

MAINE STATE LEGISLATURE

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Review of

MAINE STATE
RETIREMENT SYSTEM

Joint Standing Committee on Audit and Program Review 1988-1989



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STATE OF MAINE
ONE HUNDRED AND FOURTEENTH LEGISLATURE
COMMITTEE ON AUDIT AND PROGRAM REVIEW

June 1989

Members of the Legislative Council,

We are pleased to transmit the Committee's 1988--1989 report to you in three volumes. To simplify our process and reduce costs, this year the Committee used draft reports to circulate its initial recommendations. These three volumes represent our final conclusions about the agencies under review. The report includes statutory and administrative recommendations and findings on the:

- Department of Administration;
- Department of Labor;
- Maine Labor Relations Board;
- Workers' Compensation Commission;
- Professional Regulatory Boards;
- Advisory Commission on Radioactive Waste;
- Department of Human Services;
- SCAN Team Language;
- Emergency Medical Services;
- State Civil Service Appeals Board;
- Educational Leave Advisory Board; and
- Maine State Retirement System

In addition to the diligent work of the Committee members, we would like to particularly thank the adjunct members who served on our subcommittees from other Joint Standing Committees; their expertise enriched and strengthened the review process.

The Committee's recommendations will serve to improve state agency performance and efficiency by increasing management and fiscal accountability, resolving complex issues, clarifying Legislative intent and increasing Legislative oversight. We invite questions, comments and input regarding any part of this report.

