65 + 10 yrs.	55 + 15 yrs.	1-3/4% of Salary	Immediate	Yes	6% Salary
Utah	Final Avg.Sal.	Yes	65 + 4 yrs.	55 + 30 yrs.; 60 + 20 yrs.or 62 + 10 yrs.	1.2% of Salary	10 yrs.	Yes	4-1/2% Salary
Vermont	5 Highest Years	Yes	60	After 35 yrs.	1-3/7% of Salary	15 yrs.	Yes	Various
Virginia	5 Consecutive Yrs.	Yes	65	60	1-1/2% of excess over \$1,200	10 yrs.	Yes	5-1/2% of Salary over \$1,200

SUMMARY OF STATE TEACHERS RETIREMENT SYSTEMS  
(Continued)

<u>State</u>	<u>Type of Plan</u>	<u>Social Security Benefits</u>	<u>Requirements for Retirement Benefits</u>		<u>Normal Retirement Benefits for Each Year of Future Service</u>	<u>Add'l Benefits for</u>		<u>Employee Contributions</u>
			<u>Normal</u>	<u>Early</u>		<u>Disability</u>	<u>Survivor</u>	
Washington	Final Avg.Sal.	Yes	60 + 5 yrs. or 30 years	55 + 25 yrs.	1% of Salary	5 yrs.	Yes	5% Salary
West Va.	Final Avg.Sal.	Yes	60 + 5 yrs. or 35 years	55 + 30 yrs.	Various factors	10 yrs.	Yes	6% Salary
Wisconsin	Final Avg.Sal.	Yes	65	50	6/7% of first \$7,800 Salary + 1-2/7% of excess	5 yrs.	Yes	4-1/2% of S.S. taxable wages + 7% of excess
Wyoming	Career Avg.Sal.	Yes	50 + 4 yrs.	After 25 yrs.	Various	15 yrs.	Yes	5% Salary

# TOWNE & ASSOCIATES

*Actuaries*

*Management Consultants*

EMPLOYEE BENEFIT PLANS

ROBERT J. TOWNE, F.S.A.  
164 MAIN STREET  
YARMOUTH, MAINE 04096  
(207) 846-4204

TOWNE & EDDY  
P. O. BOX 80641  
ATLANTA, GEORGIA 30341  
(404) 458-5843

SEAL & LOHSE, INC.  
1001 FRANKLIN AVENUE  
GARDEN CITY, NEW YORK 11530  
(516) 741-5560

NORTHEAST ACTUARIAL SERVICES, INC.  
33 STROUDWATER ROAD  
PORTLAND, MAINE 04102  
(207) 773-2753

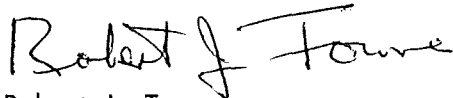
January 9, 1974

Senator Harrison L. Richardson, Chairman  
Committee on Veterans & Retirement, State of Maine  
Augusta, Maine

Dear Senator Richardson:

The final report on our study of the Maine State Retirement System is submitted herewith. This report summarizes the results presented in our three interim reports and lists those items concerning which legislation might be considered.

Sincerely,



Robert J. Towne,  
Fellow Society of Actuaries

RJT: rrt

SUMMARY REPORT ON  
STUDY OF  
MAINE STATE RETIREMENT SYSTEM

Submitted  
January 9, 1974

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## PART I

SCOPE OF INTERIM REPORTSA. Subject Matter of Study

Our study of the Maine State Retirement System encompassed all of the provisions of the System. It was particularly concerned with analyzing the differences in benefit provisions of employees in various employment classifications and the development of a basis for evaluation of future changes in the System. The provisions of the System were also reviewed to consider such changes that appeared desirable from the point of view of basic retirement system objectives.

The subject matter of our study as presented in the interim reports was developed from (1) a review of legislation affecting the System that was either proposed or enacted in the 1973 Legislative Session (2) meetings with various interested organizations and (3) our analysis of the provisions of the System.

## B. Outline of Provisions of Maine State Retirement System

The first interim report contains an outline of the benefit provisions of the System, in Part III thereof, and the third interim report contains a chart of the administration, financing and amendment provisions of the System, in Part VII thereof. Briefly, such provisions are as follows:

### 1. Benefit Provisions

#### a) Bases for Benefits

- i) compensation
- ii) years of service credits

#### b) Retirement Conditions

- i) normal retirement
- ii) mandatory retirement
- iii) early retirement
- iv) disability retirement

- regular
- occupational

#### c) Retirement Benefits

- i) benefit formulas
- ii) optional methods of retirement payment
- iii) cost of living adjustments

#### d) Death Benefits

- i) conditions for benefits
  - death in active employment before eligibility for retirement
  - death in active employment after eligibility for retirement
  - death after retirement

- ii) type of benefits
  - employee contribution refund
  - group life insurance
  - survivor benefits

e) Termination of Employment Before Retirement

- i) vesting conditions
- ii) vested benefits

2. Administration

- a) Structure
  - i) Board of trustees
  - ii) Other personnel
- b) Functions
- c) Appeals procedure

3. Financing

- a) Contributions to costs
- b) Investment of assets

4. Amendment

- a) Methods
- b) Effects of amendment
- c) Participating districts

### C. Rationale of Maine State Retirement System

Our second interim report sets forth the rationale of the System and certain conclusions resulting from applying the rationale to the primary benefit problems discussed in our first interim report. Essentially, the conclusions with respect to all of the problems discussed in our reports arise from applying such rationale to the problems.

Considerations arising from the rationale of the System may be summarized as follows:

1. the provisions of the Retirement System are, in effect, a part of personnel practices since they affect employment conditions in the following ways:
  - a) The term of employment is limited to the extent of retirement conditions,
  - b) Employees are required to allocate a portion of their cash compensation (after tax income) to a retirement savings program, and
  - c) Part of the employees total compensation is current non cash, non taxable income which is used to provide fringe benefits which are either (i) insurance type benefits or (ii) deferred compensation payable from the retirement savings program.
2. The value of the fringe benefits as additional compensation should be added to cash compensation to determine the total compensation of employees.
3. The adoption of more favorable Retirement System provisions for a certain classification of employees should be based on the following considerations:
  - a) The reasons for different personnel standards for the stated employee classification, particularly with respect to the retirement age span for the classification and the amount of retirement benefits,
  - b) The possible application of the more favorable provisions to other employee classifications,

- c) The additional compensation value of the fringe benefits for the stated employee classification and the total compensation for the classification.
- 4. Legislation affecting benefits under the Retirement System should be evaluated by the administration of both the Retirement System and the State department of personnel.

We first presented the basis of retirement plan philosophy and the deferred compensation theory to the Maine Legislature in a report dated April 8, 1954 to the legislative recess Committee on a study which we made for the Committee. The report also covered many of the same problems discussed in our present study.

## PART II

REVISIONS OF MAINE STATE RETIREMENT SYSTEMA. General Considerations

Possible revisions of the System as discussed in our three interim reports may be broadly classified as affecting new benefits, existing benefits, the funding of benefits or the administration of benefits. The areas that appeared of particular importance are:

1. Disability retirement benefits,
2. Death benefits,
3. Bases for average final compensation and years of service credits,
4. Bases for minimum retirement allowances,
5. Retirement conditions and benefits for special groups,
6. Procedure for analysis of proposed amendments to the System, and
7. Function of board of trustees and an appeals board.

B. Effect of Amendments

When an amendment is made to a retirement system it is customary to protect rights that have accrued prior to the date of the amendment through a "grandfather" clause which we discussed in Part VI of our third interim report. It is our intent that any revision of the System listed in Section D following would include such a clause.

Briefly, benefits based upon years of service and compensation up to the date of an amendment would not be reduced by the amendment. In particular, no amendment would reduce the amount of benefits being paid to employees or beneficiaries at the date of the amendment. Increases in benefits based on service prior to the date of an amendment, for either active or retired employees, represent retroactive increases in deferred

compensation, the justification for which will often be based on consideration of the adequacy of present benefits.

