



## **Maine Unified Retirement Plan Task Force**

*As established by Resolve 2009, c. 111 (L.D. 1431)*

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# Resolve, Chapter 111, 124th Legislature, First Regular Session

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## **Task Force Study and Report**

## **Maine State Employee and Teacher Unified Retirement Plan**

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## Executive Summary

The purpose of this report is to respond to the reporting requirement of Maine State Resolve 111, "To Reform Public Retirement Benefits and Eliminate Social Security Offsets" passed in May, 2009, by the 124th Legislature. The reason for the legislation is to design a unified pension and health benefit plan for all state employees and teachers who are first employed after December 31, 2010 with no prior creditable service.

Retirement benefits for purposes of this legislation means pension, disability and health plans. Resolve 111 established a stakeholder Task Force to study public retirement benefits reform and eliminate social security offsets by designing a portable plan that provides pension, disability and health retirement benefits that coordinate with social security benefits.<sup>1</sup> (See Attachment A)

Task Force members examined separately the components of the overall plan: retiree pension, health care and disability. Educational and analytical information is presented for reader ease in understanding these complex topics.

Interactive actuarial "what-if" models were developed for pension plan options studied to enable expanded analysis of each option. These models will be available after submission of this report as analytical tools for further discussion. The models presented compare plans side by side using the same set of assumptions. Changes can be made to the assumptions used in this report to determine the cost and benefit impacts of those changes. The pension information in this document is not generally time-sensitive unless a new pension plan is implemented.

Retiree health benefit information presented in this report provides readers with a history and understanding of retiree health costs, and describes the complexity of how insurance programs are administered.

### Approach of the Task Force in Developing a New Pension Plan

Task Force members based their study on the current State Employee and Teacher Retirement Program (State/Teacher Plan) because it serves the overwhelming majority of affected participants. The legislation covers two small additional plans – judicial and legislative.

Task Force members arrived at the understanding that the current State/Teacher Plan is an inexpensive pension benefit for the State of Maine because 1) the State does not cover teachers or state employees under Social Security; and 2) significant turnover decreases the total amount of benefits paid from a

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<sup>1</sup> Resolve 111, 124th Legislature First Regular Session, To Reform Public Retirement Benefits and Eliminate Social Security Offsets. <http://www.mainelegislature.org/ros/LOM/LOM124th/124R1/RESOLVE111.asp>

defined benefit plan. Less than half of employees eventually retire from the current State/Teacher Plan and receive a monthly benefit. Any reduction from the current total benefit level in a new plan for new employees would decrease the adequacy of the pension benefit compared to most large public and private sector employers who provide both Social Security and a supplemental pension plan.



*The Unfunded Actuarial Liability (UAL) for past costs of the current State/Teacher Plan not timely funded was removed from analysis of new plans. Only the normal, or on-going cost, of the State/Teacher Plan was compared to the normal cost of new options to examine comparability. The UAL must be paid down regardless of underlying plan design. A new plan will not reduce or eliminate the UAL.*

***Any viable pension plan the Task Force recommends, except for staying with the current plan, will incur additional employer costs.*** Uncertainty about cost constraints created a dilemma for Task Force members in recommending any one specific plan, especially in the extreme economic downturn of the last two years. Pension plan recommendations are provided, therefore, in the form of guidance commentary in terms of what the Maine State Legislature may hope to accomplish with a new retirement plan and consistent with the enabling legislation.

### ***Guidance 1 – Lowest Normal Cost***

Retaining the current State Employee and Teacher Retirement Program provides the lowest cost of the seven options studied by the Task Force. This plan's normal costs are expected to continue at approximately 5.5% of payroll in the future. Less than twenty percent of employees earn 25 or more years of benefits, and less than half vest. Benefits increase with length of service and are distributed only to those who vest and do not withdraw their contributions. Consequently, although the plan is designed to retain long-term employees by providing a substantial replacement income in retirement, the overall cost of the plan to the State of Maine is lowered by significant turnover. Portability is limited to the withdrawal of the employee's 7.65% contribution plus interest earned. All employer contributions are lost to the employees who leave the System and withdraw their contributions. Employees continue to experience the challenges of the Social Security offsets.

### ***Guidance 2 – Lowest Cost with Full Portability***

Social Security has an employer cost of 6.2% of payroll, approximately .7% higher than the 5.5% normal cost of the current plan. Social Security is designed to provide basic benefits for all workers, is managed by the federal government on behalf of most employers, and is therefore fully portable. It provides a lesser benefit to many employees than the current plan, but provides a benefit to 100% of employees instead of less than 50% of employees as in the current plan.



Assuming current employment patterns of approximately 1,750 new hires/replacement hires per year continue, and using an average new hire salary of \$30,000, the additional .7% in normal costs for placing new employees in only Social Security can be reasonably estimated at:

Year 1	Year 2	Year 3	Year 4	Year 5
\$367,500	\$735,000	\$1,102,500	\$1,470,000	\$1,837,500

The employer cost of Social Security will eventually reach 6.2% of payroll when there are no more State/Teacher Plan active employees and all employees are in the new plan.

*The State of Maine currently pays and submits employer pension contributions for teachers to MainePERS. Social Security employers are required to submit the 12.4% employer and employee contributions to the Internal Revenue Service. Adopting Social Security as a pension plan, included in Guidance 2 and Guidance 3, requires additional discussion between the State of Maine and school districts regarding the funding path of this benefit.*



**Guidance 3 – Portability and Retention**

Social Security with a supplemental defined benefit plan provides a retention incentive while creating portability of both the Social Security credits and the withdrawal of the employee’s contributions to the plan plus interest on those contributions. This could be accomplished by providing a supplemental plan that is a reduced benefit/lower cost plan than the current State/Teacher Plan. One example of how this can be accomplished is to use the current State/Teacher Plan benefit structure and determine an accrual rate for this structure that, when combined with Social Security, creates an income replacement comparable to the current plan. An accrual rate of approximately 1%, half of the current plan accrual rate of 2%, achieves this objective. This approach promotes inter-generational equity while enabling Maine to change the current situation in which employees are not enrolled in Social Security.

Option Three studied by the Task Force approximates this type of plan, and results in an employer normal cost of roughly 11.95% of payroll (6.2% paid to Social Security and 5.75% to MainePERS) when the employee contribution rate remains at 7.65% (6.2% paid to Social Security and 1.45% to MainePERS). The employer cost of 5.75% for the reduced defined benefit remains similar to the current plan 5.5% because only 1.45% of the employee contribution is now going to fund the defined benefit while 6.2% funds their Social Security contribution. Assuming current employment patterns of approximately 1,750 new hires/replacement hires per year continue, using an average

new hire salary of \$30,000, and using the current assumed rate of return on investments of 7 ¾%, the additional 6.45% (11.95% less 5.5% in the current plan) in employer normal cost for placing new employees in Social Security and a supplemental modified defined benefit plan can be reasonably estimated at:

<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
\$ 3,386,250	\$ 6,772,500	\$ 10,158,750	\$ 13,545,000	\$ 16,931,250

The employer cost of this option eventually becomes 11.95% of payroll when there are no more State Employee and Teacher Retirement Program active employees and all employees are in the new plan.

The normal cost of the sample plan above is based on providing approximately 1 /2 of the current plan benefit. The cost and recruitment/retention incentives can be modified by modifying the plan provisions. The following examples include how changing plan provisions affect cost, benefits, or outcomes:

1. Implement a variable instead of fixed accrual rate (shares risk between employee and employer);
2. Increase employee contribution for the defined benefit supplemental plan above 1.45% (reduces employer cost);
3. Base the benefit on the 5<sup>th</sup> highest year of income instead of highest three years (reduces cost);
4. Retirement age and structure:
  - a. Base on the Social Security normal and early retirement ages and structure (allows normal retirement age to reflect general population); or
  - b. Base on industry standards – for example teachers may require a fixed 25 or 30 year work life;
5. Make COLA and/or survivor benefit optional and funded fully or partially by the employee through a reduction in base benefit (reduces cost);
6. Adjust final average salary by the Consumer Price Index up to 3% annually for employees terminating prior to retirement who maintain their retirement account at MainePERS until their actual retirement (increase retirement readiness in lieu of portability).

Task Force members studied defined contribution plans even though not required by the enabling legislation. Task Force members are not recommending a defined contribution plan either as a base plan or a supplement to Social Security primarily because it transfers the investment and longevity risk solely to the employee. Although defined contribution plans have become increasingly popular in the private sector as a way to manage costs, they have not yet proven to be effective retirement vehicles for many individuals. Defined benefit plans can be modified to share the risk between employer and employee, and benefits can be modified to contain or control the cost.

### **Approach of the Task Force in Developing a Retiree Health Care**

Traditionally health coverage has been an employer-sponsored benefit. As a result, there are a host of issues that require attention. Several of the more technical issues related to a merged plan were identified by the Task Force. It is the consensus that these issues require further research and greater analysis.

Beyond the technical issues there are more pragmatic questions that are not examined in this report. There may be several potential advantages of a larger merged group beyond the direct immediate question of retiree health benefits. A large pool spreads the risk and can enhance stability. There is also the potential that the larger the group the more influence it can wield in the market to impact reforms and innovations.

There are several noteworthy obstacles to a merged plan. Plan sponsors and their constituent groups may be very reluctant to relinquish autonomy. The governance of each plan responds to the culture of that organization. Transferring those norms and values can be a long and difficult journey. Common benefit designs can be far easier to administer and produce selected purchasing power. However is it practical to expect multiple labor organizations representing numerous bargaining units to agree on consistent plan designs? Can this arrangement separate benefits from the bargaining arena? Should they be separated? Initially, there are likely to be perceived “winners” and “losers”. Overcoming the fear of being a “loser” is a powerful hurdle.

One clear conclusion of the Task Force is that merging plans for new hires poses significant problems with respect to risk selection. For example, if a plan was established for new state employee and teacher hires the existing plans would experience adverse selection with the loss of younger, better risks from among the new hires. If the new hires were merged in the State Employee Plan, the existing teacher sponsored plans would also experience adverse selection. Adverse selection has a direct affect on premium rates. A solution to the risk selection issue would be to merge existing plans with the current enrollees as well as new hires. While that approach may successfully address the risk selection question, it leaves a host of other complex issues unresolved.

An analysis of the merger of the current plans requires a very focused and thoughtful examination of these issues. If any consensus emerged from the Task Force’s deliberations it would be that the issue of retiree health may be worthy of further study.

Task Force members recommend continuing the health benefit portion of the study with a newly configured group of healthcare experts.

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## Purpose of this Report

The purpose of this report is to respond to the reporting requirement of Maine State Resolve 111, "To Reform Public Retirement Benefits and Eliminate Social Security Offsets", passed in May 2009 by the 124th Legislature. The reason for the legislation is to design a unified pension and health benefit plan for all state employees and teachers who are first employed after December 31, 2010 with no prior creditable service.

Retirement benefits for purposes of this legislation means pension, disability and health plans. Resolve 111 established a stakeholder Task Force to study public retirement benefits reform and eliminate social security offsets by designing a portable plan that provides pension, disability and health retirement benefits that coordinate with social security benefits.<sup>2</sup> (See Attachment A)

The current Maine state retirement benefits design is traditional and intended to encourage long-term employment. For economic and social reasons, traditional retirement benefit design is being re-examined throughout the country by public and private employers, research institutes, and policy organizations. This report considers some the reasons behind this and how it applies to the Task Force recommendations.

## Reason behind the Legislation

The primary emphasis in this legislation is to create portability of retirement benefits for state employees and teachers. Maine teachers and state employees are greatly limited in the portability of their retirement benefits for three reasons.

- Maine's current State Employee and Teacher Retirement Program is a defined benefit plan;
- Maine is a non-Social Security state for teachers and state employees;
- Eligibility for retiree health benefits is tied to receiving a MainePERS pension.

These factors interact to limit or eliminate retirement benefit accumulation for shorter-term employees. Federal Social Security offset provisions can further disadvantage long-term teachers or state employees in saving for retirement.

Increased portability of benefits would enable Maine teachers and state employees to take some or all of the benefits they earn to new positions with employers other than the State of Maine. Some level of pension portability can be achieved by either creating a new plan for future employees or by enrolling teachers and state employees in Social Security.

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<sup>2</sup> Resolve 111, 124th Legislature First Regular Session, To Reform Public Retirement Benefits and Eliminate Social Security Offsets. <http://www.mainelegislature.org/ros/LOM/LOM124th/124R1/RESOLVE111.asp>

## Purpose and Structure of the Task Force

The Task Force was created to study possibilities of creating retirement benefit portability by restructuring retirement benefits based on enrollment in Social Security for new state employees and teachers hired after December 31, 2010.