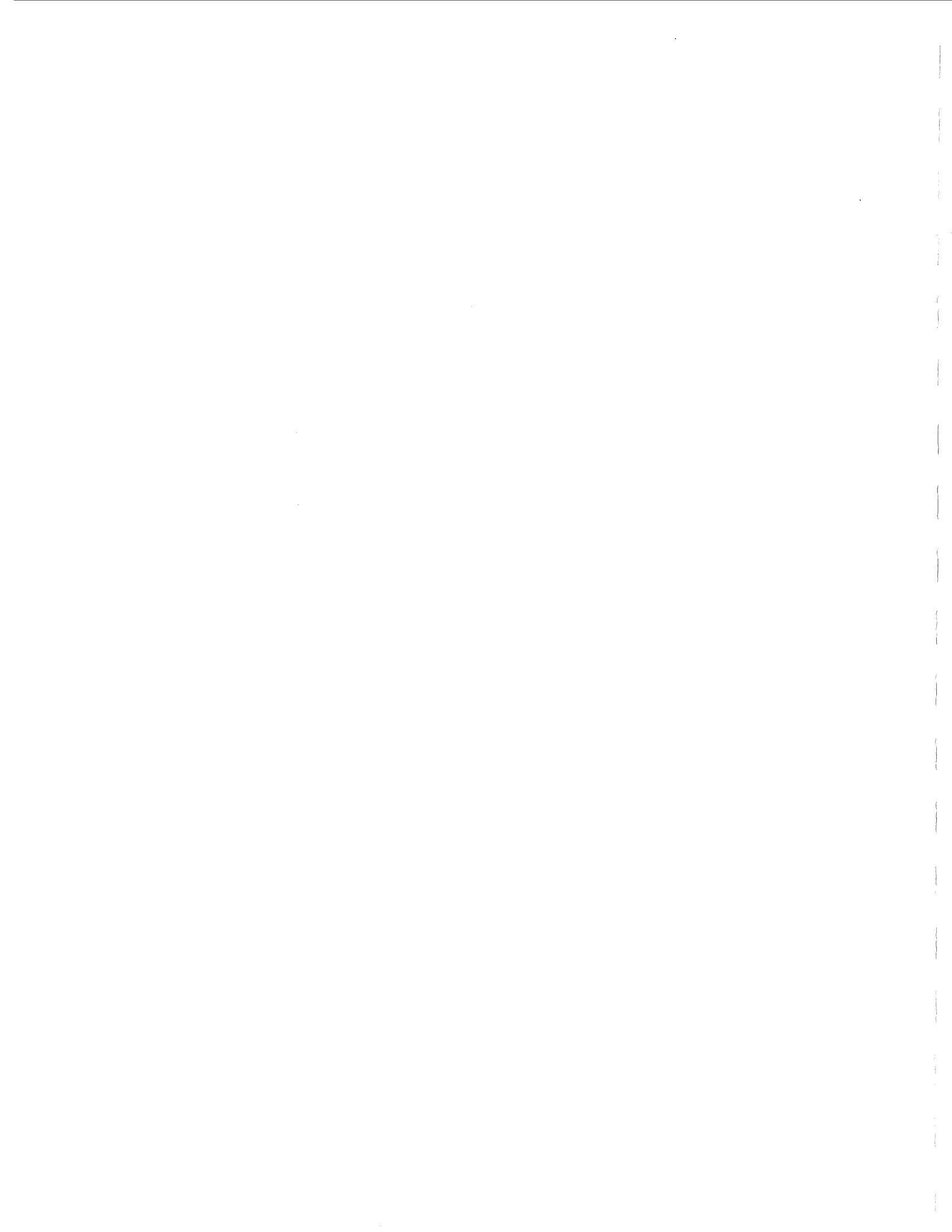
Sincerely,

Handwritten signature of Beverly M. Bustin in cursive.

Beverly M. Bustin
Senate Chair

Handwritten signature of Neil Rolde in cursive.

Neil Rolde
House Chair



SUBCOMMITTEE MEMBERSHIP

AUDIT & PROGRAM REVIEW SUBCOMMITTEE #1

- Bureau of Human Resources;
- State Civil Service Appeals Board;
- Educational Leave Advisory Board;
- Bureau of Employee Relations;
- Bureau of Public Improvements;
- State Employee Health Commission;
- State Employee Health Insurance Program;
- Maine State Retirement System

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Representative Eleanor Murphy,
Co-Chair
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Representative Ruth Joseph
Joint Standing Committee on State
and Local Government
Representative Dorothy A. Rotondi
Joint Standing Committee on State
and Local Government

EX-OFFICIO:

Senator Beverly Bustin

THE COMMITTEE PROCESS

The Joint Standing Committee on Audit & Program Review was created in 1977 to administer Maine's Sunset Act which "requires the Legislature to evaluate the need for an performance of present and future departments and agencies on a periodic basis." (3 MRSA Ch. 23). To carry out its mandate, the overriding goal of the Audit Committee is to increase governmental efficiency by recommending improvements in agency management, organization, program delivery, and fiscal accountability.

The Committee process unfolds in five distinct phases, which can be briefly described follows:

PHASE ONE: RECEIPT OF PROGRAM REPORTS

The law requires that agencies due for review must submit a Program Report to the Committee. The Program, or Justification, Report prepared by the agency provides baseline data used to orient staff and Committee to the agency's programs and finances.

PHASE TWO: REVIEW BEGINS

At the start of each review, the Committee Chairs divide the full Committee into subcommittees, appoint subcommittee chairs and assign each subcommittee responsibility for a portion of the total review. Each subcommittee is augmented by at least one member from the committee of jurisdiction in the Legislature; i.e. the subcommittee reviewing the administration and management of the University of Maine System will include a member of the Education Committee.

PHASE THREE: SUBCOMMITTEE MEETINGS

The subcommittees created by the Committee meet frequently when the Legislature is in session and every three to four weeks between the sessions to discuss issues regarding the agency and make recommendations for change. Staff will prepare material for the subcommittee's deliberation and present it to the subcommittee in one of several forms; as an option paper, discussion paper, or information paper. The Committee has found that these formats facilitate its process by cogently and objectively describing the topic for discussion and the points necessary for expeditious decision-making. These subcommittee meetings are not formal hearings but are open to the public and are usually well attended by interested parties. The subcommittees conduct their business in an open manner, inviting comment and providing a forum for all views to be heard and aired.

PHASE FOUR: FULL COMMITTEE MEETINGS

The full Audit & Program Review Committee considers the recommendations made by each subcommittee. These meetings are another opportunity for the public to express its views.

PHASE FIVE: THE LEGISLATURE

Following the full Committee's acceptance of subcommittee recommendations, Committee staff prepare a text and draft a bill containing all the Committee's recommendations for change. The Committee introduces its bill into the Legislative session in progress and the bill is then referred to the Audit & Program Review Committee. As a final avenue for public comment prior to reaching the floor, the Committee holds public hearings and work sessions on all its recommendations. After the Committee concludes deliberations and amendments, the bill is amended and placed on the calendar for consideration by the entire Legislature.