C. Cost of Revisions

The cost of the benefits of the System is provided by contributions of both the State and employees. Therefore, any increased cost arising from a revision should be acceptable to the parties affected.

Since retirement benefit costs are a form of fringe benefit compensation, the desirability of any increase in such compensation should be considered in relation to alternate compensation, either cash compensation or other fringe benefit compensation.

D. List of Possible Revisions

Following in this section is a list of those provisions of the Retirement System which were discussed in our interim reports as to possible revision. The provisions are generally listed in the order in which they appear in the interim reports. Also, the pages of the interim reports which contain the discussions concerning a particular provision are indicated for reference purposes.

For each provision the possible amendment actions are listed. Our conclusions as to the preferred action is also indicated as well as an estimate of any costs involved.

## REVISIONS IN RETIREMENT SYSTEM PROVISIONS

### 1. Average Final Compensation (Part II - 1 of 1st report, Part II - 2 of 2nd)

- a) Maintain unchanged
- b) Amend to single year for all
- c) Amend to 3 year average for all, including districts
- d) Eliminate bonus payments, vacations, sick pay, etc.

#### Conclusions

Adopt c) and d).

### 2. Years of Service Credits

- a) Out of State Service Credit (Part II - 5 & 9 of 1st report, Part II - 5 & 10 of 2nd)
  - i) Maintain unchanged
  - ii) Amend to eliminate entirely:
    - public school service
    - private and parochial school service
    - governmental service

#### Conclusions

Adopt ii) in its entirety.

- b) Military Service Credit (Part II - 7 of 1st report, Part II - 9 of 2nd)
  - i) Maintain unchanged
    - state paid military service
    - self paid military service
  - ii) Amend to eliminate
    - state paid military service
    - self paid military service

#### Conclusions

Maintain state paid military service, eliminate self paid military service



c) Extra Annuity Contributions (Part II - 5 of 2nd report)

If self paid service credits eliminated, amend to allow extra employee contributions up to 10% of earnings

Conclusions

Adopt amendment.

3. Service Retirement (Part II - 10 of 1st report, Part II - 11 of 2nd)a) State Police, Law Enforcement Officers,  
Inland Fish and Game, Sea and Shore Fisheries

- i) Maintain unchanged
- ii) Amend
  - 3 year average compensation
  - retirement ages 45 to 55
 and, benefit of 50% of compensation after 20 years with 2% annual increment after 20 years, age 45, employee contributions of  $7\frac{1}{2}\%$  reduced to  $6\frac{1}{2}\%$  after 20 years, any age
  - or benefit of 50% of compensation after 25 years with 2% annual increment after 25 years, any age, employee contributions of  $6\frac{1}{2}\%$  for all years

b) Wardens, Prison Guards

- i) Maintain unchanged
- ii) Amend
  - 3 year average compensation
  - retirement ages 50 to 60
 and, benefit of 50% of compensation after 20 years with 2% annual increment after 20 years, age 50 employee contributions of  $7\frac{1}{2}\%$  reduced to  $6\frac{1}{2}\%$  after 20 years, any age,
  - or benefit of 50% of compensation after 25 years with 2% annual increment after 25 years, any age, employee contributions of  $6\frac{1}{2}\%$  for all years

c) Forest Rangers, Liquor Inspectors, Airplane Pilots

- i) Maintain unchanged
- ii) Amend
  - 3 year average compensation
  - retirement ages 50 to 60, forest rangers;  
55 to 65, liquor inspectors and airplane pilots
  - 2% annual increment for all years of service  
(25 years for benefit of 50% of compensation)

Conclusions

Adopt amendments subject to evaluation of the department of personnel as to retirement ages and bonus credits. Also, it may be desirable for special retirement ages, or bonus credits, to be made applicable only to specific positions that clearly warrant such treatment, and not to broad classifications. These amendments would not require an increase in current State or employee contributions.

4. Early Retirement (Part II - 8 of 3rd report)

- a) Maintain unchanged
- b) Amend
  - i) To permit payments to commence before age 60 with less than 25 years service, determined on an actuarially equivalent basis
  - ii) To permit payments to commence before age 60 with less than 25 years service, determined on present tables

Conclusions

Maintain unchanged.

5. Mandatory Retirement (Part II - 4 of 3rd report)

- a) Maintain unchanged
- b) Amend
  - i) To make retirement mandatory at age 65

Conclusions

Maintain unchanged.

6. Prior Service Benefits For Teachers-Prior 1942 (Part II - 22 of 1st report, Part II - 18 of 2nd)

- a) Maintain unchanged
- b) Amend to 1/50th
  - i) Limit to 25 years credit
    - actives
    - retired

Conclusions

This should probably be maintained unchanged at the present time. The primary problem is the funding of the cost of the benefits. Also, there are questions as to comparable treatment of State employees and teachers. Under the present Retirement System Law the cost of benefits based on a formula greater than 1/70th per year of service and a five year average final compensation is to be provided by employee contributions. Thus, no increase in the rate of State contributions has been required as a result of the increases in formula to date.

The cost of providing the additional prior service benefits for teachers, both MTRA teachers and Old System teachers, active and retired, is estimated as follows:

- a) Increased accrued liability \$8,806,006
- b) Increased funding payments
  - i) State only, 20 year funding 750,000
  - ii) Employees only
    - State employees and teachers Additional yearly contribution of .47% of earnings
    - teachers only Additional yearly contribution of .75% of earnings.

7. Minimum Retirement Allowance (Part II - 23 of 1st report, Part II - 19 of 2nd)

- a) Maintain unchanged
- b) Amend
  - i) Require full 10 calendar years of employment to qualify
  - ii) Limit maximum to be not greater than average final compensation

Conclusions

Adopt amendment.

8. Maximum Retirement Allowance (Part II - 20 of 1st report, Part II - 20 of 2nd)

- a) Maintain unchanged
- b) Amend
  - i) Set maximum percentage of average highest compensation
  - ii) Eliminate employee contributions after maximum reached
  - iii) Increase employee compensation after maximum reached

Conclusions

Maintain unchanged.

9. Disability Retirement (Part II - 25 of 1st report, Part II - 21 of 2nd)

- a) Ordinary
  - i) Maintain unchanged
  - ii) Amend
    - eliminate years of service requirement
    - limit age to attainment of eligibility for normal retirement
    - provide same benefit percentage (66-2/3) as presently used for occupational disability
    - recompute as service retirement, including years on disability, when 66-2/3% benefit attained, not beyond age 65
    - offset social security benefits to age 65 for participating districts who have elected social security coverage

Conclusions

Adopt amendment.

b) Occupational

- i) Maintain unchanged
- ii) Amend
  - eliminate to be same as ordinary

Conclusions

Adopt amendment.

c) Administration

- i) Maintain unchanged
- ii) Amend to direct Board of Trustees to employ
  - internal staff
  - external professionals

Conclusions

Adopt amendment.

d) Workmen's Compensation Offset (Part II - 12 of 3rd report)

- i) Maintain unchanged
- ii) Amend
  - offset all workmen's compensation as income payments, income equivalent to be determined for lump sum payments

Conclusions

Adopt amendment.

e) Cost of Amendments

The additional yearly cost of the disability benefits provided by the amendments is estimated to be .32% of annual earnings or \$640,000 for a payroll of \$200,000,000. The present cost is .44% of annual earnings.

If the benefits of presently disabled are to be increased there would be a further additional yearly cost of \$150,000 to \$200,000, which would decrease over a period of years.

10. Effective Date of Teachers Retirement (Part II - 34 of 1st report, Part II - 23 of 2nd)

- a) Maintain unchanged
- b) Amend
  - i) To eliminate
  - ii) To extend right to all employees

Conclusions

Adopt amendment to eliminate.