Retirement benefit portability is the core concept of the legislation because objective data indicate a substantial number of employees are mobile throughout their career, changing employment multiple times. Highly mobile employees can lose much of the retirement benefits they earn in traditional defined benefit plans such as the State Employee and Teacher Retirement Program sponsored by the State of Maine. Non-participation in Social Security in one or more jobs further limits their ability to create retirement security for multiple reasons as discussed in Chapter One.

Task Force membership was constructed to include stakeholders with varying and overlapping interests in teacher and state employee retirement benefits. Including a comprehensive range of stakeholders increased the potential for a thoughtful, thorough, and thought-provoking approach to the sensitive topic of benefit restructuring. Composition of the Task Force includes the following organizations and their designees:

MainePERS Board of Trustees Chair - Peter Leslie (Task Force Chair)

Maine Commissioner of Administrative and Financial Services - Ryan Low

Executive Director of the Maine State Employee Health Commission - Frank Johnson

Maine State Controller - Terry Brann

MainePERS Trustee Employee Member - Benedetto (Ben) Viola

Maine State Employee Health Commission Employee Member - Brett Hoskins

Maine Education Association - Steve Crouse

Maine School Management Association - Dale Douglass

## Approach of the Task Force to this Report

The Task Force met 10 times over eight months, taking a disciplined approach to studying current benefits, the economic and social environment, the political and stakeholder environment, alternative retirement plan options, and merging the state employee and teacher health plans for new hires after December 31, 2010. (See Attachment B)

The Task Force work started with two basic assumptions. The first is that the Maine constitutional provisions relating to pension benefits and the unfunded liability do not prohibit the Legislature from covering state employees and teachers under Social Security. The second is that instituting a new pension plan covering future employees would not create constitutionally prohibited new unfunded liabilities in the current plan. Both assumptions require analysis and clarification by the Office of the Attorney General for a new plan to be adopted by the Legislature. Any new plan adoption and

implementation would include Office of the Attorney General review of these assumptions as well as pension tax counsel review of Internal Revenue Service plan qualification.

Based on information about the employment retention and retirement environments, and in coordination with the legislation's sponsor, Task Force members studied a range of pension plan options to meet the legislation's goal of achieving portability and coordination with Social Security. Task Force members expanded the set of options to evaluate to include the existing State Employee and Teacher Retirement Program as a baseline, and a newly developing hybrid pension plan designed to address the risks inherent in traditional defined benefit and defined contribution plans.

The legislation intends for all new state employees and teachers hired after December 31, 2010 to be included in a new unified pension and health retirement plan. The current State Employee and Teacher Retirement Program is used as the sole source of pension data because it includes the overwhelming majority of participants. The Judicial and Legislative plans would be similarly structured but are not included in this report as separate analyses.

The Task Force also examined the proposal in Resolve 111 to merge the state employee and teacher health plans for new hires. This examination concluded that there are a series of complex issues that ultimately require further research and analysis. There are numerous variables for consideration. For the purpose of this report, the major issues have been identified based on assumptions presented in the text of Resolve 111: all changes with respect to eligibility, premium contribution, benefit design and funding are prospective; existing plans for current employees and retirees would remain in place; a separate, merged plan would be implemented to enroll new hires on a date to be determined.

The Task Force report and recommendations are based on providing the Joint Committee on Labor and the Maine State Legislature information and guidance on the complex subject of retirement benefits. The optimum retirement benefits are those specifically designed for the population that will provide and receive them. The report's analyses and recommendations are based on the needs for the State of Maine with consideration for how other public entities have developed their retirement benefits.

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## Chapter One – Understanding Current State/Teacher Retirement Benefits

The Legislature of the State of Maine sponsors a *defined benefit plan* for public school teachers/administrators and state employees. This plan, called the State Employee and Teacher Retirement Program (State/Teacher Plan or the “Plan”), is a qualified defined benefit pension plan.

Maine is one of 14 states in the United States that does not cover teachers and/or state employees for Social Security benefits. This means that Maine teachers and state employees do not contribute to Social Security or earn quarters towards Social Security benefits while employed by the State of Maine. This provision discussed later in this Chapter has a substantial bearing on the benefit adequacy of the current retirement plan provided for state employees and teachers.

The State of Maine also provides up to 100% of the cost of health care coverage to state employees, and 45% coverage to teachers, who retire under the MainePERS State/Teacher Plan.

### Section 1.1 - Pension Plan and Benefit Structure

The State/Teacher Plan started as the State Employees Plan in 1942 administered by the Employees Retirement System. Legislation was passed in 1947 merging the existing Teachers retirement plan and the Maine Teachers Retirement Association with the State Employees Plan and Employees Retirement System, creating the State/Teachers Retirement Plan.

Covered organizations that hire state and teacher employees appreciate this benefit and consider the pension and health retirement benefits a valuable recruitment and retention incentive.

### Chapter One Summary

- *Maine does not cover state employees and teachers for Social Security as do all private and most public employers, including Maine local governments*
- *Most large private sector and public sector employers supplement Social Security with an additional retirement plan similar to the Maine State/Teacher Plan*
- *High turnover makes the State/Teacher Plan inexpensive for the State and decreases the adequacy of the benefit provided by the Plan because less than 20% of the combined workforce receives more than 50% replacement income from a full career with the State*
- *Social Security offsets further decrease the adequacy of the benefit in comparison to employees covered by both Social Security and a pension plan*
- *Eligibility for subsidized health care after retirement is tied to eligibility for a MainePERS State/Teacher Plan retirement benefit*

### *What is a Defined Benefit Plan?*

A defined benefit plan is a traditional type of pension plan in which the plan sponsor, or employer, promises a specified monthly benefit at retirement which is defined, or fixed, by a formula which can be determined before the employee retires. The amount of the payment is generally based on the employee's earnings history, length of service, age and a percent of earnings for each year of service.

Both the private (business) and public (government) sectors offer, or sponsor, defined benefit plans. Public sector defined benefit plans differ from private sector plans in that they are governed primarily by state law, the Federal Tax Code, and parts of two federal laws that govern private sector plans – the Employee Retirement Security Act of 1974 (ERISA) and the Pension Protection Act of 2006 (PPA). Public sector plans usually require employee contributions while private sector plans frequently fund 100% of the costs. A retirement plan's compliance with Federal Internal Revenue Code defined benefit plan requirements *qualifies* it for preferred tax status, creating tax-deferred income for employees in their retirement.

The liability for a defined benefit pension plan belongs to the employer who is responsible for making the decisions and ensuring enough money is set aside in advance to pay the benefit promised. Employee contributions are set by the employer. Employer contributions are calculated by an actuary every year or every other year. The employer sets up a trust to administer and invest these contributions. Investment earnings and the employee and employer contributions pay for the majority of the benefit payments to the retiree.

Plan sponsors, generally the employer, determine how long the employee must participate in the plan before being eligible for a benefit at retirement and the *normal retirement age* for their plan (vested). Once vested, employees are entitled to a benefit when they reach the normal retirement age for the plan. Eligible employees retiring before the normal age retirement receive a reduction in their benefit commensurate with the length of early retirement.

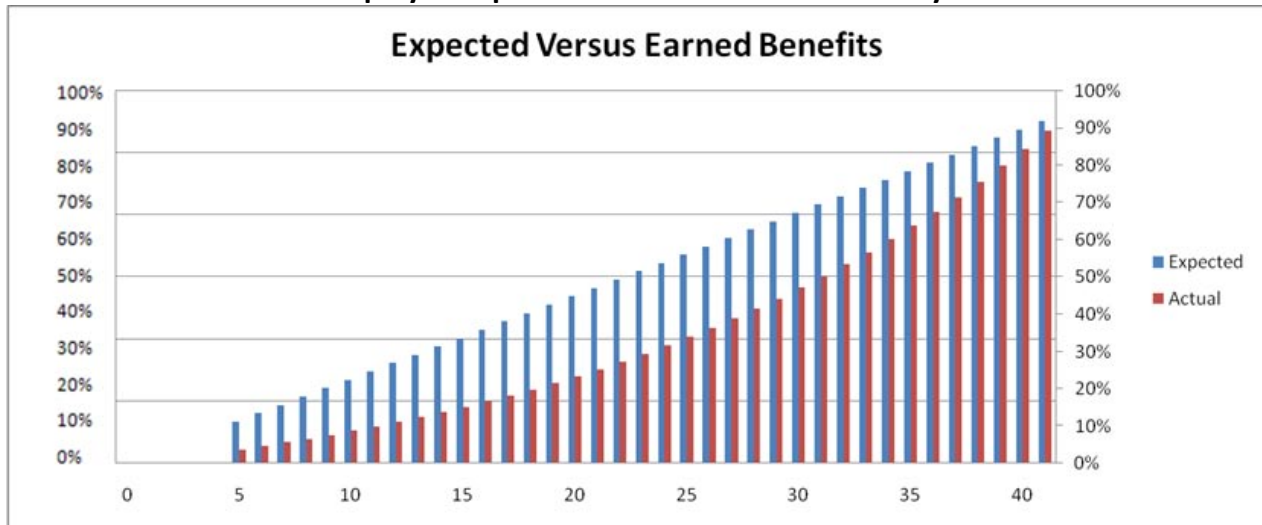
### **Who Benefits from a Defined Benefit Plan?**

Public and private employers have used defined benefit plans over time to attract and retain employees because they are designed to reward longevity and promise a fixed benefit for life in retirement. The retirement payment that employees earn increases 1) the more years an employee stays; and 2) as they are promoted in their career to higher paying jobs. The following graph from the Employee Benefit Research Institute (EBRI) demonstrates not only how these plans work to encourage long-term employment, but how they make it more difficult for short-term, mobile employees to create a retirement income from employment under multiple defined benefit plans.<sup>3</sup>

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<sup>3</sup> Employee Benefit Research Institute – <http://www.ebri.org>

**Chart 1-1  
Benefit Employee Expects to Earn and Benefit Actually Earned**



The reason defined benefit plans encourage retention is that a benefit becomes more valuable as the employee ages and stays more years with an employer. Chart 1-1 demonstrates the effects of these variables. A short-term employee who works for the State of Maine at least five years early in the lower earning years of their career, for example, can expect to receive 10% of the average of their highest three years salary *unadjusted* for the effects of inflation when they receive their benefit at age 62. Similarly, a short-term employee who enters service late in their career benefits from a higher final average salary with little or no inflationary loss. Finally, a long-term employee receives the benefit of a higher salary at the end of their career applied to all of their years worked with little or no inflationary loss.

***Benefit Structure of the State/Teacher Plan***

The plan sponsor for the Maine State Employee and Teacher Retirement Program is the Maine State Legislature, with oversight by the Joint Standing Committee on Labor. The Maine Public Employees Retirement System (MainePERS) administers the State/Teacher Plan on behalf of state employees and teachers and the specific organizations for which they work.

**State/Teacher Plan Employers**

Employers include all Maine State Executive Branch agencies and all school administrative units. The State of Maine pays the employer share of retirement contributions for all state employees and public school teachers.

**State/Teacher Members, Inactive Members, and Retirees**

Membership in the plan is mandatory for employees of the Executive Branch departments and public school teachers/administrators statewide, with optional membership for limited groups of employees.

Employees must complete five years of service to vest. Plan participants are categorized as active, terminated but vested, retired receiving benefits, and disability retired.

**Chart 1-2  
State/Teacher Plan Participants**

	1990			2000			2009		
	State	Teachers	Total	State	Teachers	Total	State	Teachers	Total
Active	16,223	22,281	38,504	14,520	27,503	42,023	14,036	26,450	40,486
Inactive	162	441	603	692	914	1,606	1,780	4,819	6,599
Retiree	9,673	8,487	18,160	9,054	9,302	18,356	10,507	12,710	23,217
Disability	501	318	819	996	626	1,622	992	691	1,683
<b>Total</b>	<b>26,559</b>	<b>31,527</b>	<b>58,086</b>	<b>25,262</b>	<b>38,345</b>	<b>63,607</b>	<b>27,315</b>	<b>44,670</b>	<b>71,895</b>

**Overview of Benefits**

The benefit structure of the State/Teacher Plan is complex because of numerous amendments to the plan since its inception. This section reviews the basic provisions of the plan. All teachers and most state employees are covered by the “Regular” Plan, which requires either 25 years of service and/or age 60 or 62 to retire.<sup>4</sup> Members of the “Regular” Plan contribute 7.65% of their salary toward this benefit throughout their employment in eligible positions. In general, the State/Teacher Plan defined benefit formula includes:

- Number of years an employee works in eligible positions;
- Employee's average of three highest years compensation in these eligible positions;
- **Accrual rate**, which is the percentage of Average Final Compensation the employee will receive for each year worked (for example, 2%);
- An “age reduction” percentage adjustment to the benefit if the employee retires earlier than the normal retirement age of 60 or 62; and
- Cost-of-Living Adjustment (COLA) based on the Consumer Price Index.