SUMMARY OF RECOMMENDATIONS

The Committee categorizes its changes into Statutory and Administrative Recommendations. The Committee's bill consists of the Statutory Recommendations. Administrative recommendations are implemented by the agencies under review without statutory changes. In some instances, the Committee includes a finding which requires no further action but which highlights a particular situation. Recommendations include, where possible, the proposed change and the reason for this change. For more specific detail, refer to the narrative of the recommendations.

STATUTORY 1. Disqualify the Executive Director and employees of the Maine State Retirement System from serving on the Board of Trustees to avoid potential conflicts of interest and untenable employer-employee relationships.

STATUTORY 2. Establish a procedure for the consistent treatment and compensation of active state employees, teachers, and participating local district employees who serve on the Board in order to eliminate economic disincentives for service on the Board.

STATUTORY 3. Specify that the Board of Trustees of the Maine State Retirement System is independent in all administrative decisions except in the area of legal advice, personnel decisions, and information services decisions, in order to clarify the relationship between the Maine State Retirement System and the Department of Administration and to recognize the Board's fiduciary responsibility as trustees. Furthermore, include a representative of the Maine State Retirement System on the Information Services Policy Board.

STATUTORY

4. Allow the Board of Trustees to set the salary of the Executive Director in order to provide adequate incentive to retain qualified directors and to avoid potential conflict in the Board's authority to hire the Executive Director.
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ADMINISTRATIVE

5. Direct the Department of Finance, the Maine State Retirement System and the Advisory Council on Deferred Compensation to review several areas of concern and report to the Committee in the fall of 1989 as part of the Committee's review of the Department of Finance.
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MAINE STATE RETIREMENT SYSTEM

INTRODUCTION

The Committee on Audit & Program Review was fortunate in the timing of its review of the Maine State Retirement System. During the year prior to the review, the legislatively authorized Committee to Study the Retirement System had just completed an extensive study of the Maine State Retirement System. The Committee to Study the Retirement System had a budget of \$75,000 with which it could utilize outside experts to review the complex areas of actuarial science and investments. Therefore, the Committee on Audit & Program Review did not find it necessary to cover those issues related to the Retirement System's financial condition or benefit structure and could use this prior work as a spring board to resolving unaddressed issues or new issues that were identified after the conclusion of the study.

In particular, in the operations area, the Committee to Study the Retirement System did not have sufficient time to address a number of concerns and some major policy questions. By concentrating on the operational issues that were not fully addressed by the Committee to Study the Retirement System, the Committee on Audit and Program Review was able to address some tough policy issues such as clarifying the relationship of the Maine State Retirement System to state government. Although not technically part of the Retirement System, the Deferred Compensation Plan interested several members of the Committee and was reviewed because of its status as a retirement-related plan.

HISTORY AND PURPOSE

The Maine State Retirement System was created by the Legislature as of July 1, 1947 for the purpose of providing retirement benefits to state employees (except members of the Judiciary and State Police officers employed before 1943), public school teachers, and employees of participating local districts. In addition, the Maine State Retirement System provides disability benefits, survivor benefits, and a group life insurance plan. The 1947 Legislation establishing the Maine State Retirement System merged the Maine State Employees Retirement System (established in 1942 for the state employees and employees of participating local districts) and the Maine Teachers Retirement Association. Also included was another group of public school teachers who were employed prior to the 1924-25 school year.

The Maine State Retirement System actually includes two other separate systems: the Judicial Retirement System, established in 1984, and the Legislative Retirement System, established in 1986. While these are separate systems, the Boards of these systems are the same as the Board of Trustees of the Maine State Retirement System. These separate systems were created to address the unique employment situations of Judges and Legislators.

The Maine State Retirement System, Judicial and Legislative Retirement Systems are joint, contributory, defined benefit retirement plans. Active membership as of June 30, 1988 was:

Active teachers 20,797
Active state employees 14,919
Active PLD employees 9,239

In addition, there were 30,190 inactive accounts representing former members who have terminated service and whose contributions have been left on deposit with the system. The number of retirees that same date was 21,027 with an annual payroll of \$12.1 million.