11. Reemployment After Retirement (Part II - 28 of 1st report, Part II - 24 of 2nd)

- a) Maintain unchanged
- b) Amend
  - i) To begin a new membership
  - ii) Change limitation on earnings
  - iii) Limit by time

Conclusions

Maintain unchanged subject to review by department of personnel.

12. Optional Methods of Retirement Payments (Part II - 32 of 1st report, Part II - 25 of 2nd and Part II - 16 and 18 of 3rd)

- a) Maintain unchanged
- b) Amend
  - i) To eliminate option IV choice prior to actual retirement
  - ii) To allow an automatic option to apply for a period of time from date of retirement
  - iii) To allow a disabled employee to elect an option when regular retirement benefits commence

Conclusions

Amend to eliminate option IV choice prior to actual retirement and to allow the disabled employee election.

13. Automatic Widow's Benefit (Part II - 18 of 1st report, Part II - 26 of 2nd)

- a) Maintain unchanged
- b) Amend
  - i) To eliminate
  - ii) To apply to all employees

Conclusions

Maintain unchanged, at present, subject to review by department of personnel of applicable retirement conditions for special groups and overall compensation levels.

If the provision were made applicable to all employees, costs to the State and employees would be increased as much as 20%.

14. Accidental Death Benefits (Part II - 30 of 1st report, Part II - 28 of 2nd)

- a) Maintain unchanged
- b) Amend
  - i) To eliminate
  - ii) To apply to all State employees and teachers
  - iii) To eliminate remarriage conditions
  - iv) To eliminate payment of both refund of employee contributions and survivor benefits

Conclusions

Adopt amendments ii), iii) and iv). The additional yearly cost of the accidental death benefits is 1/30th of 1% of annual earnings or \$66,667 for a \$200,000,000 payroll.

15. Death Benefits Prior to Retirement

- a) Death After Eligibility For Retirement (Part II - 16 of 3rd report)
  - i) Maintain unchanged
  - ii) Amend as provided in #12

Conclusions

Adopt amendment.



b) Death Before Eligibility For Retirement (Part II - 13 of 3rd report)

- i) Maintain unchanged
- ii) Amend
  - To extend benefits of option 2, as for death after eligibility for retirement, to employees in service with 10 or more years of employment
  - To transfer family benefits, other than above, to life insurance coverage of 50% increased amount
  - To allow family benefits without any years of service requirement
  - To eliminate remarriage conditions
  - To have the same conditions apply to service connected deaths as apply to non-service connected deaths

Conclusions

Adopt amendment subject to suitable schedule of family benefits. The additional yearly cost of the survivor benefits is in the range of .3% to .4% of annual earnings or \$600,000 to \$800,000 for a \$200,000,000 payroll.

16. Vested Rights (Part II - 16 of 1st report, Part II - 29 of 2nd and Part II - 8 of 3rd)

- a) Maintain unchanged
- b) Amend
  - i) To less than 10 years service
  - ii) To determine vested benefits on basis of years of service, earnings and benefit formula in effect at termination of active employment

Conclusions

Maintain years of service requirement unchanged, at present;

adopt amendment ii).

17. Past Membership Contributions

a) Withdrawal of Employee Contribution Account (Part II - 19 of 3rd report)

- i) Maintain unchanged
- ii) Amend
  - refunds paid only after 90 days
  - reemployment within 90 days voids refund

Conclusions

Adopt amendment.

b) Reinstatement of Withdrawn Employee Contribution Account(Part II - 20 of 3rd)

- i) Maintain unchanged
- ii) Amend
  - To charge interest at 2% greater rate than currently credited to members accounts

Conclusions

Adopt amendment.

c) Employee Purchase of Additional Service Credits (Part II - 20 of 3rd report)

- i) Maintain unchanged
- ii) Amend
  - To charge interest at 2% greater rate than currently credited to members accounts when contributions made after date employee initially eligible to pay contributions

Conclusions

Adopt amendment

18. Social Security Coverage (Part II - 21 of 3rd report)

- a) Maintain present status
- b) Adopt social security coverage for State employees and teachers
  - i) Change Maine State Law and Federal Law
  - ii) Provide social security benefits in addition to present Maine State Retirement System benefits
  - iii) Reduce Maine State Retirement System benefits by all or some portion of social security benefits

Conclusions

Do not change present status unless there is positive approval of employees.

Social security taxes would be 5.85% of earnings up to \$13,200, payable by the State and employees, each. On the basis of a \$200,000,000 payroll the tax paid by the State might be \$9,000,000 to \$10,000,000.

19. Membership of Employment Units (Part II - 3 of 1st report, Part II - 33 of 2nd)

- a) Maintain unchanged
- b) Amend
  - i) To permit affiliated groups to join
  - ii) To allow Board of Trustees to choose membership

Conclusions

Adopt amendment to permit affiliated groups to join.

20. Participating Districts (Part II - 2 of 3rd report)

a) Reemployment With New Employer

- i) Maintain unchanged
- ii) Amend
  - To allow employee accrued benefit from previous employment, on transfer, unless new employer elects to grant greater benefits

Conclusions

Adopt amendment.

b) Election of Provisions

- i) Maintain unchanged
- ii) Amend
  - To allow prior service credits at 1/50th for all years of prior service

Conclusions

Adopt amendment.

21. Membership of Board of Trustees (Part III - 4 of 3rd report)

- a) Maintain unchanged
- b) Amend to consist of 8 citizens of the State of Maine
  - i) 4 employee representatives, chosen as at present
  - ii) 4 public representatives, gubernatorial appointments
    - 2 identified as qualified in field of investments
    - none beneficiaries or potential beneficiaries of System

Conclusions

Adopt amendment.

22. Term of Membership of Board of Trustees (Part III - 6 of 3rd report)

- a) Maintain unchanged
- b) Amend
  - i) To stagger terms
  - ii) To have the term of new members determined by the designated period

Conclusions

Adopt amendment.

23. Functions of Board of Trustees (Part III - 6 of 3rd report)

- a) Maintain unchanged
- b) Amend
  - i) To eliminate responsibility for extension of service beyond mandatory retirement age
  - ii) To eliminate administrative responsibilities for approval of benefit payments
  - iii) To add the duties to review legislation and report impact of any amendment on aspects of System
  - iv) To require the employment of professional services or internal personnel to administer the payment of disability benefits
  - v) To add the duties to act as a board of review in adjudicating matters relating to the Retirement System Laws and report to legislature on such matters
  - vi) To eliminate power to change any employee contributions

Conclusions

Adopt amendment.

24. Reports of Actuary (Part III - 2 of 3rd report)

- a) Maintain unchanged
- b) Amend
  - i) To require the actuary's annual report on his valuation of the assets and liabilities of the funds of the Retirement System to include an analysis of the year's operation and a separation of the results between those benefits payable by State contributions and those payable by employee contributions
  - ii) To require the actuary to determine the fringe benefit value of each benefit provided by the System, for the applicable employee classifications, and to furnish such information to the department of personnel

Conclusions

Adopt amendment.

25. Appeals Board (Part III - 8 of 3rd report)

It is recommended that a special appeals board be established as follows:

- a) Composition
  - i) Chairman of Board of Trustees of Retirement System
  - ii) Public member, a gubernatorial appointee, and
  - iii) Beneficiary member of the System
- b) Functions
  - i) To provide a hearing to an aggrieved person in the case of an adverse ruling by the Board of Trustees of the Retirement System
  - ii) To review and report to legislative committee on proposed legislation which pertains to matters within its review

## 26. Amendments To Retirement System

The following additions to the Retirement System Law, pertaining to amendment to the System, are recommended for adoption.