<sup>4</sup> Many state employees who perform law enforcement duties are covered by “Special” plans, which permit retirement with fewer years of service, or at an earlier age.

*Starting in the 1980’s, more and more private sector employers have shifted toward defined contribution plans because of increasing and complex government regulations and cost uncertainty. In addition, Employee Benefit Research Institute (EBRI) research indicates employers believe other types of plans are less costly. Public sector employers in general have maintained their defined benefit plans as a way to maintain equity among their workforce and encourage long-term employment. The nature of work required in the public and private sector may factor into these decisions.*



**Section 1.2 - Distribution of the State/Teacher Plan Benefit**

A major consideration for the Legislature and stakeholders evaluating a new pension plan is who is it designed to benefit and why? If the goal of the plan is solely to encourage longevity, a traditional defined benefit plan is the answer. If the goal is to attract and hire younger employees, a defined contribution plan is a likely option. If the goal is to create portability of benefits so that mobile employees can build a retirement income, then Social Security with a supplemental defined contribution plan, or to a lesser extent, a defined benefit plan may fit the need. Chapter Five addresses these questions.

**Who Does the Current State/Teacher Plan Benefit?**

The current State/Teacher Plan is designed to reward longevity. The following information shows the employment trend demonstrated in long-term MainePERS data. New hire/replacement hire data shows 1,391 new teachers entered the System in 2007, 1,033 in 2008, and 833 in FY2009. Similarly, 976 state employees entered the System in 2007, 947 in 2008, and 602 in FY2009.

**Chart 1-3  
State/Teacher Plan Participants  
Employment Longevity Expectations**

Participants Still Working After:	New Hires/Replacements		1 Year of Service	
	State	Teacher	State	Teacher
5 years	39%	24%	56%	39%
10 years	29%	15%	42%	23%
15 years			34%	18%
20 years			29%	15%
25 years			27%	13%

On a combined basis, less than half of those who stay for one year vest, and approximately twenty percent of all those who reach one year stay, for 25 years. Some overlap may exist in this data for employees who leave and return to work for the State at a later date. This is not considered a significant phenomenon.

### Impact of Turnover on the Collective Benefit to Employees

Chart 1-3 indicates significant job turnover in Maine's state employee and teacher populations and limited longevity of those who stay longer than one year. What is the impact of this turnover in terms of the Plan's overall benefit to its members? Key observations indicate:

1. The State/Teacher Plan provides a 50% or greater income replacement benefit to less than 20% of employees, and a partial replacement benefit to less than 50% of people employed;
2. The Plan's retirement benefit is not evenly distributed among employees; i.e. fewer employees receive higher benefits while many receive little or no benefit from their employment with the State of Maine;
3. Employees who are mobile throughout their career may continuously forfeit benefits by not vesting in jobs with multiple employers, resulting in a full career with a limited retirement benefit;
4. The plan acts as a retention incentive for a minority of the population.

### Impact of Turnover on Cost to the State

These statistics also play an important role in assessing the overall cost of the plan. A plan that provides fewer employees with higher benefits and a greater number of employees with reduced or no benefit is likely to be low cost in comparison to other pension plans.



*This is true for the State/Teacher Plan. The normal cost of a defined benefit pension plan is measured as a percentage of each dollar of salary paid each year. The normal cost to the State of the State/Teacher Plan is 5.5% and 7.65% to employees. If approximately 40% of employees stayed 25 years or more instead of the current experience of 20% or less, the normal cost would double to approximately 11%.*

This is explained by two factors. The first is that paying benefits to fewer individuals, even if they are substantial to each of those individuals, creates a lower cost than paying the same benefits to many individuals. The second factor is that the State pays the normal cost, or employer share of 5.5% of payroll, every year for all employees. The contribution paid on behalf of employees who do not vest because they quit before five years acts to reduce the amount needed to pay for employees who do or have vested. Consequently, the overall cost of the plan to the State of Maine is lowered by turnover. In comparison, Social Security benefits 100% of employees with a less generous benefit to the few but a greater cost to the employer (6.2% vs. 5.5%) and a lower employee contribution (6.2% vs. 7.65%).

**Section 1.3 – Pension Benefit Adequacy to Employees**

State/Teacher Plan members differ from the majority of the U.S. population where most workers (public sector and private sector) are covered by Social Security, and many of those are also covered by supplemental employer sponsored plans. Controversy about benefit generosity in most employer-sponsored plans cannot therefore be applied to Maine.

**Chart 1-4  
Benefit Adequacy**

Retirement Vehicle	Private Sector	Public Sector	Maine PLD's	Maine State & Teachers
Social Security	100%	Most	Most	<b>-0-%</b>
Defined Benefit Plan	< 10%	Most	100%	100%
Defined Contribution Plan	>10%	Few	Few	
Supplemental Workplace or other Tax-Deferred Plan (401K, 457, IRA, etc.)	Yes	Yes	Yes	Yes

There are multiple “rules of thumb” ranging from 70% to 90% about what percentage of income is necessary for an adequate retirement. Assuming an 80% average in this range, how adequately does the State/Teacher Plan assist employees in preparing for retirement? Based on the information about State/Teacher Plan design, employee turnover, and no enrollment in Social Security while employed by the State of Maine, benefit adequacy of the State/Teacher Plan can be viewed from three perspectives.

**Long-term Employees**

The first perspective of benefit adequacy is the ratio of retirement replacement income the plan provides. The State/Teacher Plan provides 2% of final average salary (the average of an employee’s three highest years’ salary) for every year worked for vested employees with five years of service at age 62. Employees with five years of service, therefore, can receive a minimum benefit of 10% of their final average salary up to 50% or more if they complete 25 or more years. An employee with a full 25 year career will replace 50% (25 years X 2% per year of final average salary), leaving an additional 30% to be funded from other means. Because a career employee will not be able to create a substantial Social Security benefit, the 30% must be primarily funded from additional savings.

**Short-term Employees**

The second perspective is benefit adequacy for short-term employees whose career is with multiple employers. This formula provides reasonable replacement income for employees that enter the plan at a late age, but not for employees whose service credits are earned in their early or mid-career. This is because the benefit is based on the average of the highest three years salary which is generally lower in an employee’s early years and further loses ground to the effects of inflation.

For example, an employee who works for 15 years under the State/Teacher Plan will accumulate a 30% benefit (15 years X 2% per year final average salary), leaving 50% or more to be funded from other sources. Chart 1.1 demonstrates that 30% of a final average salary earned early in a career actually could be only 15-20% of the final salary of a career on which the 80% replacement income formula is based. Further, 15 years in a non-Social Security job will decrease the amount of Social Security benefits that contribute to the remaining 50-65% the employee needs to fund from other sources.

### **Teachers and State Employees Do Not Contribute to Social Security**

The final factor that can affect benefit adequacy is the role of Social Security in a State/Teacher Plan employee's total retirement income.

State employees and teachers do not earn Social Security credits while they are employed by the State of Maine or a public school. Neither employee nor employer pays the 6.2% Social Security premium and match. Many employees do not understand until they retire how this will affect their total retirement income.

Two provisions in Federal Social Security law may limit any Social Security benefits of State/Teacher Plan retirees/beneficiaries for which they qualify if they had some Social Security covered employment during their working years. They include:

**Windfall Elimination Provision:** The Windfall Elimination Provision (WEP) affects employees who earn a pension from work not covered by Social Security and who also worked in other jobs long enough to qualify for a Social Security retirement or disability benefit. The benefit is reduced based on the number of years of "substantial" earnings under Social Security for State/Teacher Plan members who qualify for Social Security benefits based on summer or other employment. The more years of Social Security earnings, the less the reduction.

Congress enacted the Windfall Elimination Provision in 1983 to change the benefit formula for people who worked primarily in a job not covered by Social Security. Prior to this change, Social Security benefits were calculated for these individuals as if they were long-term, low-wage workers benefits. Because low-wage workers receive a proportionately higher Social Security return than high-wage workers in relation to earnings, it was determined employees working in non-Social Security jobs received an inappropriate advantage ("windfall").

The Windfall Elimination Provision reduces an individual's Social Security benefit by a sliding amount based on the number of years of "substantial earnings" in Social Security jobs. "Substantial" earnings have increased periodically from \$1,650 in 1966 to \$19,800 in 2010. Individuals with 30 or more years receive no reduction in Social Security benefits. Individuals working in non-covered jobs may have their Social Security benefit reduced by up to \$380.50 per month with 20 years or less of "substantial" earnings to \$30.80 with 29 years.



**Chart 1-5**  
**Impact of the Windfall Elimination Provision**

Individual has 12 years with some Social Security coverage earnings and 38 years with a state without Social Security Coverage.		
1) Monthly Social Security Benefit <i>Before</i> Offset		\$1,000
2) Monthly public Pension Benefit		\$2,000
<b>Total Monthly Benefit Amount <i>Before</i> Offset</b>	Social Security benefit plus public pension benefit	<b>\$3,000</b>
3) Offset Amount	From SSA offset table	\$ 380
4) Monthly Social Security Benefit <i>After</i> Offset	Social Security benefit before offset minus offset amount (line 1 minus line 3)	\$ 620
<b>Total Monthly Benefit Amount <i>After</i> Offset</b>	Monthly public pension amount plus monthly Social Security benefit after offset (line 2 plus line 4)	<b>\$2,620</b>

**Government Pension Offset:** Under Social Security, an individual may receive retirement benefits by working the required number of years to be eligible to receive a *worker* benefit based on his/her own employment or a spousal benefit by being married to a worker. The spousal benefit is half the worker's benefit amount.

The Government Pension Offset affects how this provision applies to individuals, like State/Teacher Plan retirees who receive public pensions based on their own non-Social Security covered employment. In these cases, unless the retiree satisfies one of a few exceptions, the amount of their Social Security *spousal* benefit is reduced (offset) by an amount equal to two-thirds of their public pension. For example, if your MainePERS pension is \$9,000 and you're eligible for \$6,000 in Social Security spousal benefits, applying two-thirds of your MainePERS pension (\$6,000) to the Social Security spousal benefit would reduce the Social Security benefits to zero. Many State/Teacher plan employees count on receiving a portion of their spouses Social Security benefit and are surprised when they learn they will not qualify for a benefit.

**Chart 1-6  
Impact of the Government Pension Offset**

Individual is eligible to receive \$1,200 per month in a state pension based on his own work. His spouse has earned a Social Security benefit of \$800.		
1) Monthly Social Security Spouse Benefit <i>Before Offset</i>	½ Social Security benefit earned by spouse	\$ 400
2) Monthly public Pension Benefit		\$1,200
<b>Total Monthly Benefit Amount Before Offset</b>	Social Security spousal benefit plus public pension benefit	\$1,600
3) Offset Amount	2/3 of public pension benefit amount (2/3 of line 2)	\$ 800
4) Monthly Social Security Benefit <i>After Offset</i>	Social Security benefit before offset minus offset amount (line 1 minus line 3)	\$ -0-
<b>Total Monthly Benefit Amount After Offset</b>	Monthly public pension amount plus monthly Social Security benefit after offset (line 2 plus line 4)	\$1,200

## Section 1.4 - Health Benefits

### *Statutory Issue: Eligibility*

Eligibility provisions for retiree health benefits for state employee and public school teachers are governed by statute. Title 5, §285.1-A prescribes the eligibility for retired state employees and other public sector employees covered by the state employee group health plan. Title 20-A, §13451.2 defines the eligibility for retired teachers which is prescribed as a minimum of 5 years of creditable service.

### *Plan Sponsorship and Administration*

The State of Maine is the sponsor of the retiree benefit plans for the following retirees: Executive, Judicial, Legislative branches, the Maine Public Employees Retirement System, Maine Turnpike Authority, Maine Community College System, Maine Maritime Academy, Northern New England Passenger Rail Authority, Maine Military Authority and several smaller commissions.

The primary sponsors of the retired teacher health benefits are the Maine Education Association Benefits Trust (MEABT) and the Maine School Management Association (MSMA). There are several individual school districts which sponsor small group plans.

The administration of the State Employee Plan is provided by the Department of Administrative & Financial Services, Office of Employee Health & Benefits. The administration of the retired teacher plans is provided by the plan sponsors and their respective insurers.