THE COMMITTEE TO STUDY THE RETIREMENT SYSTEM

As mentioned earlier, the Legislature and the Governor authorized a special committee to review the Maine State Retirement System with a broad mandate. This special committee was created in response to a significant increase in the employer contribution rates resulting primarily from a change in the actuarial assumptions. While the Committee to Study the Retirement System's responsibilities covered all facets of the operations and finances of the Maine State Retirement System, the Committee to Study the Retirement System concentrated its efforts on understanding the finances and the benefit structure of the System.

Several problem areas in the operations of the System were addressed in the report of the Committee to Study the Retirement System. Some of the proposed solutions to the operational problems required lengthy time frames to implement fully. Therefore, some are still not fully implemented after over a year since the recommendations were released and acted upon by the Legislature. The Committee on Audit and Program Review reviewed these recommendations and took a more in-depth look at the System's operations. Noting that the financial condition and the benefit structure of the Retirement System had received a very thorough review by the special committee, the Committee on Audit and Program Review concentrated its efforts on the operational issues.

PLD CONSOLIDATION

In its review, the Committee on Audit and Program noted that one of the major problems facing the Maine State Retirement System that was identified in the Committee to Study the Retirement System report is the number of separate plans for the more than 260 participating local districts (PLD's). It continues to be a major stumbling block to improving the services provided to Maine State Retirement System members, beneficiaries, and retirees. The diversity of these plans have resulted in a system that is difficult to administer and understand.

The PLD Consolidation Committee was formed in October 1987 to study the prospect of consolidating the several PLD employees. The Committee has consisted of representatives of PLD employer and PLD employee representatives as well as the Executive Director of the Retirement System. Several meetings have been held to develop a consolidated benefit program which would decrease the administrative and actuarial costs, increase portability among PLD's, and stabilize employer contribution rates.

The PLD Consolidation Committee had not concluded its work at the close of the Audit & Program review cycle. Therefore, the Committee on Audit and Program Review decided to defer further action on the consolidation issue pending the release of the PLD Consolidation Committee's recommendations. Furthermore, the Committee on Audit and Program Review noted that the PLD Committee's recommendations would very likely require legislative action to be implemented.