### a) Statutory Amendments (Part VI - 1 of 3rd report)

Specify the following procedure for proposed statutory amendments:

- i) Review by Board of Trustees with report to legislature of effect on System
- ii) Review by department of personnel where benefits affected, with report to Board of Trustees

### b) Special Resolves (Part VI - 2 of 3rd report)

Specify the following procedure for proposed benefits to individuals

- i) Review by Board of Trustees, as for statutory amendments
- ii) Legislative appropriation of fully funded actuarial cost of benefits in all cases where no financing is provided by regular State contributions, including benefits granted under private and special laws

### c) Employee Contributions (Part VI - 3 of 3rd report)

Eliminate power of Board of Trustees to change any employee contributions

### d) Accrued Benefits (Part VI - 3 of 3rd report)

Specify that no amendment to the System shall reduce benefits that have accrued to an employee based on his service, compensation and contributions up to the date of such amendment

### e) Participating District Liabilities (Part IV - 12 of 3rd report)

Specify that the System shall not be liable for payment of benefits, other than refund of employee contributions, where a district is dissolved, except to the extent that reserves for the benefits are provided from funds of the System allocated to the district account. Also, specify that allocation of funds to reserves of individual employees shall be made by the oldest ages first method, after providing for retired employees and employee contribution refunds.

## 27. Technical Revisions

Certain provisions in the Maine State Retirement System Law are superfluous or redundant. They should be deleted or combined with similar provisions. Also, some provisions need revision for clarity. None of the above revisions would change any intent or benefits of the System.



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February 12, 1974

Senator Harrison L. Richardson, Chairman  
Committee on Veterans & Retirement, State of Maine  
Augusta, Maine

Dear Senator Richardson:

The language for certain possible revisions of the Maine State Retirement System Laws, requested by the Committee, is submitted herewith. This report also summarizes the considerations involved in evaluating changes in the Retirement System.

Sincerely,



Robert J. Towne,  
Fellow Society of Actuaries

RJT: rrt

REPORT ON POSSIBLE  
REVISIONS OF  
MAINE STATE RETIREMENT SYSTEM

Submitted  
February 12, 1974

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## PART A. - CONSIDERATIONS IN EVALUATION OF CHANGES IN MAINE STATE RETIREMENT SYSTEM

Our second interim report, and our summary report, discussed the rationale of the Maine State Retirement System which included the considerations involved in evaluating the different provisions of the system, which are also applicable in evaluating proposed changes in the system. Such considerations are summarized following herein.

### 1. Purpose of System

- a) The primary purpose of the retirement system is to establish a compulsory savings program which will furnish retirement income to meet old age and disability needs.
- b) The rights of an individual employee to benefits under the system arise from savings of the individual, both directly by employee contributions and indirectly by employer contributions on his behalf. Benefits are not determined by needs as under a social welfare system.
- c) Benefits under the retirement system are designed to meet the objectives of the majority of employees, not the varying objectives of individual employees.

### 2. Personnel Practices

The provisions of the retirement system are a part of personnel practices in the following respects:

- a) Retirement conditions affect the term of employment,
- b) Employees are forced to save a portion of their compensation,
- c) Employees are provided additional compensation from the benefits of the system not provided by their own contributions. The value of the retirement benefits is deferred compensation payable as income in retirement years, and

- d) The value of the fringe benefits represents compensation in lieu of cash compensation and should be added to cash compensation to obtain an employee's total compensation.

### 3. Special Provisions

Provisions for special benefits or conditions for benefits for particular classifications of employees involve the following considerations:

- a) Special benefits or conditions for benefits should be provided for a particular classification only if the need for such special treatment is demonstrated from the basic rationale of the retirement system. Deferred compensation agreements providing benefits outside the retirement system should be used if such type of additional compensation is desired for employment reasons,
- b) The additional compensation value of any special benefits or conditions for benefits should be determined and related to the value of regular benefits and total compensation,
- c) Special benefits or conditions for benefits, if desirable for inclusion in the retirement system, should be applicable to all members of the system, and not only for certain classifications, to provide equitable treatment to all employees.

### 4. Qualification Under Internal Revenue Code

In addition to the considerations outlined above, it is also necessary, now, to evaluate any proposed changes in the retirement system with respect to the requirements of the Federal Internal Revenue Code, since the Maine State Retirement System received a favorable determination letter from the Internal Revenue Service under date of December 18, 1973, as to its qualification under the Code.

If a retirement system, which encompasses a plan and trust, meets the requirements of the Internal Revenue Code and Regulations issued thereunder with respect to retirement plans and concomitant trust agreements, the following advantages result, which are applicable to the Maine State Retirement System.

- a) Employees do not incur any income tax due to employer contributions into a pension trust or due to investment earnings of the trust fund. They are taxed only on retirement benefits paid to them under the terms of the plan.
- b) There is no income tax on the investment earnings of the trust fund, either investment income or capital gains.
- c) There are certain tax advantages with respect to death benefit payments under the plan.

The basic requirement for qualification of a plan under the Internal Revenue Code is that there be no discrimination in the treatment of employees. Such requirement has the following aspects:

- a) The primary consideration is that there be no discrimination in favor of employees in an executive or supervisory capacity, particularly as such classifications reflect the more highly compensated employees.
- b) In general, there can be no discrimination with respect to retirement conditions or retirement benefits.
- c) Certain retirement plan provisions that have been singled out for revenue rulings are: voluntary employee contributions , basis for average final compensation, optional methods of payment of retirement allowances, normal retirement age and classification of employees.

The determination of qualification of a retirement plan by the Internal Revenue Service is applicable only to a specified point of time. A plan may be qualified on its face at such time but, in operation over a period of time, it may become disqualified without any change in its provisions, primarily due to discrimination in favor of the more highly compensated employees.

Internal Revenue regulations apply to the funds of a retirement system, and their administration, as well as to the provisions of the retirement plan. The funds of the system are trust funds which must be entirely separate from the funds of the employer. Also, the trustees responsible for the administration of such funds have responsibilities that are independent of any employer relationships.

The necessity of conforming to Internal Revenue regulations for qualification may affect the following types of provisions of the Retirement System.

- a) Benefits for special groups Such provisions will have to apply to permitted classifications of employees, essentially departments or locations, which have a nondiscriminatory distribution of employees.
- b) Provisions for executive or supervisory employees Such provisions are discriminatory on their face.
- c) Provisions for individual employees Such provisions will probably have to apply to all individuals within a classification to be part of the Retirement System. Otherwise, benefits for individuals will have to be provided outside the Retirement System.

## 5. Financing Cost of Benefits

The provisions of Chapter 542 of the 1973 laws contain the following provisions:

At no time shall the state matching share of the cost of the retirement system be increased due to changes in formula and the change from 5 year average highest compensation to 3 year average highest compensation. Any additional costs are to be borne by the members of the system.

The changes of Chapter 542 include increases in yearly service credits from 1/60th to 1/50th and increases in the minimum monthly allowance from \$80 to \$100 for 10 years service. A similar provision was contained in Chapter 415 of the 1969 laws when service credits were increased to 1/60th and the minimum of \$80 was provided.

The effect of the preceding provisions on state and employee contributions must be evaluated with respect to any additional costs imposed upon the retirement system from any legislative enactments.



## PART B – POSSIBLE REVISIONS IN MAINE STATE RETIREMENT SYSTEM LAWS

### 1. AN ACT Relating To Average Final Compensation

- a) Subsection 9 of section 1001 is amended by adding the following sentence:

Earnable compensation shall not include payment for unused sick leave, unused accumulated leave or vacation or any other type of payment which is not compensation for services during the period of employment which is used in determining average final compensation.

- b) The following sections are amended by substituting "average final compensation"

as the compensation basis for the determination of benefits:

- i) Subsection 3 of section 1092 (local district employees)
- ii) subsections 1C, 1D, 1E and 1F of section 1121 (state police, fisheries and game wardens, forest rangers, state prison)
- iii) Subsection 4D of section 1121 (liquor inspectors)
- iv) Subsections 8 and 9 of section 1121 (police officers and firefighters)

- c) This Act shall apply to all retirement allowances that are first payable under chapter 101 on or after the effective date of the Act. Provided, however, the amount of any such retirement allowance that is based on creditable service prior to such effective date shall not be less than the amount determined in accordance with the applicable provisions of chapter 101 as in effect immediately prior to such effective date and the compensation of the employee up to such effective date.