### *Retiree Members*

Among the primary plan sponsors there are approximately 16,880 retirees enrolled covering approximately 20,580 lives including dependents. Approximate enrollment totals by plan sponsor follow:

**Chart 1-7  
Retirees Covered by Retiree Health Care Plans**

<b>Number of Retirees</b>	<b>State of Maine</b>	<b>MEABT</b>	<b>MSMA</b>
Non-Medicare	4,000	3,300	N/A
Medicare	5,500	3,900	N/A
<b>Total</b>	9,500	7,200	180

Non-Medicare retirees are comprised of primarily pre-65 individuals who have not yet met the Medicare eligibility requirements. There are a declining number of non-Medicare retirees who are post-65 but are not Medicare eligible. This relatively small cohort is comprised of individuals who may have spent their entire careers, or the bulk of their career, in public service with a single employer. As a result, they have not earned sufficient Social Security credits, contributed to the Medicare payroll tax, or otherwise met Medicare eligibility requirements.

To be eligible for Medicare an individual must have 40 quarters of Social Security credits, have contributed toward the Medicare payroll tax for 40 quarters (or a combination of Social Security and Medicare tax), or have a spouse who is Medicare eligible. New public sector hires effective April 1, 1986 are required to contribute to the Medicare payroll tax. As a result of the introduction of the Medicare payroll tax very few post-65 individuals do not meet the Medicare eligibility provisions. Only the Social Security Administration can determine Medicare eligibility.

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## Chapter Two – Paying for Current State/Teacher Retirement and Health Benefits

Prior to the enactment of the Employee Retirement Income Security Act of 1974 (ERISA), public and private employers were not required to pre-fund or set money aside to pay for defined benefit pension plans they sponsored. ERISA required all private employers to pre-fund their plans but was silent regarding public employers. Many public employers such as Maine voluntarily required pre-funding of their plans.

The distinction between funding on-going, or *normal*, plan costs and past liability that had not previously been funded is important in evaluating new pension plan options because the legacy, or previously unfunded, costs of the current plan remain to be paid down regardless of future plan design.

The same body of laws does not exist for other post-employment benefits (OPEB) such as retiree health care. However, accounting reporting requirements and public scrutiny has resulted in most public plans pre-funding those benefits since the 1980's.

### Section 2.1 - Sources of Funding for State/Teacher Plan

Pension funds rely on three sources of funding to pay for future promised benefits: 1) employee contributions; 2) employer contributions; and 3) investment earnings in the trust fund in which the contributions from employers and employees are invested. The MainePERS actuary conducts a valuation every two years to ensure that the pension trust fund can meet future payment obligations.

Employee contribution rates are set by statute at 7.65% of each dollar of their salary toward funding their benefit.

The State's, or employer, contributions are calculated every two years as a percentage of payroll. The State's payment consists of two parts. The first part is the current or *normal* cost, which is the value of benefits earned in a given year for employee service performed during that year. This is approximately 5.5% of annual

### Chapter Two Summary

- *Maine does not cover state employees and teachers for Social Security as do all private and most public employers, including Maine local governments*
- *Employee turnover, combined with not providing Social Security, makes the State/Teacher Plan an inexpensive retirement plan for the State*
- *Employees pay 7.65% of their pay toward their own retirement, the State pays an additional 5.5% of pay toward the employee's retirement, with the majority of each employee's retirement benefit funded by investment earnings on these contributions*
- *The State/Teacher Plan developed an Unfunded Actuarial Liability in the 1970's and 1980's that must be paid off and cannot be reduced by a new retirement plan*

state employee and teacher payroll. The second part is the Unfunded Actuarial Liability, or **UAL**, which are costs incurred in prior years that were not funded as normal costs when due.

Employer contributions are highly dependent on investment returns and financial market conditions because they benefit from, or have to supplement, investment return variations from projected earnings. Employer contributions for both the normal costs and the UAL are based in part upon a 7.75% long-term investment return assumption. For the three-year, five-year, 10-year, and 30-year periods ending on June 30, 2009, the annualized returns based on market value of the assets were -3.1%, 1.8%, 2.3%, and 9.5%, respectively. However, the most recent one year fiscal returns on June 30, 2009 were -18.7% while calendar returns at December 31, 2009 were +21.5%. While the actuarial employer rate calculation “smooths” gains and losses to lessen the volatility, employer contributions still benefit from gains and absorb shortfalls in overall funding. This is what is meant by the employer bearing 100% of the risk of defined benefit plans.



*Taxpayer dollars fund between 10% and 25% of the benefits paid. Employee contributions and investment earning fund the remaining 75% to 90%. The National Institute on Retirement Security (NIRS) reports that each \$1 in taxpayer dollars contributed toward the state’s pension funds supported \$4 in total 2006 direct and indirect economic output. UAL debt decreases this impact until it is paid off in 2028.*

**State/Teacher Plan Funded Status**

The financial health of a pension plan is most frequently measured in terms of its funding status. A pension plan’s funding level is the ratio of the assets it has pre-funded and invested to the liabilities or pension obligations it owes its members. The difference between the assets and liabilities is called the Unfunded Actuarial Liability, or **UAL**. Well-funded, or healthy, plans target a 90-100% funded ratio.

The funded ratio of the State/Teacher Retirement Plan as of the most recent valuation report is 68%. This calculation uses the Actuarial Value of Assets (AVA) method which is the actuarial value of assets divided by the actuarial value of liabilities, with investment losses and gains smoothed into plan assets over a three-year period. Alternatively, the Market Value of Assets (MVA) method uses the market value of assets, divided by the present value of accrued benefits and does not use smoothing, resulting in a funding ratio of 61%. This measure is more reflective of market volatility because the effects of financial market fluctuations are seen immediately.

**Chart 2-1  
Actuarial and Market Value of Assets and Liabilities**

	AVA	MVA
<b>Assets</b>	\$8.33 B	\$6.62B
<b>Liabilities</b>	\$12.32 B	\$10.78B
<b>6-30-09 Funding Level</b>	68%	61%

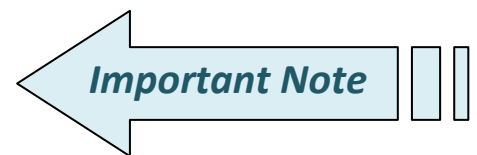
### *Paying Down Maine's UAL – A Constitutional Obligation*

In 1988, lawmakers, Plan members and voters recognized normal costs had not been funded on a regular basis, creating a very large 70% *unfunded* liability, i.e. the Plan had a 30% funded ratio.

Understanding how the UAL was created is important. A 1994 Committee to Study the Retirement System found that understating the cost of benefits while overstating future funding was an underlying cause of the unfunded liability from 1972 to 1993. In addition, major benefit improvements were retroactively enacted without proper funding in the 1970's and early 1980's. Further, there was failure to appropriate the necessary funds, including deappropriating funds, deferrals of payments due, and agreeing to furlough days that reduce covered payroll without a corresponding benefit reduction. The investment performance of the fund held down the growth of the UAL during this period.<sup>5</sup> A timeline provided in the committee's report clearly illustrates the events that created the UAL. (See Attachment C)

A commitment was made at that time to fund the normal costs each year in the future. More importantly, a constitutional amendment passed in 1995 required that the State/Teacher Plan be fully funded by 2028 by paying off the UAL existing on June 30, 1996. This meant both current and prior costs would be paid each year, significantly increasing the annual pension contribution. The amendment also prohibited the creation of new unfunded liabilities in the Plan except those arising from experience losses, which then must be funded over a period of not more than 10 years. In addition, the amendment required the use of actuarially sound current cost accounting, reinforcing existing statutory requirements. The amortization period has been adjusted several times since the enactment of the constitutional amendment, always within the parameters set by the constitution.

*The funding history of the State/Teacher Plan is very important in analyzing a new pension plan for new employees hired after December 31, 2010, because a new plan design can change only the normal costs. The UAL cannot be changed or eliminated – only paid down because it represents future payments of past promises that are obligations of the State.*



The current State/Teacher Plan costs approximately 5.5% of total payroll per year without any UAL payment. In other words, when the UAL is paid off in 2028, the cost of pension benefits under the current plan will be approximately 5.5%. In comparison, Social Security costs employers 6.2% of payroll per year. No matter what plan is in place, the UAL costs must also be paid in full by 2028 absent another constitutional amendment creating a more gradual amortization or payment schedule.

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<sup>5</sup> Report of the Committee to Study the Maine State Retirement System, 1994.

**Historical Progress Paying Down the UAL**

Chart 2-3 documents the substantial progress by the State of Maine in reducing the State/Teacher Plan UAL by increasing the funding beginning in the early 1990’s. Starting with a funding ratio (smoothed assets divided by liabilities) of only 33% as of June 30, 1992 the plan’s finances improved dramatically by June 30, 2008 with a funding ratio of 74%. The 2008 market collapse dropped this to 68% on a three-year smoothed basis, meaning 2/3 of the losses are still to be factored in. Conversely, the rebounding market gains will be smoothed in over three years offsetting some of the losses. Fully reflecting the 2008 losses with no smoothing would have pushed the funding ratio much lower. Again, the following year’s gain would have a greater immediate upward impact. Smoothing results in the same funding ratios over time, but reduces the impacts of market volatility.

The 17 year continuous improvement in the Plan’s funded status was attributable to two primary factors; 1) the State’s willingness to make the actuarial required contribution to pre-fund and fully fund the plan and 2) the run up of the bull markets during the 1990’s.

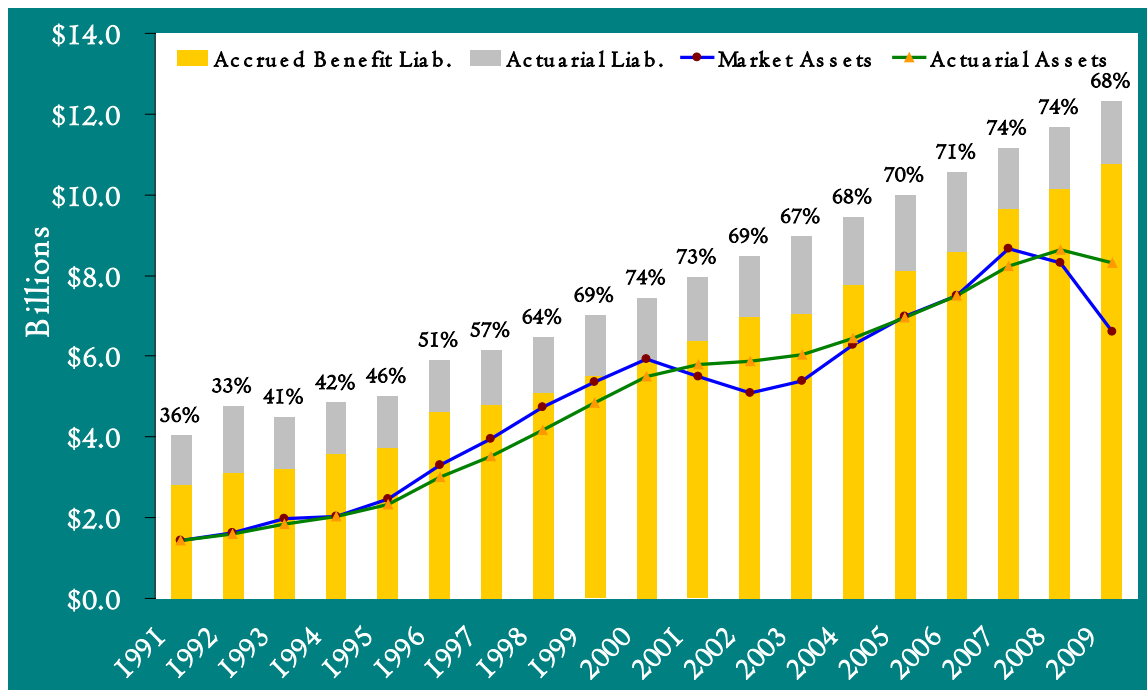
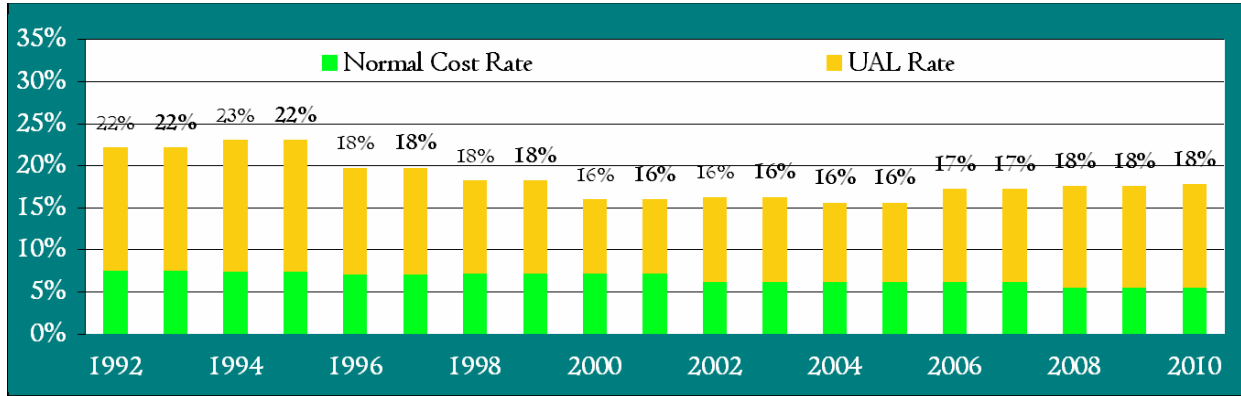


Chart 2-4 shows the impact of increased funding on historical employer contribution rates which have been applied to employees’ pay to arrive at how much the State appropriates for State/Teacher Plan funding each year by law. The strong, steady progress in funding stems from the State’s consistent payments of both the current pension costs (i.e. normal cost) as well as the amortization of the UAL



every year. During the last 15 years the combined normal cost/UAL total contribution rate has remained within a narrow band of 16%-18% of employee pay.

