OFFICE OF POLICY AND LEGAL ANALYSIS

To: Members, Joint Standing Committee on Labor and Housing
From: Steven Langlin, Legislative Analyst
Date: February 22, 2021
Subj: **LD 111, "An Act To Allow Career Educators To Retire without Penalty" (Tuell)**

SUMMARY

This bill allows teachers and school administrators in service after 35 years of creditable service to retire and collect retirement benefits without penalty. It also requires that a reemployed retired teacher or retired school administrator pay the same employee contribution rate to the retirement system as is required for the position if the position were filled by an employee who is not retired.

TESTIMONY

Proponents	Opponents
Sponsor (written testimony) • 35 years is a long time in the field; this helps with burnout. • Requiring retirees who leave and then come back into the classroom pay in to MainePERS helps avoid "double dipping" perception and helps keep MainePERS solvent *Rep. Paul Stearns, co-sponsor (written testimony)* • Teachers begin at age 22, and after 35 years they're 57 – rare for educators to stay in field for so long • Could incentivize graduates to pursue education field *Steven Bailey, Maine School Management Association (written testimony)* • Affects so-called "cliff employees" working in schools who did not have 10 years of creditable service when retirement law was changed in 1993 • Gives educators whose passion and enthusiasm has waned an opportunity to leave John Kosinski, Maine Education Association (written testimony) • Lack of portable plan hinders late entrants to the profession George Crawford, Machias (written testimony) • Many educators who are burned out stay in the profession until reaching normal retirement age to avoid penalties	 **Neither For Nor Against** *Kathy Morin, MainePERS (written testimony - attached)* • Teacher that reaches 25 years of service but is not at normal retirement age (60, 62 or 65) sees retirement benefit reduced 6% for each year below normal retirement age. • ME Constitution does not allow the creation of new or additional benefits unless immediately and fully funded. • New benefits are created under L.D. 111 because a teacher would be receiving benefits for more years than currently accounted for and funded, creating a new unfunded actuarial liability (UAL). • Approximately $83 million increase to UAL if enacted • Approximately $1.6 million per year for ongoing increased normal cost *William H. Laubenstein III, Maine Association of Retirees (written testimony)*

POTENTIAL ISSUES OR TECHNICAL PROBLEMS:

- As noted by MainePERS, Maine Constitution requires new benefits to be fully and immediately funded. This is estimated to be $83 million. See Article IX, Section 18-A below.

Section 18-A. Funding of retirement benefits under the Maine State Retirement System. Beginning with the fiscal year starting July 1, 1997, the normal cost of all retirement and ancillary benefits provided to participants under the Maine Public Employees Retirement System must be funded annually on an actuarially sound basis. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not exceeding 20 years.

COMMITTEE REQUESTS FOR ADDITIONAL INFORMATION:

- MainePERS provided a chart with its state-sponsored plans and two links to the federal Social Security Administration that discuss the Windfall Elimination Provision and the Government Pension Offset. That information can be found by clicking here.

PRELIMINARY FISCAL IMPACT STATEMENT:

- Please see attached.

Approved: 02/16/21 mac

130th MAINE LEGISLATURE

LD 111 **LR 474(01)**

An Act To Allow Career Educators To Retire without Penalty

Preliminary Fiscal Impact Statement for Original Bill
Sponsor: Rep. Tuell of East Machias
Committee: Labor and Housing
Fiscal Note Required: Yes

Preliminary Fiscal Impact Statement

Increased normal retirement costs - local school administrative units

	FY 2021-22	FY 2022-23	Projections FY 2023-24	Projections FY 2024-25
Net Cost (Savings)				
General Fund	$83,000,000	$0	$0	$0
Appropriations/Allocations				
General Fund	$83,000,000	$0	$0	$0

Fiscal Detail and Notes

Under current law, a teacher who is a member of the Maine Public Employees Retirement System (MainePERS) State Employee and Teacher retirement plan becomes eligible to retire by either reaching 25 years of service or by reaching the applicable normal retirement age, which is 60, 62 or 65 depending on service requirements at specific dates set in law. A member with 25 years of service who retires prior to reaching normal retirement age will have their retirement benefit reduced by a certain percentage (either 2.25% or 6%) for each year that their age is below normal retirement age.

This bill proposes to allow teachers with at least 35 years of service to retire with full retirement benefits regardless of age. This would create an unfunded actuarial liability, estimated to be $83.0 million, that would need to be funded immediately. The bill would also increase the normal cost component for teacher members by .15% of payroll, estimated to be approximately $1.6 million per year. Under current law, normal costs are paid by local school administrative units.

Contributions from the requirement in this legislation that a reemployed retired teacher or retired school administrator pay the same employee contribution rate to MainePERS as is required for the position if the position were filled by an employee who is not retired will accrue to the trust fund.

MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

DATE: February 3, 2021

TO: Senator Joseph Rafferty, Chair
Representative Mike Sylvester, Chair
Members, Joint Standing Committee on Labor and Housing

FROM: Kathy J. Morin, Manager, Actuarial and Legislative Affairs

SUBJECT: Testimony on L.D. 111 – An Act to Allow Career Educators to Retire without Penalty

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Good morning, Senator Rafferty, Representative Sylvester, and members of the Joint Standing Committee on Labor and Housing. My name is Kathy Morin, and I am the Manager of Actuarial and Legislative Affairs for the Maine Public Employees Retirement System.

MainePERS is neither for nor against L.D. 111. We are here to provide information and offer any assistance the Committee might need regarding this bill.

Under current plan provisions, there are two ways by which a teacher becomes eligible to retire. One way is by completing twenty-five years of service and the other is by reaching the applicable normal retirement age, which is age 60, 62, or 65 depending on service requirements at specific dates set in law. A teacher who reaches twenty-five years of service prior to reaching normal retirement age may retire with a reduction, 6% for most current teachers, for each year below normal retirement age.

L.D. 111 proposes to allow teachers with at least thirty-five years of service to retire with an unreduced benefit, regardless of age. It also requires retired teachers who return to work to pay the member normal cost during the period of re-employment. That rate is currently 7.65% of member earnable compensation. Under current plan provisions, re-employed teachers do not pay member contributions nor do they accrue additional benefits.

L.D. 111 will have a fiscal impact because the Constitution does not allow the creation of new or additional benefits unless immediately and fully funded. New benefits are created under L.D. 111 because a teacher would be receiving benefits for more years than currently accounted for and funded, creating a new unfunded actuarial liability (UAL). We estimate an approximate $83 million increase to the UAL if this bill is enacted. Additionally, we estimate an ongoing increased normal cost of approximately $1.6 million per year.

Thank you for your consideration of this testimony. I would be happy to answer your questions and will be available at your work session.

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