### STATEMENT OF FACT

The purposes of this Act are (1) to base the retirement allowance of all employees covered under the Retirement System on average compensation determined over a 3 year period and (2) to eliminate from the determination of average compensation all payments that are not compensation for services during the averaging period.

2. AN ACT Relating To Service Credits

Subsections 11, 12 A and B, 13 and 14 are eliminated from section 1094 with respect to all retirement allowances that are first payable on or after the effective date of this Act except, with respect to members who are in service on the effective date of this Act, the provisions of subsections 11, 12A and 13 will continue to apply and the provisions of subsection 12B and 14 will continue to apply as to creditable service for which contributions by employees required under said subsection have been made prior to the effective date of the Act.

STATEMENT OF FACT

The purposes of this Act are to eliminate (1) additional retirement allowances which are bonus payments for service with a previous employer and (2) the purchase of retirement payments by additional employee contributions that are limited by certain service with a previous employer. The present provision for the purchase of retirement payments by additional employee contributions would be replaced by a broader provision set forth in "AN ACT Relating To the Purchase of Retirement Allowance Payments By Additional Employee Contributions".

3. AN ACT Relating To the Purchase of Retirement Allowance Payments By  
Additional Employee Contributions

The first paragraph of subsection 2C of section 1062 is amended to read in its entirety:

C. Any member in service may make contributions on his own account to the Members' Contribution Fund, which are additional to the employee contributions required under this chapter, at a rate of earnable compensation not in excess of 10% for the purpose of increasing the amount of payment of his retirement allowance under any service retirement provision of this chapter. The rules and regulations governing this right granted to members to make additional contributions shall be determined by the board of trustees. Provided, however, any member in service on the date of this Act may make such additional contributions at a rate in excess of 10% of earnable compensation if such higher rate is necessary in order to provide any benefits to which the member would have been entitled under subsections 12B or 14 of section 1094 as in effect immediately prior to the effective date of this Act.

STATEMENT OF FACT

The purpose of this Act is to allow all employees to make additional contributions up to 10% of compensation to increase the amount of their service retirement allowance payments.

#### 4. AN ACT Relating To Disability Retirement

a) Section 1122 is amended to read in its entirety:

##### 1122. Disability Retirement

1. Occurrence of Disability Any member who has become mentally or physically incapacitated prior to the attainment of age 60, and while he is in service, to such an extent that it is impossible for him to perform the duties of his employment position, and if such incapacity can be expected to be permanent, may retire on a disability retirement allowance upon written application to the executive director and approval of the application by the executive director. The incapacity of the member must be such that it shall be revealed by medical examination or tests conducted by a qualified physician. Any such examination or tests shall be conducted at the place of residence of the member or other place mutually agreed upon and the costs thereof shall be paid by the retirement system.

2. Retirement Allowance Payments Upon retirement in accordance with subsection 1 of this section, a member shall receive a retirement allowance equal to  $66\frac{2}{3}\%$  of his average final compensation.

Retirement allowance payments shall commence at the date of termination of active service of the member but not more than six months prior to the date of receipt by the executive director of the written application of the member for disability retirement, unless it shall be shown that it was not reasonably possible to file such application for disability benefits within such six months period and that such application was made as soon as was reasonably possible.

The continuance of payment of a disability retirement allowance shall be subject to the terms of subsections 3 and 4 of this section.

##### 3. Change To Service Retirement

A. The disability retirement allowance of a beneficiary shall cease upon the attainment of his mandatory retirement age, without extensions, or prior thereto whenever the service retirement allowance of the beneficiary will equal the amount of his disability retirement allowance.

B. A service retirement allowance shall be paid to the beneficiary commencing at the date of termination of the disability retirement allowance as determined in paragraph A of this subsection.

4. Continuance of Disability Retirement Allowance The executive director may require, once each year, a beneficiary who is receiving a disability retirement allowance to undergo medical examinations or tests conducted by a qualified physician for the purpose of determining that the incapacity of the beneficiary to perform the duties of his employment position has continued, provided that, after the disability of a beneficiary has continued for five years, the incapacity of the beneficiary must also be such that he is unable to engage in any substantially gainful activities for which he is qualified by training, education or experience. Any such examination or tests shall be conducted at the place of residence of the beneficiary or other place mutually agreed upon and the costs thereof shall be paid by the retirement system. Should the beneficiary refuse to submit to any such examination or tests, his disability retirement allowance shall be discontinued until his withdrawal of such refusal, and should his refusal continue for one year, all his rights to any further benefits under this section shall cease. If it is determined on the basis of any such examination or tests that the incapacity of a beneficiary has ceased, the payment of his disability retirement allowance shall terminate.

5. Statement of Compensation The executive director shall require each beneficiary who is receiving a disability retirement allowance to submit a statement, for each calendar year, of his compensation received from engaging in any gainful occupation. If, for any such year, the total of such compensation and the disability retirement allowance payments received by the beneficiary is greater than his average final compensation at such time, the amount of each monthly disability retirement allowance payable during the calendar year immediately following the calendar year for which such statement is made shall be reduced by one-twelfth of the excess.

Should a beneficiary not submit such a statement within thirty days of receipt of request therefor by the executive director, his disability retirement allowance shall be discontinued until such statement is submitted, and should the statement not be submitted within one year of receipt of such request, all his rights to any further benefits shall cease.

6. Disability Payments Under Other Laws The amount of any disability retirement allowance payable under this section shall be reduced by any amount received by the beneficiary on account of the disability which has qualified the beneficiary for the disability retirement allowance under either or both (a) any workmen's compensation or similar law and (b) the Federal Social Security Act provided his employment for which creditable service is allowed under the retirement system was covered under such Act at the date of his disability retirement. Lump sum settlements under any such law shall be pro-rated on a monthly basis in an equitable manner prescribed by the board of trustees.

This Act shall apply to all disability retirement allowances for which written application to the executive director is received on or after the effective date of this Act. The provisions of the Act may also be elected by any beneficiary entitled to a disability retirement allowance under the provisions of section 1122 as in effect immediately prior to the effective date of this Act, in lieu of the provisions applicable to the disability retirement allowance which he is receiving, upon written application to the executive director within six months of the effective date of this Act.

- b) Subsection 9 of section 1001 is amended by adding the following:

The earnable compensation of a member retired with a disability retirement allowance under section 1122 shall be assumed, for the purposes of determining benefits under this chapter, to be continued after his date of termination of service at the same rate as received immediately prior thereto, subject to the same adjustments, if any, that may apply to the amount of retirement allowance of the beneficiary under the provisions of section 1128.

- c) Section 1094 is amended by adding the following subsection:

15. Disability Retirement Credits The period following his termination of service for which a beneficiary receives disability retirement allowance payments under section 1122 shall be allowed as creditable service for the purposes of determining benefits under this chapter.

## STATEMENT OF FACT

The purpose of this Act is to provide uniform disability benefits for all causes of disability, equal to the amount currently payable for occupational disability, which will be payable to service retirement date, on and after which service retirement benefits will be paid with the period on disability allowed as creditable service in the determination of the service retirement benefits. The intent of the disability provisions is to provide disability benefits that are a reasonable replacement to compensation that would otherwise be earned during active service and to accumulate service retirement benefits during disability on the same basis as if active service had continued.

5. AN ACT Relating To Death Benefits Before Service Retirement

a) Section 1124 is amended to read in its entirety:

1124. Ordinary Death Benefits Before Service Retirement

1. Death Before Eligibility For Service Retirement

A. Payments shall be made in accordance with either paragraph B or paragraph C of this subsection should a member who is in service, or former member who is a beneficiary receiving a disability retirement allowance, die any time before completing the age and service conditions for service retirement.

B. The amount of the member's accumulated contributions shall be paid to such person, if any, as the member has nominated by written designation filed with the executive director prior to the death of the member. The last nomination of any such person revokes all previous nominations. If the member is not survived by a designated person, any payments due shall be made to the first of the following listed relatives of the member alive at his death, if any: spouse, children, share and share alike, and older parent; otherwise, if no such relative survives the member, to the estate of the member.