**Chart 2-4**  
**Historical State Contributions (as % payroll) State Employees and Teachers FY 1992-2010**



**Impact of the 2008 Market Downturn**

The September 2008 market downturn represented one of the worst downturns since the Great Depression. Of the 21 negative S&P 500 annual returns for fiscal years ending on June 30<sup>th</sup> since 1926, the year ending June 30, 2009 represented the second worst in history. The decade 2000-2009 had four of the worst eleven fiscal years, and only the 1930's had more negative return years with six.

Charts 2-5 and 2-6 show the impact of the 2008 market downturn on the current State/Teacher Plan’s projected funded status measured in terms of funding ratios and employer contribution rates. Chart 2-5 is the projected status of the Plan before the market turndown, and Chart 2-6 shows the same projection but after recognizing the market downturn. Before the market turndown, the State/Teacher Plan was expected to become 80% funded in 2016, 90% funded in 2021, and 100% funded by 2028. Employer contributions were going to increase to 20%, then once the UAL was amortized only the normal cost of 5.5% (rounded to 6% in the chart) needed to be paid.

The 1995 Constitutional Amendment ensures full funding of the Plan, but does so by placing upward pressure on employer contributions in market downturns. The Employer Contribution Rate, instead of peaking at 20% of member payroll, may now peak at over 35% of member payroll depending on market performance and investment returns in future years.

Chart 2-5

Projected Funded Status and Contribution Rates before the 2008-2009 Market Downturns

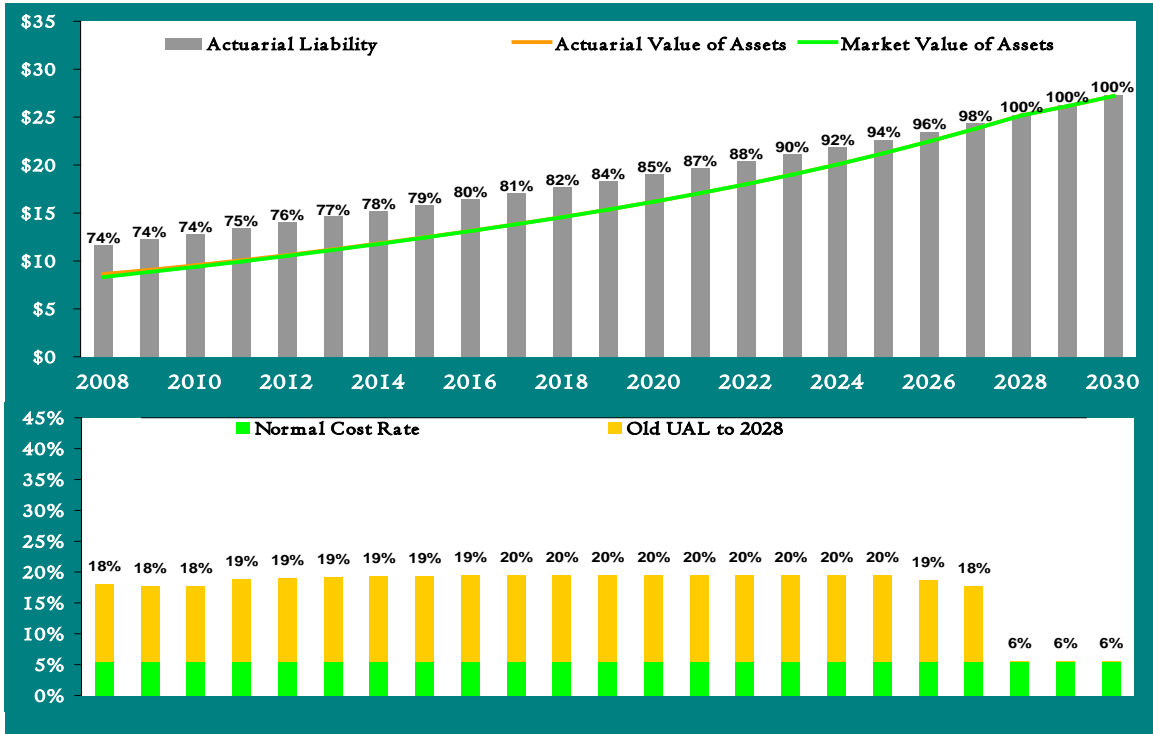
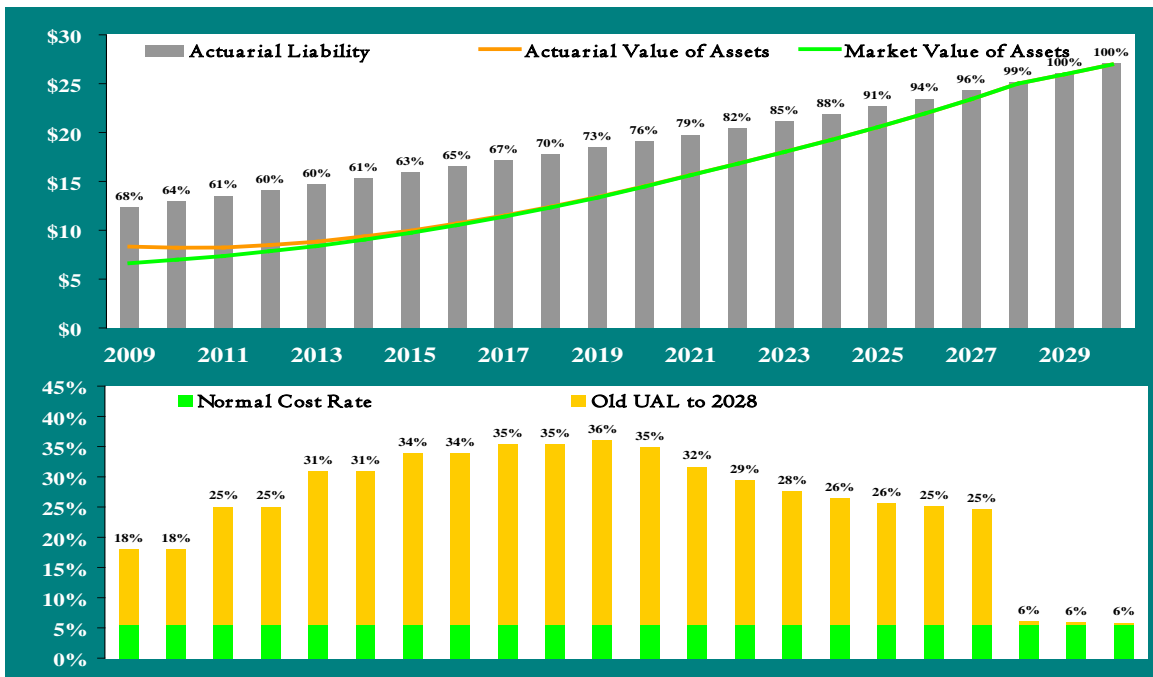


Chart 2-6

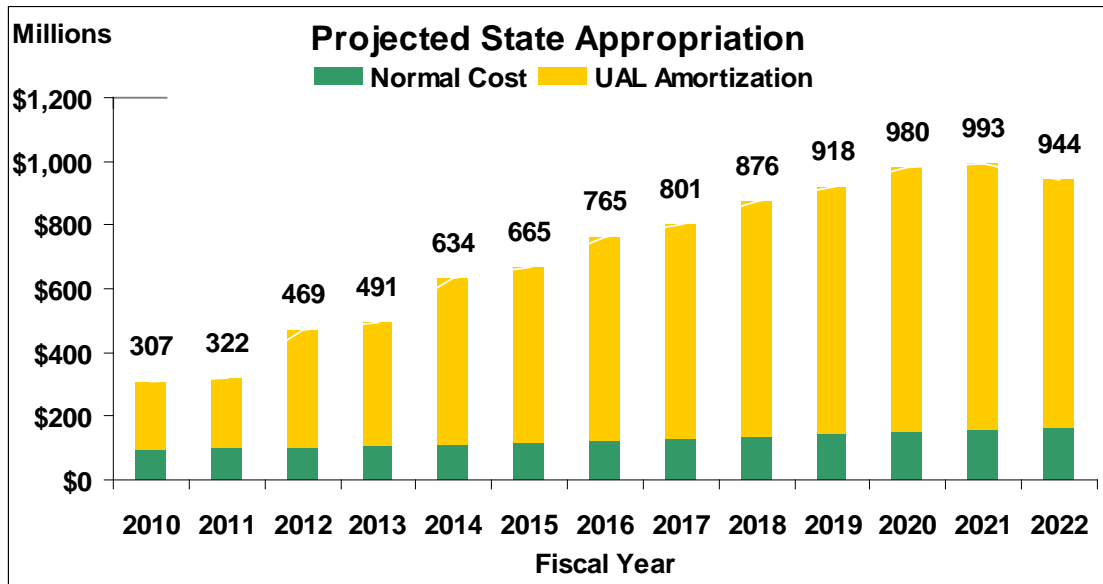
Projected Funded Status and Contribution Rates Reflecting the 2008-2009 Market Downturns



The large initial difference between Actuarial Value of Assets and Market Value in Chart 2-6 is due to the significant market decline in 2008.

Chart 2-7 translates these contribution rates to prospective State Appropriation dollars.

**Chart 2-7**  
**Projected State Appropriation Dollars Reflecting the 2008-2009 Market Downturns**



### Section 2.2 - Funding the State’s Contribution When Adding a New Plan

If Maine creates a new plan for new employees starting after December 31, 2010, the existing State/Teacher Plan would be “closed”, i.e. it could not accept any new members. All new employees would go into the new plan and all employees in the current plan would remain in that plan.

The cost to the State with two plans would be the continuing normal cost of the current plan for previously enrolled employees, the normal cost of the new plan, and the continued amortization of the State/Teacher Plan UAL. Creating a new plan does not eliminate or reduce the current plan UAL.

If the new plan is more expensive than the 5.5% normal cost of the current plan, the average normal cost will increase slowly over time as more employees are enrolled in the new plan. The initial impact of a new plan would be comparatively minimal because the majority of employees would remain in the old plan with a normal cost of 5.5%. The higher average cost, for example 6.2% for Social Security, will occur gradually as more employees enroll in the new plan than in the old. In either case, only the normal cost of 5.5% or the new plan will remain at the end of 2028 when the UAL is scheduled to be paid off.

Two primary factors, therefore, control any change in the employer normal cost associated with opening a new plan for new employees:

1. What level of benefit will each employee receive under the plan?
2. Will the benefit accrue immediately to the employee or will it increase with longevity?

A further issue beyond the UAL must be considered in adopting any plan based on Social Security. The State of Maine currently pays and submits employer pension contributions for teachers to MainePERS. Social Security employers are required to submit the 12.4% employer and employee contributions to the Internal Revenue Service. Adopting Social Security as a pension plan, included in Guidance 2 and Guidance 3, requires additional discussion between the State of Maine and school districts regarding the funding path of this benefit.

The following chapter discusses how various new plan options affect the normal cost.

## **Section 2.3 – Funding Retiree Health Benefits**

### ***Funding Source***

Funding for the employee share of retiree health insurance for state employees originates from the same funding sources as the active employees. The General Fund is the primary source although other funding sources include the Highway Fund, federal funds, and other special revenue accounts. The General Fund comprises the exclusive source of funding for the State contribution to retired teachers.

### ***Employee/Retiree Contributions***

The current plans have very different approaches to determining the active employee contributions. The statute generally governs the employer/employee contributions for State employee individual active employee and retiree contributions. Local school district labor agreements determine employer/employee contributions for active teachers and the State's obligation for retired teacher premiums is governed by statute.