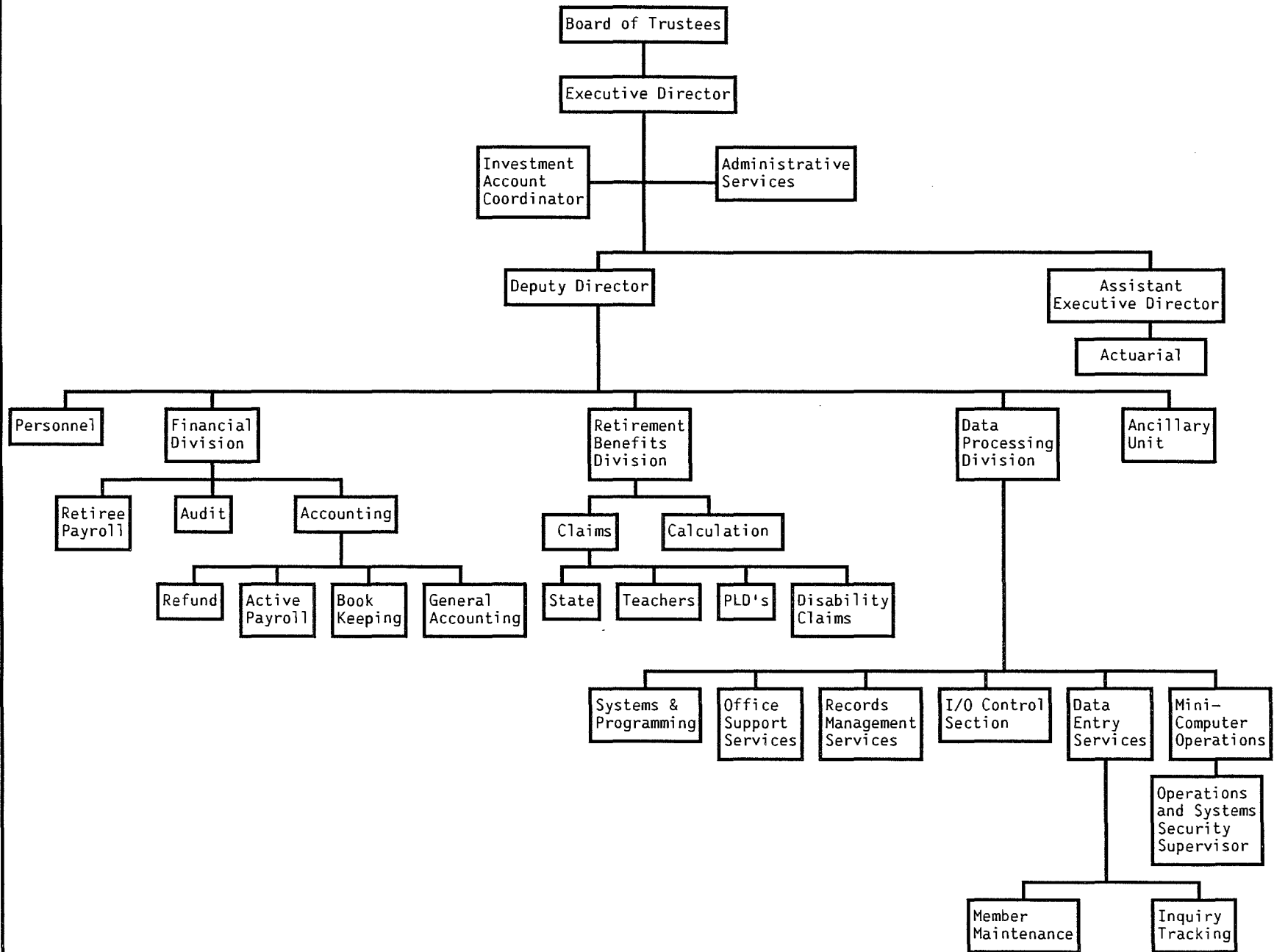
AUTOMATION

The Committee on Audit and Program Review noted that the other major problem related to the Maine State Retirement System's operations identified by the Committee to Study the Retirement System, is the lack of automated data storage and retrieval and that this issue is in the process of being addressed. The severe lag time in entering data, particularly from the participating local districts, adversely affected the ability of Retirement System staff to serve members and retirees. The Maine State Retirement System is in the process of accepting the final bid to implement the recommended automated system at the time of this report.

ORGANIZATION

The Maine State Retirement System is classified as a quasi-independent agency. A Board of Trustees is the policy-making body of the system, while the Executive Director and the staff of the Retirement System are responsible for administering these policies. Retirement System operations are carried out by five divisions, as shown in the accompanying organizational chart.

MAINE STATE RETIREMENT SYSTEM



BOARD OF TRUSTEES

The Board of Trustees is composed of 8 members; seven voting members and the Treasurer of State who serves ex-officio in a non-voting capacity. Five voting members represent members or retirees of the System; a trustee is elected by the Maine Teachers' Association, another is elected by the Maine State Employees' Association, another appointed by the Governor from nominees submitted by the Maine Retired Teachers' Association, the fourth member/retiree representative is also appointed by the Governor from list or lists of nominees submitted by retired state employees and participating local district employees, and the final member/retiree representative is a participating local district employee appointed by the governing body of the Maine Municipal Association. The other two voting members are appointed by the Governor from the general public and must be qualified through training and or experience in the field of investments, accounting, banking, insurance, or law.

According to statute, the Board of Trustees, as the policy-making body of the Maine State Retirement System has final decision-making authority for all administrative and financial decisions. However, as the Committee to Study the Retirement System noted, this does not appear to be the case for money decisions, where representatives of the Departments of Administration and Finance and the Governor actually have final approval authority. The earlier Committee to Study the Retirement System was unable to resolve this apparent contradiction.

To assist the Board in carrying out its duties, the Board must designate an actuary to serve as technical advisor to the System. Currently, the firm of Milliman & Robertson, Inc. is the system's actuary. The Board also has the power to employ or contract with persons for investment counsel or advice and for other expert, professional or other assistance required by the Board. The Trustees currently rely on several different investment advisors to manage the Retirement System's portfolio which exceeds \$1 billion. The Board of Trustees also designates three physicians to serve on the "Medical Board" which assists the Trustees in evaluating disability retirement cases.

EXECUTIVE DIRECTOR

The Board of Trustees appoints the Executive Director who is essentially the chief executive officer of the Retirement System. The Executive Director is responsible for implementing the policies of the Board of Trustees and has administrative responsibility for the Retirement System, including approval of benefit payments. The Executive Director may hire staff which, by statute, are to be considered state employees.