C. In lieu of accepting the payment provided in paragraph B of this subsection, the first of certain designated beneficiaries, if living at the death of a member or former member described in paragraph A of this subsection, may elect to substitute the benefits described following. Such designated beneficiary shall be a spouse, child or children of the member, mother or father, mother and father, or if no designation was made, to the first of the following listed persons, if any, alive at the death of the member; spouse, child or children, mother or father, mother and father of the deceased.

(Subsection (a) through (f) remain unchanged except renumbered (1) through (6).)

D. Benefits payable in accordance with either paragraph B or paragraph C of this subsection shall be in lieu of any benefits payable under section 1125, provided that the person or persons specified to receive benefits under this subsection may elect, prior to the commencement of the payment of any benefits under this subsection, to receive the benefits under section 1125 in lieu of benefits under this subsection.



E. Transfer of Accumulated Contributions If benefits are paid under paragraph C of this subsection, the amount of the deceased member's accumulated contributions in the Members' Contribution Fund shall be transferred to the Survivors' Benefits Fund.

F. Death Before Payment In the event that any person becomes entitled to the payment of benefits under this subsection and dies before either the refund check or the initial survivor benefit check shall be endorsed and presented to a holder in due course then it shall be considered as if such person had predeceased the member. Any person entitled to the payment of benefits under this subsection shall have the right to change his choice of payment at any time up to the point of endorsement and presentation to a holder in due course of either the refund check or the initial survivor benefit payment.

G. A member may specify the payment of his accumulated contributions to a designated person or his estate in lieu of any payment to survivors as provided in paragraph C of this subsection, by filing an affidavit expressing such intent with the executive director.

## 2. Death After Eligibility For Retirement

Should a member, or former member who is a beneficiary receiving a disability retirement allowance, die any time after completing the conditions for service retirement under any of the provisions of this chapter but before any service retirement allowance becomes effective, the following benefits shall be payable:

A. A retirement allowance equal to the reduced retirement allowance determined in accordance with Option 2 of section 1126 on the assumption that service retirement of the member had taken place on the date of his death, which will be continued during the lifetime of the first of the following listed persons, if any, alive at the death of the member; designated beneficiary, wife, husband, mother, father. Provided, however, the designated beneficiary if a spouse, child or children, mother or father may elect to receive the benefits provided under subsection 1 of this section, in lieu of such retirement allowance payments. If the monthly amount of such retirement allowance is less than \$10, any such first listed person may, prior to the commencement of such retirement allowance payments, elect to receive, in lieu of such payments, a lump sum which is the actuarial equivalent at the date of death of the member of such retirement allowance payments. Any such first listed person, other than a designated beneficiary, may, prior to the commencement of such retirement allowance payments, elect to receive, in lieu of such payments a lump sum equal to the accumulated contributions of the member; otherwise

B. The amount of the accumulated contributions of the member which will be paid to the estate of the member.

3. General Salary Adjustments

A. At any time that a general salary adjustment is made to state salaries, the same percentage increase or decrease shall be applied to the payments made under subsection 1, paragraph C. All adjustments shall become effective on the first day of the month following the effective date of the active state employees' salary adjustments.

B. Participating local districts may provide the adjustments in the survivor benefits provisions of paragraph A of this subsection by application to the board of trustees and shall supply a certified copy of its action with a statement of agreement of payment of the costs.

b) This Act shall apply to all deaths occurring on or after its effective date. Providing, however, the benefits of subsection 2A of this section shall be determined in accordance with an election of Option 4 of section 1126 instead of in accordance with Option 2 of section 1126 if an election of Option 4 was made prior to the effective date of this Act.

STATEMENT OF FACT

The purpose of this Act is to provide uniform death benefits for all members in service and to extend such benefits to members who are retired on disability on the same conditions as if employment had continued to service retirement date. Optional death benefits are provided in another section for all members for service connected deaths. Also, the inequities occurring by an election of Option 4 of section 1126 for death benefits before retirement have been removed.

6. AN ACT Relating To Accidental Death Benefits

a) The caption and first 4 lines of subsection 1 - A of section 1125 are amended by

changing them to read:

1 - A. Members of Retirement System If a member of the retirement system or a former member who is a beneficiary receiving a disability retirement allowance shall - - - -

b) This Act shall apply to all deaths occurring on or after its effective date.

STATEMENT OF FACT

The purpose of this Act is to provide uniform death benefits for all members of the retirement system in the event of death due to occupational injuries.

## 7. AN ACT Relating To Optional Methods of Retirement Payments

### a) Section 1126 is amended to read in its entirety:

1. Normal Method of Payment All retirement allowances shall be payable in equal monthly installments during the lifetime of the payee, including any fraction of a month up to the date of death of the payee, unless an alternate method of payment under one of the options of subsection 2 of this section has been elected.

2. Optional Methods of Payment A member or a former member who is a beneficiary receiving a disability retirement allowance shall have the right, at any time and from time to time prior to the commencement of payment to him of a service retirement allowance under any provision of this chapter, to elect to have his service retirement allowance payable under any one of the options set forth following in this subsection, in lieu of under the method of payment set forth in subsection 1 of this section. The member shall make such an election by written request to the executive director and such an election shall be subject to his approval. Such an election may be revoked by the member by written notice to the executive director at any time prior to commencement of payment of the service retirement allowance.

Option 1. A reduced retirement allowance payable during his life, with the provision that at his death the excess, if any, of his accumulated contributions at the time of his retirement over the portion of the total retirement allowance payments, actually made to him during his lifetime, which is the actuarial equivalent of such accumulated contributions, shall be paid in a lump sum to such person, if any, as he has nominated by written designation duly acknowledged and filed with the executive director, otherwise to his estate. No contributions deducted from the compensation of a teacher prior to July 1, 1947 or required of a teacher for service credit prior thereto shall be included in such accumulated contributions; or

Option 2. A reduced retirement allowance payable during his life, with the provision that it shall be continued in the same amount after his death for the life of the beneficiary nominated by him by written designation duly acknowledged and filed with the executive director at the time of retirement should such beneficiary survive him; or

Option 3. A reduced retirement allowance payable during his life, with the provision that it shall continue after his death at  $\frac{1}{2}$  of the amount paid to him and be paid for the life of the beneficiary nominated by him by written designation duly acknowledged and filed with the executive director at the time of retirement, should such beneficiary survive him; or

Option 4. A reduced retirement allowance payable during his life with some other benefit payable after his death, provided the total value of the allowance during his life and of the succeeding benefit shall be computed to be of equivalent actuarial value to the allowance which he would receive without optional modifications, and provided the basis used to determine the benefit shall be approved by the board of trustees.

- b) This Act shall apply to all elections of options under subsection 2 made on or after the effective date of this Act.

#### STATEMENT OF FACT

The purpose of this Act is to allow members receiving a disability allowance to elect an optional method of retirement payment when his disability allowance is changed to a service retirement allowance.

8. AN ACT Relating To the Effective Date of Teachers Retirement

The last paragraph of section 1128 is eliminated with respect to all retirement allowances that become effective on or after the effective date of this Act.

STATEMENT OF FACT

The purpose of this Act is to eliminate the special treatment afforded teachers so that all employees will be treated in a uniform manner. There does not appear to be a current need for such special treatment.

9. AN ACT Relating To Interest On Payment of Past Membership Contributions

Section 1094 is amended by adding a provision that the rate of interest used in the determination of back contributions or accumulated contributions to be paid into the Members' Contribution Fund under any provision of said section shall be 2% greater than the regular interest rate for any period on or after the later of the effective date of this Act and the date a member is first eligible to make such contributions.

STATEMENT OF FACT

The purpose of this Act is to prevent interest earnings losses on the funds of the Retirement System that occur when a member delays payment of past contributions that are required to receive certain benefits under the Retirement System.