### ***State Contributions***

Title 5, § 286.7 provides for the years of participation in the group plan as an active employee to be eligible for State contribution to the individual premium. The State's contribution of premium is

determined by a graduated level of participation from five years to 10 years. Retirees with 10 or more years' participation are entitled to 100% of the individual premium paid by the State. The employer contribution for ancillary groups such as the Maine Turnpike Authority, the Maine Maritime Academy and the Maine Community College System are determined by respective collective bargaining agreements.

Title 20-A, §1351.3 provides that the State shall pay 45% of the individual premium for retired teachers. The State's 45% obligation is consistent regardless of the number of years' participation in excess of the minimum five-year eligibility requirement. In most cases the remaining 55% of the premium contribution is assumed by the retiree. For a very select number of school districts a portion of the individual premium is paid by the school district.

For both state employee retirees and retired teachers, the dependent premium is the full responsibility of the retiree. As premium rates have escalated in recent years, the proportion of retirees with dependent contracts has steadily declined. The cost of dependent premium consumes a significant portion of the retiree's pension benefits. As a result, plans are experiencing adverse selection among dependents. Because of increasing costs only those dependents with chronic conditions are likely to enroll.

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## Chapter Three - New Pension Plan Study Options

There is no right or wrong answer when selecting an employer-sponsored retirement plan. The analysis and decision to adopt a new plan should be based on what type of plan within a cost range the employer can afford is most attractive to employees. This becomes the plan of choice because it enables the employer to recruit and retain employees by assisting them with their retirement goals. And it is mutually dependent on both the employer and employee's needs.

Recognizing that varying types of retirement plans have strengths and weaknesses, Task Force members analyzed the most common types of retirement plans from two perspectives: 1) the benefit typical members may earn at retirement and 2) the cost to the employer.

This chapter introduces common types of retirement plans with an orientation to the strengths and weaknesses of each. Task Force members selected seven derivations of these basic plan types to study for this report. Section 3.2 describes the principal features of these seven plans.

Section 3.3 provides an analysis of each plan in terms of benefit adequacy to members and likely cost to the plan sponsor. Each plan is analyzed from two perspectives; first assuming the benefit provided by each plan remains approximately the same and comparing resulting costs, and second assuming that the employer cost remains constant and comparing resulting benefit levels. Finally, in Section 3.3 the retirement income replacement ratio derived from the plans with constant employer cost are shown graphically for employees entering at a variety of ages and pays and retiring at age 62. Each plan is further analyzed in Attachment D in terms of hypothetical new hires with varying employment longevity to determine benefit adequacy and employer cost using likely employment patterns. Five hypothetical new hires were selected for detailed analysis. Three are hired at age 25, 35, and 45, with all assumed to work until age 62. Two individuals are hired at age 25 and 35 and each assumed to work for 15 years with the State, and then move to the private sector, where they are covered under Social Security and work for an employer who offers a basic 401(k)

### Chapter Three Summary

- *The Maine State/Teacher Plan is an inexpensive benefit for employers because less than 20% of employees complete a 25 year or longer career, and less than 50% vest and receive a benefit*
- *Providing Social Security alone will increase the employer cost by approximately .7% but will cover all employees*
- *Providing Social Security alone will increase portability, decrease the benefit to some employees, and increase the benefit to employees who never vest*
- *Supplemental defined benefit or defined contribution plans will increase the employer cost above the 6.2% employer cost for Social Security*
- *Employees currently pay 7.65% for their pension benefit and would pay 1.45% less for that benefit if enrolled only in Social Security*

program until they retire at age 62.



*Interactive actuarial “what-if” models were developed for pension plan options studied to enable expanded analysis of each option. These models will continue to be available after submission of this report, stretching the cost-effectiveness of the Task Force work. The models presented in this Chapter compare plans side by side using the same set of assumptions. Changes can be made to the assumptions used in this report to determine the cost and benefit impacts of those changes.*

### Section 3.1 - Basic Pension Plan Types

Pension plans have traditionally taken two forms - defined benefit or defined contribution. In recent years some variations on these plans have developed such as cash balance plans.

#### *Traditional Defined Contribution Pension Plans*

Traditional defined contribution plans provide a vehicle for the employee and/or the employer to contribute to the employee's individual retirement account under the plan using a choice of contribution rates. At retirement, or termination of employment, the employee receives the balance of contributions in their account, plus or minus investment gains or losses.

Fixed, predictable costs which are fully earned by the employee when vested are the primary strength of defined contribution plans for the employer. Portability of the employee and vested employer contributions is the primary strength of defined contribution plans for the employee because the benefits can roll over to a new employer’s qualifying tax-exempt defined contribution retirement plan, or an individual retirement plan.

The primary weakness of defined contribution plans for employees is that they bear 100% of the investment risk, creating an unpredictable retirement benefit and an open-ended risk of insufficient retirement income. Assuming a relatively stable investment return, the employee replaces a significantly smaller

portion of their final pay because their contributions were made on career average earnings. The employee needs to accumulate enough money to replace 75% of their income for an unknown number of years. Further, the employee needs to accumulate enough money to replace 75% of their income

**Chart 3-1  
Defined Contribution Plans**

<i>Strength</i>	<i>Weakness</i>
Portable	Employee bears investment, inflation, and longevity risks
Choice of investment risk	Leakage out of retirement plan
Employer can control cost	Employee may choose insufficient contribution %



using a risk-free rate of return to cover inflation, or continue to grow their fund by investing in higher growth/higher risk assets. This can be a perilous strategy for individual retirees with no future earning power to replace investment losses from a market downturn. Unless the account is annuitized, which also has a cost, the employee bears the longevity risk of living to an advanced age and running out of money.

Societal risks include the collective risk that a portion of the population may not have enough money to fund their full retirement. This may be exacerbated by “leakage” where employees may decide to withdraw their funds rather than transfer them to their new employer’s retirement fund.

### *Traditional Defined Benefit Pension Plans*

Traditional defined benefit plans provide stable employee retirement contributions and a fixed or “defined” benefit for the employee at retirement. Employer contributions vary based on forecasts of fixed amounts guaranteed to employees retiring under the defined benefit plan and the performance of assets in the plan.

A primary strength for employers of defined benefit plans is as a retention incentive because the benefits increase in value to the employee with employment longevity. A second benefit is that employees forfeit all or some of the full benefit with turnover, reducing the cost to the employer. Fixed, predictable inflation-protected annuity payments in retirement are a primary strength of defined benefit plans for longer-term employees. A growing number of experts are recommending that defined contribution plan members copy this attribute of defined benefit plans by annuitizing enough of their retirement savings to ensure they are able to pay their living expenses for life without the risk of running out of money.

**Chart 3-2**  
**Defined Benefit Plans**

<i>Strength</i>	<i>Weakness</i>
Fixed annuity in retirement	Employer bears risk of Investment loss
Employee has no longevity risk	Widely variable employer cost
Can adjust for inflation	Not generally portable

The primary weakness for employers of defined benefit plans is unpredictable costs. The employer faces the open-ended risks of employee longevity, or extended benefit payments, and 100% of investment risk on the contributions. Further, defined benefit plans exhibit an “age bias”, costing more for older

employees than young. For employees, defined benefit pensions tend to be less portable than defined contribution plans, even if the plan allows a lump sum cash benefit at termination of employment. Employees who change employers throughout their career may not create a sufficient retirement under defined benefit plans because they do not remain long enough with any employer to benefit from the longevity advantages.

Similar to defined contribution plans, societal risks include the collective risk that a portion of the population may not have enough money to fund their full retirement. The age bias, reduced portability and open ended risk make defined benefit plans better suited to large employers with less mobile workforces, such as the public sector.

### **Section 3.2 – Selected Task Force Plan Options Studied**

The stresses and excesses of the financial markets over the last 10 to 15 years have aggravated the strengths and weaknesses of traditional retirement plans. This has created the opportunity to avoid the weaknesses in new plan designs and fortify the strengths with plan design modifications.

Task Force members selected both traditional plans as well as new plans specifically designed to overcome demonstrated weaknesses for analysis in responding to Resolve 111. Section 3.2 describes the primary plan features of each option for new employees hired after December 31, 2010. Subsequent sections analyze the benefits and costs anticipated with each type of plan.

Employer costs quoted in this report assume an on-going earnings level of 7 ¾% by the Maine Public Employees Retirement System. This assumed rate of return on investments may be re-examined in the future given the dramatic changes in the outlook of the investment markets following the 2008 market downturn, but is not in the scope of the Task Force or addressed by the following options.

The State of Maine currently pays and submits employer pension contributions for teachers to MainePERS. Social Security employers are required to submit the 12.4% employer and employee contributions to the Internal Revenue Service. Adopting Social Security as a pension plan, included in Guidance 2 and Guidance 3, requires additional discussion between the State of Maine and school districts regarding the funding path of this benefit.

#### ***Option 1 – Current State/Teacher Defined Benefit Plan***

Option 1 is a continuation of the existing State/Teacher Plan as currently structured for employees hired after December 31, 2010. Participants receive a benefit of 2% of final three year average compensation for each year of state service in the current State/Teacher Plan. Normal retirement is age 62 or at least 25 years of service. Participants are able to leave before retirement and take out their contributions with interest as a single lump sum or, if vested, defer their benefit until age 62. For participants with 25 years of service, the benefit is reduced by 6% for each year the retirement age is less than 62. After retirement, annuity payments are adjusted each year for COLA.

#### ***Option 2 – Social Security***

Option 2 enrolls new employees in Social Security under which they would receive Social Security benefits at retirement but no additional benefit from MainePERS. The analysis of this option shows only the pay replaced by Social Security for a participant that retires at age 62. No approximately equivalent benefits are shown because the employer contribution rate is fixed and determinable by the federal

government.

### ***Option 3 – Defined Benefit Plan with Social Security***

Option 3 enrolls new employees in Social Security and an employer-provided defined benefit plan under which they would receive a Social Security benefit at age 62 and a defined benefit from MainePERS. Option 3 continues the same plan structure as the current plan with a reduced benefit at retirement to supplement Social Security.

### ***Option 4 – Variable Defined Benefit Plan***

Option 4 enrolls new employees in a stand-alone modified defined benefit plan in which they would receive a defined benefit of a variable accrual rate (versus the fixed 2% in the current plan) times their compensation for each year of service with MainePERS (versus the highest three years in the current plan). This option shares the investment risk between the employer, or State, and employees. When plan investment earnings meet a target rate the variable accrual rate is set for each year of service, and the employee receives that rate for life upon retirement. If investment earnings on plan assets in a given year are less than targeted, the variable accrual is reduced, but no lower than a pre-determined floor. Similarly if earnings on plan assets in a given year are greater than expectations, the variable accrual rate is increased.

Option 4 will require additional analysis under federal law if it is of interest to policymakers. The precise details of the desired benefit structure and funding are critical to a complete legal analysis of this option.

### ***Option 5 – Defined Contribution Plan***

Option 5 enrolls new employees in a defined contribution plan in which individual accounts are set up for each employee. Each year contributions from both the employer and employee are added to the account. The assets in the account change with actual investment earnings or losses. At retirement, the participant may use the assets to provide income during retirement. The investment risk and longevity risk is borne by the employee. The employer's contribution is fixed.

### ***Option 6 – Defined Contribution Plan with Social Security***

Option 6 enrolls new employees in Social Security and an employer-provided defined contribution plan. The employer contribution is reduced to supplement Social Security. The employee's contribution is reduced in this analysis because they will be contributing to Social Security.

### ***Option 7 – Alternative Plan as Described in Task Force Enabling Legislation***

Option 7 enrolls new employees in a modified defined benefit plan and Social Security as described in Resolve 111. Participants vest after six years of service and earn 1% of their final five years average pay. The disability benefit will be integrated with the Social Security disability benefit. When participants leave before normal retirement, they may elect one of the following:

1. To leave contributions and interest in the plan where they will grow at a rate equal to the

Consumer Price Index until age 62;

2. To receive a lump sum payment equal to 150% of the employee's contributions, plus 6% interest;
3. To purchase annuities from MainePERS equal in value to 180% of the member's contribution, plus 6% interest.

Option 7 will require additional analysis under federal law if it is of interest to policymakers. The precise details of the desired benefit structure and funding are critical to a complete legal analysis of this option.

One of the fundamental characteristics of a qualified pension plan under the Internal Revenue Code has historically been that the plan provides "definitely determinable benefits." Prior IRS guidance has clearly provided that post-retirement adjustments such as CPI COLAs, etc., do not violate this rule. Other types of variations based on fund earnings and/or assets involve very fine distinctions between what the IRS has deemed acceptable and not acceptable. See, for information and examples, Treas. Regs. § 1.401(a)-1(b), Treas. Regs. § 1.401-1(b)(1), Rev. Rul. 185, 1953-2 C.B. 202, Rev. Rul. 78-403, Rev. Rul. 74-385, and Rev. Rul. 69-427.