FINANCES

The administrative budget of the Retirement System for the fiscal year 1987-88 was approximately \$2.5 million with a staff of 75. The market value of the assets managed by the system increased by \$66.7 million during fiscal year 1987-88 to \$1,405.8 million, the book value of these assets was \$1,310 million. The unfunded liability or unfunded actuarial reserve, excluding the participating local districts, also increased during fiscal year 1987-88 and on June 30, 1988 was \$2,153,056,988. This unfunded liability is scheduled to be reduced completely or amortized within 30 years.

(Note: for a more complete discussion of the financial condition and the benefit structure of the Maine State Retirement System see the Report of the Committee to Study the Retirement System.)

MAINE STATE RETIREMENT SYSTEM

RECOMMENDATIONS

- STATUTORY
1. Disqualify the Executive Director and employees of the Maine State Retirement System from serving on the Board of Trustees to avoid potential conflicts of interest and untenable employer-employee relationships.
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Under current law, neither the Executive Director nor the employees of the Maine State Retirement System, are prevented from serving on the Board. The Executive Director or employees of the system could be appointed as public members by the Governor or elected as the state employee representative by the Maine State Employees Association.

During the course of the review, the Committee discussed the feasibility of the Maine State Retirement System staff and the Executive Director serving simultaneously as trustees. Testimony from the Maine State Retirement System, the Maine State Employees Association, and the Attorney General on the matter indicated that there is general agreement that a recent employee's attempt to seek election to the board would have resulted in a conflict. The employee's position and membership on the board of trustees could not be discharged simultaneously and, therefore, meet the criteria of the common law doctrine of incompatibility of public offices.

As a result, the Committee finds that simultaneous service as an employee of the System and service on the Board is incompatible and that the incompatibility would apply to all employees of the Maine State Retirement System, including the Executive Director. To be both the superior and subordinate to the Executive Director is an untenable position. The Executive Director and Maine State Retirement System managers and supervisors would be in conflict from being required to implement policies adopted by the board which they may have voted against as a member of the Board. Finally, the Committee finds that the Executive Director would be inappropriately faced with evaluating his or her own performance.

Therefore, the Committee recommends that the Executive Director and employees of the Maine State Retirement System not be allowed to serve on the Board of Trustees. In making this recommendation, the Committee notes that employees of the system would become eligible for appointment or election to the board upon resigning their position with the Maine State Retirement System.

STATUTORY 2.

Establish a procedure for the consistent treatment and compensation of active state employees, teachers, and participating local district employees who serve on the Board in order to eliminate economic disincentives for service on the Board.

Board members are responsible for the proper operation of the retirement system and make the final decisions on all administrative and financial decisions. They are expected to attend 12 regular monthly meetings scheduled for the second Thursday of each month, usually lasting the full day, and several special meetings called throughout the year, averaging a total of 18 meetings annually. In addition, some Board members serve on the investment committee and other ad hoc Committees as required. The complexity of the material covered at these meetings assumes or requires a high level of understanding of board members, which, if not acquired through work experience or prior service on the board, would require significant study to comprehend Maine State Retirement System policy as an effective board member.

By statute, the state employee member may receive per diem or their regular wages but not both. State employees who are neither ex-officio nor appointed by their commissioner, director or state agency may not be paid their regular wages for attendance at board meetings or functions or for board work performed during the normal working hours of that state employee. However, the State Employee Health Commission members are granted administrative leave to attend commission functions by state contract. In addition, the granting of administrative leave to state employee members of the Maine State Retirement System Board of Trustees has been allowed by certain supervisors and commissioners in the past.

The teacher and participating local district employee representatives also do not have a consistent policy regarding compensation for their board responsibilities. Both are eligible for legislative per diem. However, the policies of their employers could result in economic disincentives to board membership. The legislative per diem (currently at \$55) paid to active teacher members is not sufficient to offset the loss of salary to teachers if they are required to forgo a day's pay. This acts as a disincentive for teachers to serve as Trustees of

the Maine State Retirement System. On the other hand, a teacher trustee from another district could be paid a per diem without a loss of pay or may only have to reimburse the school unit for the cost of a substitute. The situation for the participating local district's representative is similar. This trustee may have to use vacation time or may receive administrative leave in addition to the per diem.