10. AN ACT Relating To Payment of Accumulated Contributions

Section 1096 is amended to read as follows:

If the service of any member has terminated, except by death or by retirement under this chapter, he shall be paid, at any time thereafter upon proper application therefor, the amount of his accumulated contributions, provided no interest shall be included for any period beyond the 5th anniversary of the date of such termination of service if the member has less than 10 years of creditable service. Provided, however, payment shall not be made earlier than 90 days after the date of termination of service and an application for refund shall be void if a member returns to service within such 90 day period.

STATEMENT OF FACT

The purpose of this Act is to prevent the use of the Members' Contribution Account as a source of funds for temporary needs and to definitize the rate of interest credits as the regular interest rate.



11. AN ACT Relating To Inclusion As A Participating Local District

Subsection 1 of section 1092 is amended by adding the provision that, in addition to the those entities set forth therein, any other employment unit of public employees or teachers, and any organization of members of the Retirement System, may elect to become a participating local district, subject to the approval of the board of trustees.

STATEMENT OF FACT

The purpose of this Act is to establish a uniform basis for the inclusion of any group as a participating local district.

12. AN ACT Relating To Transfer of Employment

- a) Subsection 11 of section 1092 is amended by adding the following sentence:

The benefits under this chapter arising from such previous employment shall be determined either on the basis of creditable service and earnable compensation with the previous employer and the provisions of this chapter in effect with respect to the previous employer at the date of termination of service of the member or, if the new employer agrees, on the basis of such creditable service and earnable compensation with the previous employer included with service and compensation with the new employer.

- b) This Act shall apply to all reemployments with a new employer occurring on or after the effective date of this Act.

STATEMENT OF FACT

The purpose of this Act is to allow the new employer a choice as to the assumption of the cost of benefits greater than accrued from employment with a previous employer.

13. AN ACT Relating To Benefits For Employees of Participating Local Districts

- a) Paragraph A (2) of subsection 2 of section 1121 is amended by adding the following

clause to the first sentence:

or, if the member is an employee of a participating local district,  
1/50 of his average final compensation multiplied by such number  
of years of his prior service that may be elected by the district.

- b) Subsection 8 of section 1092 is changed to read:

8. Benefits As If State Employees Employees who become members under this section and on behalf of whom contributions are paid as provided in this section shall be entitled to the benefits which have been elected by the participating local district.

- c) This Act shall apply to retirements occurring on or after the effective date of this

Act, or prior thereto, as elected by a participating local district.

STATEMENT OF FACT

The purpose of this Act is to permit a participating local district to elect prior service credits for its employees on such basis that best suits its needs and to clarify the basis of the benefits of employees of a participating local district.

14. AN ACT Relating To the Administration of the Retirement System

a) Section 1031 is amended as follows:

i) Subsection 1 is changed to read in its entirety:

1. Board of Trustees The responsibilities for the proper operation of the retirement system and for making this chapter effective are vested in a board of 8 trustees. The board shall formulate policies and exercise general supervision under this chapter. Administrative responsibility, including approval of the payment of all benefits provided under this chapter, shall be vested in the executive director appointed under subsection 7. The board, as heretofore established, shall consist of the following persons who are citizens of the State of Maine:

(1) 4 persons selected as employee representatives, one of whom elected by the Maine Teachers' Association, one of whom elected by the Maine State Employees' Association, one of whom appointed by the governing body of the Maine Municipal Association and who is a member of the Retirement System through a participating local district, and one of whom is a beneficiary receiving a retirement allowance under the Retirement System and is selected by majority vote of the other employee representatives from a list or lists of nominees submitted by retired state employees, retired teachers or retired participating local district employees or submitted by a committee comprised of representatives of said groups and (2) 4 persons appointed as public representatives by the Governor with the advice and consent of the Council, none of whom shall be either a beneficiary or potential beneficiary under the retirement system and 2 of whom shall be designated as qualified through training and experience in the field of investments.

ii) Subsection 2 is added to read in its entirety:

2. Term of Office of Board of Trustees Each member of the board of trustees shall serve for a term of three years, provided that, of those members whose terms commence at the effective date of this Act, the term of each of the first two employee representatives listed in subsection 1 of this section shall be for three years, the term of the third such representative shall be for two years, the term of the last such representative shall be for one year, the terms of two of the public representatives so listed shall be for three years each and the terms of the other two such representatives shall be one for two years and the other for one year. Appointments to any vacancy caused by any reason shall be for the unexpired portion of the term. The term of all appointments to membership where a term of membership has expired shall commence with such date of expiry regardless of the effective date of such new appointments.

iii) Subsection 2 is renumbered number 3 and the per diem payment changed to \$50.

iv) Subsection 3 is renumbered number 4.

v) Subsection 4 is renumbered number 5 and changed to read in its entirety:

5. Quorum Each trustee shall be entitled to one vote in the board of trustees. To constitute a quorum at any regular or special meeting of the board of trustees there must be present at least three members of the board of trustees who are employee representatives and at least three such members who are public representatives. A quorum being present all matters coming before the board of trustees for consideration shall be decided by a vote of its members. Decisions of the board of trustees shall be made by a majority vote of its members present at any meeting provided at least three of its employee representatives and at least three of its public representatives concur with the majority.

vi) Subsection 5 is renumbered number 6.

vii) Subsection 6 is renumbered number 7 and the following sentence is added after the first sentence:

The personnel staff of the executive director shall include employees qualified to administer the payment of disability benefits that are payable under the retirement system or the board of trustees shall authorize the employment of professional services for such administration.

viii) Subsection 7 is renumbered number 8.

ix) Subsection 8 is renumbered number 9 and the references to board of trustees changed to executive director in the 2nd, 3rd and 4th sentences.

x) Subsection 9 is renumbered number 10 and changed to read in its entirety:

10. Record : report The board of trustees shall keep a record of all its proceedings, which shall be open to public inspection. It shall publish annually, for each fiscal year, a report showing the fiscal transactions of the retirement system for the fiscal year and the assets and liabilities of the retirement system at the end of the fiscal year. It shall also publish the actuary's report on the actuarial valuation of the financial condition of the system for the fiscal year.

xi) Subsection 10 is renumbered number 11.

xii) Subsection 11 is renumbered number 12 and the last sentence is changed to read:

The medical board shall arrange for and pass upon all medical examinations or tests required under this chapter with respect to disability retirements and shall report in writing to the executive director its conclusions and recommendations upon all matters referred to it.

xiii) Subsection 12 is renumbered number 13 and changed to read in its entirety:

13. Actuary; duties; annual valuation of funds; experience investigations; compensation values.

A. The board of trustees shall designate an actuary who, if an individual, shall be a Fellow of the Society of Actuaries or, if the actuary is a firm of actuaries, it shall designate one of its members to perform the functions required of the actuary under this chapter who shall be a Fellow of the Society of Actuaries. The actuary shall be the technical advisor to the board of trustees on matters regarding the operation of the funds created by this chapter and shall perform such other duties as are required in connection therewith. He shall certify the amounts of the benefits payable under this chapter except for benefits payable under subchapter VI.

B. The actuary shall make annual valuations of the assets and liabilities of the retirement system on the basis of such actuarial assumptions as the board of trustees shall adopt and shall furnish a written report to the board of trustees with respect to each such valuation. Each such report shall also include an analysis of the year's operations and all results shall be separated between those applicable to benefits payable by employer contributions and employee contributions, where properly determinable.

C. The actuary shall make such investigations as he deems necessary of the experience of the system as to the factors which affect the cost of the benefits provided by the retirement system, for the purpose of determining the actuarial assumptions to be recommended to the board of trustees for adoption in connection with actuarial determinations required under this chapter. Such investigations shall be made as frequently as the actuary deems expedient but at least once in each 3 year period following the effective date of this Act.

D. The actuary shall determine the equivalent cash compensation value to the members of the system of the benefits provided for them by the retirement system and shall furnish such information to the director of the department of personnel.