Distribution options in a defined benefit plan must be designed primarily to provide systematic payments over a period of years, usually life. Employer costs must be able to be determined actuarially on the basis of these definitely determinable benefits. The precise design of any refund or withdrawal options, as well as various early retirement options, would require specific analysis. See, Treas. Regs. § 1.401-1(b)(1).

### **Section 3.3 – Plan Analyses**

The two perspectives in which most stakeholders have an interest are the amount of the retirement plan benefit and the cost of providing that benefit. This is a challenging comparison because each plan is designed to emphasize different behaviors and benefits.

Our comparison is based on a mathematical analysis of each plan type to attempt to assist the reader in comparing plan options on benefit to the employee and cost to the employer. Mathematical analysis of recruitment and retention impacts of each plan requires survey data beyond the resources of the Task Force.

#### ***Two Views of Each Plan***

##### **Cost of Each Plan Option with Consistent Employee Benefit**

The first mathematical analysis is the relative cost of providing a consistent benefit to the employee under each plan option. This analysis calculates the inputs (employee contribution, employer contribution, and plan variables) necessary to create approximately the same benefit employees receive under the current plan. This comparison creates an effective cost comparison of each plan.

Each plan option is analyzed using a consistent benefit as a percent of pay replaced at full retirement. In comparing these results, the costs vary for each plan. Benefits cannot be exactly the same from each plan, but can be closely approximated to the benefits expected from the current plan. There are two options where the benefits are not changed to be comparable, Option 2 – Social Security Only and Option 7 – the plan described in the Task Force enabling legislation. These plans are included with the benefits expected by their design.

This analysis is complex because no two employees generally earn the same amount in their career or have the same employment history. Some employees make a career with the State while for most the State is just one employer for whom they have worked. Five hypothetical employees have been created to demonstrate the range of employee benefit and related cost. The summary and conclusions about each plan are discussed in this Chapter. Detailed calculations by hypothetical employee are included in Attachment D.

### **Resulting Benefit Using Consistent Employer Cost**

The second mathematical analysis presented is the relative benefit to the employee of each option. This analysis calculates the difference in benefit to the member under each option with consistent employer normal cost. ***Eight percent employer cost was chosen for this analysis because any plan that enrolls employees in Social Security and includes additional employer benefits as requested in the legislation has to cost more than the base 6.2%.*** The model developed for this report, however, can easily calculate benefits for any desired employer contribution. Using 8.0% expected employer contribution and 7.65% employee contribution in all the scenarios allows a comparison of the benefits derived under each option. Again options 2 and 7 are not adjusted to show consistent cost. For Social Security Only the expected cost is 6.2% of pay for both the employer and employee. For the plan described in the Task Force enabling legislation the expected cost, including Social Security cost, is 10.16% for the employer and 7.65% for the employee.

### ***Assumptions Used for Analyses***

Because of the complexity of comparing retirement plans, multiple logical assumptions about the “average” employee were made to create a reasonable plan comparison. The results of this analysis depend upon several assumptions about the future, including:

- Salaries increase annually at 3.0% of pay, with an additional 1.5% annually for promotion.
- Post retirement COLA is 3.0%
- Employees are expected to contribute 7.65% of pay (except for the Social Security only option in which employees contribute 6.2%)
- Pre-retirement inflation of 3.0% is used to convert future retirement benefits to today’s dollars
- Individual defined contribution accounts earn an annual return of 6.0% each year

- Defined contribution accounts are converted to annuities at retirement which have a base cost assuming a 5.0% conversion rate and include provision for annual COLA increases

Additional assumptions are required for hypothetical employees 4 and 5 in Attachment D regarding retirement benefits earned with employers outside of MainePERS, including:

- A participant first enters the workforce when hired by a MainePERS employer and continues to work after termination until the retirement date
- Salaries outside the system will be assumed to equal the salaries that would have occurred within the system
- The outside Defined Contribution Plan will have an annual employer contribution rate of 3.0% and a 5.5% employee contribution rate
- The outside contribution account will earn and be converted to an equivalent annuity on the same basis as the MainePERS defined contribution accounts
- The Social Security benefit is prorated between MainePERS and outside employment based on service. For plans that do not include a Social Security option, the hypothetical individual's Social Security benefit is not adjusted for a reduced number of years of covered Social Security compensation.

### *Summary Analysis*

Each of the alternative plans is compared to each other on a basis that gives an approximately equal retirement benefit, with the exception of the Option 2 - Social Security Only and Option 7 – the plan described in the Task Force enabling legislation. The comparison shows how the resulting cost to the employer differs for the same benefit.



*It is virtually impossible to compare benefits to individuals under the various plans studied because of the difference in how the benefits are structured from plan to plan. We have attempted to estimate an average benefit equivalent for employees of various ages enrolling in the State/Teacher Plan and staying until age 62 to compare the retirement benefit available if the employer contribution were fixed at 8%.*

The current State/Teacher Plan is a low-cost plan for the State because less than 20% of employees serve a 25 year or longer career, and less than half vest and receive a benefit. Any new plan based on Social Security will cost more because Social Security alone costs 6.2% for every employee.

Defined benefit or defined contribution plans offered as supplemental retirement plans in addition to Social Security further increase the cost to the employer unless the employee is the sole source of funding for these plans. This would not likely work as a recruitment or retention incentive.

Comparing available options to the current State/Teacher Plan becomes very difficult because of the differences in benefit design. Chart 3.3 provides some comparative analysis of 1) the cost to offer the same benefit as the current plan; and 2) the benefit relative to the State/Teacher Plan employees could expect to receive if the employer cost is fixed at 8%.

**Chart 3-3**  
**Plan Comparison Approximations**

	<b>Current Plan Equivalent Employer Cost</b>	<b>Benefit Equivalent Estimate for 8% Employer Contribution</b>
<b>Baseline - Current Plan</b>	<b>5.5%</b>	<b>100%</b>
<b>Option 2 - Social Security Only</b>	N/A	N/A
<b>Option 3 - Social Security with Reduced Current Plan</b>	11.95%	74%
<b>Option 4 - Variable DB w/o Social Security</b>	13.20%	63%
<b>Option 5 - Defined Contribution</b>	20%	55%
<b>Option 6 - Defined Contribution with Social Security</b>	20%	56%
<b>Option 7 - Resolve 111 Plan</b>	N/A	N/A

### *Analysis of Results by Each Plan Option*

The following pages discuss each plan option individually by:

1. How the cost of the option compares in general when calculated to achieve a benefit similar to the current State/Teacher Plan.
2. What level of benefit would generally result if an employer contribution of 8% is used for a new plan for employees hired after December 31, 2010?
3. A chart showing the general level of replacement income an individual might expect under that plan starting their career at various ages and at various salaries, but retiring with continuous employment at age 62. These charts demonstrate the significant option differences for the same employer cost of 8% and employee cost of 7.65%.

Retirement Income Replacement ratio charts in each option demonstrates how the retirement income replacement ratio of participants entering at different ages with different pay is affected.

The Retirement Income Replacement Ratio is shown for each option to demonstrate the relative benefits provided from plans with similar cost. Using 8.0% expected employer contribution and 7.65% employee contribution in most of the scenarios allows a comparison of the benefits derived under each option. The expected employer cost is not 8.0% for the current plan, Option 2 - Social Security Only or Option 7 – the plan described in the Task Force enabling legislation since those options have specific benefits and costs.

Each plan option includes a chart in which the income replacement ratio can be anticipated based on age and salary at plan entry if the employee retires at age 62.



**Option 1 - Current Defined Benefit Plan**

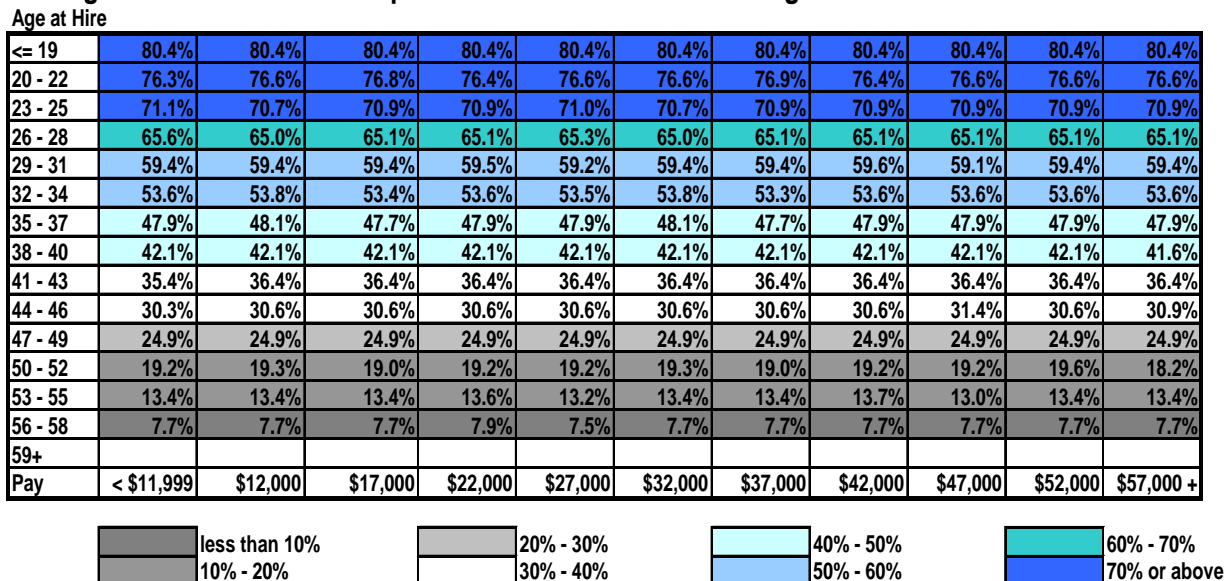
Option 1 is a continuation of the existing State/Teacher Plan in which participants receive a benefit of 2% of final three year average compensation for each year of state service. Normal retirement is age 62, or at least 25 years of service. Participants leaving before retirement may receive their contributions with interest as a single lump sum or, if vested, defer their benefit until age 62. For participants with 25 years of service, benefits are reduced by 6% for each year retiring earlier than 62. Retirement payments are adjusted by COLAs.

**Employee Benefits Consistent with Current State/Teacher Plan Analysis**

This option is the standard to which other plan option benefits are compared in this analysis. The employer normal cost of this plan (exclusive of the existing UAL), is expected to remain approximately 5.75% of payroll for state employees and 5.25% of payroll for teachers, or approximately 5.5% for the combined group. Employees contribute 7.65% of pay. The combined expected cost of the current plan is 13.15% of pay. Employees receive varying levels of benefits from this plan, with less than 20% receiving a benefit based on 25 or more years of service.

The following chart demonstrates the actual income replacement ratio under the current defined benefit plan with a multiplier of 2%, an employer cost of 5.5%, and employee cost of 7.65%.

**Average Retirement Income Replacement Ratio at Retirement Age 62**



The Retirement Income Replacement ratios shown here are not equal to the accrual rate times the number of years worked. This is because the benefit is based on the average of the three highest years and compared to the final year of pay.

**Option 2 - Social Security Only**

Option 2 enrolls new employees in Social Security under which they would receive Social Security benefits at retirement, but no additional benefit from MainePERS. The analysis of this option shows only the pay replaced by Social Security for a participant that retires at age 62. No approximately equivalent benefits are shown because the employer contribution rate is fixed and determinable by the federal government.

This option cannot be analyzed for consistent cost or benefit analysis with the current plan because the benefit is determined by the federal government. The employee and employer contribution to Social Security is currently 6.2% of pay (for pay under the Social Security Wage Base, currently \$106,800), for a total cost of 12.4% of pay. All employees receive a benefit, reduced for employment not covered by Social Security. (See Chapter One) Social Security provides higher benefit levels to lower income workers.

The following retirement income replacement ratio of Social Security is based on an employer and employee cost of 6.2%.