The Committee finds that it is important to retain dedicated and knowledgeable board members. However, there is currently some economic disincentives for certain board members. There are also some inconsistencies in the treatment of certain board members by their employers. This situation applies primarily to the public employee representatives on the board, the state employee representative, the teacher representative, and the participating local district representative.

The Committee also finds that all public members should be granted administrative leave to attend board functions so that they do not have to use vacation time or receive a reduction in compensation. In addition, the employers of teachers and participating local district employees should be reimbursed for the cost of filling in for them during the performance of board duties. However, the employees should not have to pay income tax on income which they turn over to the employer.

Therefore, the Committee recommends that all public employee representatives on the Maine State Retirement System Board of Trustees be compensated in a consistent manner so as to minimize the potential for economic disincentive to board membership and that the per diem should be paid directly to the employer avoiding the negative tax implications.

STATUTORY 3.

Specify that the Board of Trustees of the Maine State Retirement System is independent in all administrative decisions except in the area of legal advice, personnel decisions, and information services decisions, in order to clarify the relationship between the Maine State Retirement System and the Department of Administration and to recognize the Board's fiduciary responsibility as trustees. Furthermore, include a representative of the Maine State Retirement System on the Information Services Policy Board.

The Maine State Retirement System is established in the legal form of a trust and, as such, the Trustees are subject to the fiduciary duty of administering the Retirement System prudently and solely in the interest of the beneficiaries. Over the course of the review of the Maine State Retirement System, a central theme in the discussion of several issues was the role of the Board of Trustees and the uncertainty of the relationship of the Maine State Retirement System to other state agencies, particularly the Department of Administration.

The Committee finds evidence suggesting that the Maine State Retirement System is a state agency. Its employees are by statute state employees, its funds are considered state funds and are accounted for in state financial reports, its bills are paid by state checks, and until recently it was housed within the state office building. However, the Committee also finds that statutory similarities with several quasi-independent agencies and a recent informal Assistant Attorney General's opinion that the Maine State Retirement System is independent of many routine executive controls suggest the independent nature of the system. Legislative intent in establishing the retirement system is unclear.

The Committee finds that the Maine State Retirement System is a trust which gives the Board of Trustees the fiduciary duty of administering the trust prudently and for the sole benefit of the members and retirees. The Maine State Retirement System as a state agency would mean that the Governor, commissioners, or other state officials would have final approval authority for Maine State Retirement System actions rather than the Board of Trustees which would impair the Board's ability to meet the needs of members and retirees of the System. As a state agency, the needs of the system could be subordinated to the needs of the State by the state officials, whose responsibilities are primarily to the State as a whole and not the specific needs of the Retirement System.

The Committee also noted that, despite the substantial financial commitment that contributions to the Maine State Retirement System represent for state government, the Board should be given the power to implement its policies to best serve the members of the Maine State Retirement System. The Board already has significant independence in its billion dollar investment operations. The addition of independence in other areas of its administrative operations would not significantly lessen legislative or executive branch control as demonstrated by the summary on the following page.

MAINE STATE RETIREMENT SYSTEM EXECUTIVE AND LEGISLATIVE OVERSIGHT

Legislature

The Legislature has and always will have final authority over the Maine State Retirement System through statute. Benefits are established by statute for state employees and teachers. These benefit levels are the driving force behind the retirement costs or the contributions made to the system by and for state employees. The Legislature also determines the make-up of the Board of Trustees.

Governor/Executive

The Governor currently appoints four members to the Board of Trustees, a majority of the voting membership. By statute, the Governor currently has final approval authority for investment contracts and for purchase, lease, or rent of property. Indirectly, the Governor through the Departments of Administration and Finance has final approval authority for numerous Maine State Retirement System administrative actions.