- xiv) Subsections 13 and 14 are deleted, being combined with the new subsection 13.
- xv) Subsections 15 and 16 are renumbered numbers 14 and 15 respectively.
- xvi) A new subsection 16 is added to read as follows:

16. Review board. The board of trustees shall act as a board of review before which any aggrieved person or persons may appear, with or without counsel, for the purpose of adjudicating any question, point or proposal directly related to the retirement system. The board of trustees shall also report to the proper legislative authority or committee, with respect to any such matter that is followed by proposed legislation.

#### STATEMENT OF FACT

The purposes of this Act are (1) to change the constitution of the board of trustees to equal representation by the employees and the public, (2) to provide for staggered terms of office of the members of the board of trustees, (3) to clearly place administrative responsibility in the executive director and to recognize the need for qualified administration of disability benefits, (4) to identify the scope of actuarial valuations of the operations of the retirement system and (5) to give the board of trustees the additional duties of a review board to evaluate requests for special considerations under the provisions of the retirement system.

15. AN ACT Relating To the Funding of Additional Benefits

--- The second paragraph of section 1032 is changed to read in its entirety:

If and when any special resolve is enacted by the Legislature, whether enacted as a public law or as a private and special law, which grants benefits that are to be paid to any person by the retirement system to which the person is not entitled under the provisions of this chapter but for the enactment of such law, the entire actuarial costs of such benefits shall be fully funded by act of the same Legislature which enacts any such special resolve.

STATEMENT OF FACT

The purpose of this Act is to provide for the adequate funding of all benefits to be paid under the retirement system so that the funds of the retirement system are not exposed to benefit charges the cost of which is not provided by regular contributions.



16. AN ACT Relating To Extensions of Service

- a) The last two sentences in subsection 1B of section 1121 are changed to read in their entirety:

Notwithstanding the foregoing, the service of any member who has attained the age of 70, and who desires to remain in service, may be continued for periods of one year, if approved by the executive body of the entity which employs the member, in accordance with such employment practices that it has adopted.

- b) The last sentence in subsection 4B of section 1121 is changed to read in its entirety:

Retirement shall be compulsory at the attainment of age 60 except that, the service of any member who desires to remain in service may be continued for periods of one year, if approved by the executive body of the entity which employs the member, in accordance with such employment practices that it has adopted.

- c) The last sentence of subsection 4D of section 1121 is changed to read in its entirety:

Notwithstanding the foregoing, the service of a chief inspector who has attained the age of 65, and who desires to remain in service, may be continued for periods of one year, but not beyond the attainment of age 70, if approved by the Governor and the Council.

STATEMENT OF FACT

The purpose of this Act is to place the responsibility for extensions of service beyond any mandatory retirement age in the authority that establishes employment practices.

17. AN ACT Relating To Amendments To Retirement System

The following section is added to subchapter I of chapter 101.

1005. Amendments to Retirement System Laws

1. Review of Statutory Amendments All amendments to this chapter that are proposed to be enacted by the Legislature shall be reviewed by the board of trustees and it shall report to the proper legislative authority, or committee, on the impact each such amendment will have upon all the aspects of the retirement system including its purposes, the equitable treatment of its members, the funding of the costs of benefits, and the value of such amendments to the members of the retirement system. Such report of the board of trustees shall include an evaluation of the amendment by the actuary and a review by the department of personnel, which shall be requested from the department of personnel by the board of trustees if the amendment would affect any of the benefits provided by this chapter.
2. Review of Special Resolves All special resolves, under either the public laws or the private and special laws, which propose to grant benefits to be paid to any person by the retirement system to which the person is not entitled under the provisions of this chapter but for the enactment of such law, shall be reviewed by the board of trustees in the manner provided under subsection 1 of this section for statutory amendments.
3. Effect On Accrued Benefits No amendment to this chapter shall cause any reduction in the amount of benefits which, at the time of such amendment, shall have accrued to any member or beneficiary based upon creditable service, compensation and employee contributions prior to the date of such amendment and the applicable provisions of this chapter as then in effect.

STATEMENT OF FACT

The purposes of this Act are to ensure that an adequate review is made for the Legislature of all proposed enactments affecting the retirement system and to protect the accrued benefits of members of the retirement system from retroactive reduction.

18. AN ACT Relating To Employee Contributions

The last two sentences of both subsection 6B and subsection 7C of section 1062 are deleted, and the following sentence is added to both subsection 6B and subsection 7B of section 1062.

Provided, however, no member who is a state employee or teacher shall contribute under this subsection on or after the effective date of this Act if he was not contributing immediately prior thereto.

STATEMENT OF FACT

The purpose of this Act is to have the power to change employee contributions under the retirement system reside only in the Legislature. At the present time, no such contributions are directly required with respect to the Survivor Benefit Fund and the Retirement Allowance Adjustment Fund by state employees or teachers.

19. AN ACT Relating To Cessation of Inclusion of Participating Local Districts  
In Retirement System

The following subsection is added to section 1092:

14. Cessation of Inclusion of Participating Local District

A. If, for any reason, any participating local district ceases to be an employing unit eligible for inclusion in the retirement system, the membership of its employees shall cease except to the extent of any benefits that may be provided by the funds that have been established under the retirement system for such district.

B. If the membership of the employees of a participating local district ceases under the conditions of paragraph A of this subsection, the funds that have been established under the retirement system for such district shall be used to provide benefits for those persons who are either members or beneficiaries at the date of such cessation.

C. The amount of the funds that have been established under the retirement system for such district at the date of such cessation shall be allocated by the board of trustees in an equitable manner to provide benefits for the persons stated in paragraph B of this subsection in accordance with the provisions of this chapter in effect at the date of such cessation but based upon years of creditable service, average final compensation and accumulated contributions as of the date of such cessation, in the following order:

- (1) for the benefit of members to the extent of the then value of their accumulated contributions in the Members' Contribution Fund; if any funds remain, then
- (2) for the benefit of beneficiaries then receiving payment of a benefit under this chapter and persons already designated to be a recipient of a benefit after cessation of payments to such beneficiaries, in proportion to the then actuarial value of their respective benefits but not to exceed the amount of such values; if any funds remain, then
- (3) for the benefit of members with at least 10 years of creditable service who are not then receiving benefit payments, to the extent of the actuarial value of their retirement allowances not provided by their accumulated contributions; the allocation of the funds under this subparagraph (3) shall be on the basis of the oldest ages first method; if any funds remain, then
- (4) for the benefit of members in service with the district on the date of such cessation with less than 10 years of creditable service who are not then receiving benefit payments, to the extent of the actuarial value of their retirement allowances not provided by their accumulated contributions; the allocation of the funds under this subparagraph (4) shall be on the basis of the oldest ages first method.

D. The allocation of the funds provided for in paragraph C of this subsection may, as decided by the board of trustees, be carried out through the continuance of the benefit payments or the funds may be distributed in one lump sum to the persons entitled to said benefits determined in accordance with said paragraph C. No member or former member shall lose his right to any benefits under this section solely because he later terminates employment with the participating local district prior to his service retirement date.

#### STATEMENT OF FACT

The purposes of this Act are to clarify the liabilities of the retirement system if a participating local district ceases to be included under the retirement system and to establish the basis of the rights to benefits of the then members and beneficiaries of such district.

20. AN ACT Relating To Provisions Applicable To Benefit Determination

The following paragraph is added to subsection 2 of section 1121.

- H. The service retirement allowance of a member which becomes effective on or after the effective date of this Act shall be determined on the basis of creditable service and earnable compensation at the date of termination of service of the member and on the basis of the provisions of this chapter in effect at the later of the effective date of this chapter and the date of termination of service of the member.

STATEMENT OF FACT

The purpose of this Act is to determine service retirement allowance payments on the basis of provisions of the Retirement System at the date of termination of service of a member, and not on the provisions in effect when the member's retirement becomes effective, which may be considerably later. Benefits are earned by a member under the terms of the Retirement System Laws in effect during his period of service, which is the basis of retirement benefits.