	<u>Current Authority</u>	<u>Proposed Authority</u>
Benefits:		
Levels/Policy	Legislature (statutory)	Legislature
Interpretation	Board of Trustees	Board of Trustees
Investments:		
Divestiture	Legislature	Legislature
Contracts	Governor	Governor
Real Estate	Governor	Governor
Budgeting:		
Allocations/Allotments	Budget Office	Budget Office
Capital Expenditures	Budget Office	Budget Office
New Positions	Budget Office/BHR	Budget Office/BHR
Other Financial Matters:		
Check Writing	Accounts & Control (A&C)	A&C
Accounting	Controller	Controller
Auditing	State Auditor	State Auditor
Personnel:		
General	Bur. of Hum. Res. (BHR)	BHR
Salaries/Clas. Staff	BHR	BHR
Salary/Exec. Dir.	Governor	MSRS **
General Administration:*		
Purchasing	? (Admin. or MSRS)	MSRS choice
Contracts	? (Admin. or MSRS)	MSRS
Risk Management	? (Admin. or MSRS)	MSRS choice
Information Systems	? (OIS or MSRS)	OIS

*The Annual Report of the Maine State Retirement System would be expanded to include a report on operations to be presented to the Governor and the Legislature.

** See Statutory Recommendation 4.

In making this recommendation, the Committee recognizes that the Office of Information Services of the Department of Administration should still have the authority to approve proposed purchases or contracts relating to data processing and telecommunications equipment and services. However, the Committee also recognizes the importance of the Retirement System's input into the development of information systems policy and, therefore, recommends that the Executive Director or the Director's designee serve on the Information Services Policy Board. In exchange for the expanded autonomy of the Board, the Trustees should also be required to expand their report to the Committee of the Legislature having jurisdiction over the Maine State Retirement System to include a summary of operations and the improvements implemented each year by the Maine State Retirement System.

Therefore, the Committee recommends that the Board of Trustees be allowed to implement its operational policies free from the intervention of the Department of Administration whose priorities may be elsewhere in state government with the exceptions noted above.

STATUTORY	4.	Allow the Board of Trustees to set the salary of the Executive Director in order to provide adequate incentive to retain qualified directors and to avoid potential conflict in the Board's authority to hire the Executive Director.
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Currently, the salary of the Executive Director is set by statute within range 89 and is subject to adjustment by the Governor. In practice, the Board recommends a salary to the Governor. The Executive Director's salary has been established at the highest step in range 89 or \$61,547 annually. The Committee finds that while this salary is comparable to positions of similar authority and responsibility in state government, this is well below the salaries of equivalent investment managers in the private sector. Furthermore, an earlier review of the Maine State Retirement System by the Committee to Study the Retirement System had recommended that the Board be authorized to establish the Executive Director's salary.

In addition, the Committee noted the potential for the Governor to block the choice of the Board of Trustees for Executive Director by setting the salary at the lowest step in the authorized range. This could also be used to discourage a current Executive Director from continuing in the position.

Therefore, the Committee recommends that the Executive Director's salary be established by the Board and no longer subject to control by the Governor. However, the Committee recommends that a limit be placed on the salary so that it would not be set at a rate higher than that possible in the state employee salary schedules.

ADMINISTRATIVE 5. Direct the Department of Finance, the Maine State Retirement System and the Advisory Council on Deferred Compensation to review several areas of concern and report to the Committee in the fall of 1989 as part of the Committee's review of the Department of Finance.

The Deferred Compensation Plan, although technically a retirement plan, is administered by the Department of Finance, which is scheduled to be reviewed as part of the Committee's 1989-90 review. The Deferred Compensation Plan is a special type of retirement/savings plan which must meet certain Internal Revenue Service requirements to qualify for tax deferred status. The Department of Finance is responsible for the administration of the plan which is overseen by an advisory council chaired by the Commissioner of Finance. The Advisory Council on Deferred Compensation selects up to a maximum of three firms to act as carriers for the plan. In 1974, three firms were selected by the Advisory Council through competitive bid and, although reviewed at least annually by the Advisory Council, the same three firms continue to be the sole carriers for the plan. These firms have an agreement to administer the plan with minimal staffing or financial commitment from the Department of Finance.

The Committee finds a need for a thorough review of the deferred compensation plan, particularly regarding:

- the effectiveness of the three existing firms relative to competitive offerings by other firms;
- the need to increase the number of firms to participate in the plan to ensure a proper balance between healthy competition and additional administrative expenses;
- the most effective agency to administer and review this plan; and

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- the appropriate level of financial commitment on behalf of the state to this optional program.

Therefore, the Committee recommends that Department of Finance, the Maine State Retirement System, and the Advisory Council on Deferred Compensation complete their review of the plan and address the particular issues highlighted above and report back to this committee in the fall of 1989 as part of this Committee's review of the Department of Finance.