**Average Retirement Income Replacement Ratio at Retirement Age 62**

Age at Hire	<= 19	20 - 22	23 - 25	26 - 28	29 - 31	32 - 34	35 - 37	38 - 40	41 - 43	44 - 46	47 - 49	50 - 52	53 - 55	56 - 58	59+
	36.3%	37.0%	38.1%	39.1%	38.8%	37.9%	37.0%	34.2%	29.4%	25.6%	21.5%	17.3%	12.8%	7.5%	
	32.0%	32.2%	33.3%	34.0%	33.4%	32.7%	32.5%	32.1%	29.8%	25.9%	21.5%	17.4%	12.8%	7.5%	
	28.5%	29.0%	29.4%	29.4%	28.5%	27.9%	27.5%	26.8%	25.7%	24.7%	21.5%	17.1%	12.8%	7.5%	
	26.5%	26.8%	27.2%	27.1%	26.3%	25.5%	24.5%	23.5%	22.4%	21.8%	20.6%	17.3%	12.9%	7.7%	
	24.9%	25.1%	25.4%	25.5%	24.6%	23.7%	22.8%	21.7%	20.8%	19.7%	18.4%	17.0%	12.6%	7.4%	
	23.8%	23.9%	24.3%	24.2%	23.3%	22.3%	21.4%	20.4%	19.4%	18.2%	17.0%	16.1%	12.8%	7.5%	
	22.9%	23.2%	23.5%	23.3%	22.3%	21.3%	20.4%	19.4%	18.2%	17.1%	15.9%	14.9%	12.7%	7.5%	
	21.4%	22.0%	22.5%	22.6%	21.7%	20.7%	19.6%	18.5%	17.3%	16.2%	14.9%	13.8%	12.5%	7.5%	
	20.3%	20.6%	21.1%	21.4%	21.0%	20.1%	19.0%	17.8%	16.7%	15.7%	14.2%	13.1%	11.9%	7.5%	
	19.2%	19.4%	19.9%	20.1%	20.0%	19.5%	18.4%	17.2%	16.2%	14.9%	13.5%	12.6%	11.5%	7.5%	
	18.4%	18.7%	19.1%	19.3%	19.2%	19.0%	18.1%	16.8%	15.8%	14.5%	13.1%	12.0%	11.0%	7.5%	
Pay	< \$11,999	\$12,000	\$17,000	\$22,000	\$27,000	\$32,000	\$37,000	\$42,000	\$47,000	\$52,000	\$57,000 +				



**Option 3 – Defined Benefit Plan with Social Security**

Option 3 enrolls new employees in Social Security and an employer-provided defined benefit plan under which they would receive a Social Security benefit at age 62 and a reduced defined benefit based on the structure of the current State/Teacher Plan.

**Employee Benefits Consistent with Current State/Teacher Plan Analysis**

A consistent benefit to the current State/Teacher Plan is provided by enrolling new employees in Social Security and providing a supplemental defined benefit of 1.1%. Other plan provisions remain the same as the current plan. An employer cost of approximately 11.95% achieves a consistent benefit with the current plan, of which 6.2% is paid to Social Security and 5.75% to MainePERS for the modified 1.1% defined benefit. The increased employer normal cost occurs partially because only 1.45% of the employee 7.65% contribution funds the modified defined benefit. The combined expected cost of this option is 19.60% of pay. The employer cost can be reduced if the employee contribution toward their defined benefit is higher than 1.45%.

**Employee Benefit with 8% Consistent Employer Cost Analysis**

An 8% total employer contribution under Option 3 provides new employees with a Social Security benefit and a .6% benefit from MainePERS. 6.2% is paid to Social Security and 1.8% contributed for the modified defined benefit. Employees contribute 7.65% of pay, of which 6.2% is paid to Social Security and 1.45% funds the modified defined benefit. The total combined cost of this option is 15.65% of pay. Other plan provisions remain the same as the current plan.

The retirement income replacement ratio of a reduced defined benefit plan with at 0.6% annual accrual and Social Security assuming expected employer cost is 8.0% is shown for entry age and pay.

**Average Retirement Income Replacement Ratio at Retirement Age 62**

Age at Hire	<= 19	20 - 22	23 - 25	26 - 28	29 - 31	32 - 34	35 - 37	38 - 40	41 - 43	44 - 46	47 - 49	50 - 52	53 - 55	56 - 58	59+
Pay < \$11,999	60.4%	59.9%	59.5%	58.8%	56.6%	54.0%	51.4%	46.8%	40.1%	34.7%	28.9%	23.0%	16.8%	9.8%	
\$12,000	56.1%	55.2%	54.5%	53.5%	51.2%	48.8%	46.9%	44.8%	40.8%	35.1%	28.9%	23.2%	16.8%	9.8%	
\$17,000	52.7%	52.0%	50.7%	48.9%	46.3%	43.9%	41.8%	39.4%	36.7%	33.9%	28.9%	22.8%	16.8%	9.8%	
\$22,000	50.6%	49.8%	48.4%	46.6%	44.1%	41.6%	38.9%	36.1%	33.3%	30.9%	28.0%	23.0%	17.0%	10.1%	
\$27,000	49.0%	48.0%	46.7%	45.1%	42.4%	39.8%	37.1%	34.3%	31.7%	28.9%	25.9%	22.7%	16.6%	9.7%	
\$32,000	47.9%	46.9%	45.5%	43.7%	41.1%	38.5%	35.8%	33.0%	30.3%	27.4%	24.4%	21.9%	16.8%	9.8%	
\$37,000	47.0%	46.2%	44.8%	42.9%	40.1%	37.3%	34.7%	32.0%	29.1%	26.3%	23.3%	20.6%	16.7%	9.8%	
\$42,000	45.5%	44.9%	43.8%	42.1%	39.6%	36.8%	34.0%	31.1%	28.2%	25.4%	22.3%	19.6%	16.6%	9.8%	
\$47,000	44.4%	43.6%	42.3%	40.9%	38.8%	36.2%	33.4%	30.5%	27.6%	25.1%	21.7%	18.9%	15.8%	9.8%	
\$52,000	43.3%	42.4%	41.1%	39.7%	37.8%	35.6%	32.7%	29.8%	27.1%	24.1%	21.0%	18.5%	15.5%	9.8%	
\$57,000 +	42.5%	41.6%	40.3%	38.8%	37.0%	35.1%	32.4%	29.3%	26.7%	23.8%	20.6%	17.4%	15.0%	9.8%	



#### ***Option 4 – Variable Defined Benefit Plan***

Option 4 enrolls new employees in a stand-alone modified defined benefit plan in which they would receive a defined benefit of a variable accrual rate (versus the fixed 2% in the current plan) times their compensation for each year of service with the MainePERS (versus the highest three years in the current plan). This option shares the investment risk between the employer, or State, and employees. When plan investment earnings meet a target rate the variable accrual rate is set for each year of service, and the employee receives that rate for life upon retirement. If investment earnings on plan assets in a given year are less than targeted, the variable accrual is reduced, but no lower than a pre-determined floor. Similarly if earnings on plan assets in a given year are greater than expectations, the variable accrual rate is increased.

This option is not combined with Social Security. If it were, the cost would be 6.2% higher for employees and employers.

#### **Employee Benefits Consistent with Current State/Teacher Plan Analysis**

New employees receive a variable defined benefit based on MainePERS investment performance in this plan option which was designed to address the weaknesses of both defined contribution and defined benefit plans while preserving their strengths. The benefit accrual rate an employee receives under this option varies, starting at a minimum of 1.6% for each year of service with the MainePERS. This option shares the investment risk between the employer, or State, and the employees.

The employer cost of this plan is expected to be 13.20% of payroll. In addition, employees will continue to contribute 7.65% of pay for this benefit. Thus the total cost of this Variable Defined Benefit plan is expected to be 20.85% of pay. This option and related costs does not include enrolling new employees in Social Security.

#### **Employee Benefit with 8% Consistent Employer Cost Analysis**

A consistent employer cost of 8.0% if plan earnings meet expectations results in a variable accrual rate or benefit of 1.25% for each year of service. The floor below which the benefit cannot fall is lowered to 1.0%. Earnings on plan assets in a given year greater than expectations result in a variable accrual rate higher than 1.25%. The employer cost of this plan is 8.0% of payroll. Employees continue to contribute 7.65% of pay resulting in a total combined cost of 15.65% of pay (unless combined with Social Security in which case the employer rate is 14.2% and the employee rate 13.85% for a combined rate of 28.05%).

The retirement income replacement ratio of a variable defined benefit plan assuming expected annual accrual of 1.25% with an expected employer cost of 8.0% is shown for entry age and pay.

**Average Retirement Income Replacement Ratio at Retirement Age 62**

Age at Hire

<= 19	50.3%	50.3%	50.3%	50.3%	50.3%	50.3%	50.3%	50.3%	50.3%	50.3%	50.3%
20 - 22	47.7%	47.9%	48.0%	47.8%	47.9%	47.9%	48.0%	47.7%	47.9%	47.9%	47.9%
23 - 25	44.5%	44.2%	44.3%	44.3%	44.4%	44.2%	44.3%	44.3%	44.3%	44.3%	44.3%
26 - 28	41.0%	40.6%	40.7%	40.7%	40.8%	40.6%	40.7%	40.7%	40.7%	40.7%	40.7%
29 - 31	37.1%	37.1%	37.1%	37.2%	37.0%	37.1%	37.1%	37.3%	36.9%	37.1%	37.1%
32 - 34	33.5%	33.6%	33.4%	33.5%	33.4%	33.6%	33.3%	33.5%	33.5%	33.5%	33.5%
35 - 37	29.9%	30.0%	29.8%	29.9%	29.9%	30.0%	29.8%	29.9%	29.9%	29.9%	29.9%
38 - 40	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.0%
41 - 43	22.1%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%
44 - 46	18.9%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.6%	19.2%	19.3%
47 - 49	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%
50 - 52	12.0%	12.1%	11.9%	12.0%	12.0%	12.1%	11.9%	12.0%	12.0%	12.3%	11.4%
53 - 55	8.4%	8.4%	8.4%	8.5%	8.3%	8.4%	8.4%	8.5%	8.1%	8.4%	8.4%
56 - 58	4.8%	4.8%	4.8%	4.9%	4.7%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
59+											
Pay	< \$11,999	\$12,000	\$17,000	\$22,000	\$27,000	\$32,000	\$37,000	\$42,000	\$47,000	\$52,000	\$57,000 +



**Option 5 – Defined Contribution Plan**

Option 5 enrolls new employees in a defined contribution plan in which individual accounts are set up for each employee. Annual employee and employer contributions are invested until retirement. The investment risk and longevity risk is borne by the employee. The employer’s contribution is fixed.

**Employee Benefits Consistent with Current State/Teacher Plan Analysis**

A defined contribution plan option requires that individual accounts are set up for each employee. The employer and employee contribute annually to the account which grows over time based on investment returns.

The employer cost is fixed in a defined contribution plan. The employer cost to achieve a benefit approximately equivalent to the current plan assuming an employee contribution 7.65% is 20.0% of pay. The combined total expected cost of a defined contribution plan is 27.65% of pay.

**Employee Benefit with 8% Consistent Employer Cost Analysis**

An employer contribution of 8.0% of pay combined with an employee contribution of 7.65% of pay results in a combined total cost of 15.65% of pay for a defined contribution plan option.

The retirement income replacement ratio of a defined contribution plan assuming an 8% employer cost and 7.65% employee contribution is shown for entry age and pay.

**Average Retirement Income Replacement Ratio at Retirement Age 62**

Age at Hire												
<= 19	49.9%	49.9%	49.9%	49.9%	49.9%	49.9%	49.9%	49.9%	49.9%	49.9%	49.9%	49.9%
20 - 22	46.6%	46.8%	46.9%	46.6%	46.8%	46.8%	47.0%	46.6%	46.8%	46.8%	46.8%	46.8%
23 - 25	42.5%	42.1%	42.3%	42.3%	42.4%	42.1%	42.3%	42.3%	42.3%	42.3%	42.3%	42.3%
26 - 28	38.3%	37.9%	38.0%	38.0%	38.1%	37.9%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%
29 - 31	33.8%	33.8%	33.8%	33.9%	33.7%	33.8%	33.8%	34.0%	33.6%	33.8%	33.8%	33.8%
32 - 34	29.9%	30.0%	29.7%	29.9%	29.8%	30.0%	29.7%	29.9%	29.9%	29.9%	29.9%	29.9%
35 - 37	26.1%	26.2%	26.0%	26.1%	26.1%	26.2%	25.9%	26.1%	26.1%	26.1%	26.1%	26.1%
38 - 40	22.4%	22.4%	22.4%	22.4%	22.4%	22.4%	22.4%	22.4%	22.4%	22.4%	22.4%	22.1%
41 - 43	18.4%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%
44 - 46	15.4%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	15.6%	16.0%	15.6%	15.6%	15.7%
47 - 49	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%
50 - 52	9.3%	9.4%	9.2%	9.3%	9.3%	9.4%	9.2%	9.3%	9.3%	9.6%	9.3%	8.8%
53 - 55	6.4%	6.4%	6.4%	6.5%	6.3%	6.4%	6.4%	6.5%	6.2%	6.4%	6.4%	6.4%
56 - 58	3.6%	3.6%	3.6%	3.7%	3.5%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
59+												
Pay	< \$11,999	\$12,000	\$17,000	\$22,000	\$27,000	\$32,000	\$37,000	\$42,000	\$47,000	\$52,000	\$57,000 +	



**Option 6 – Defined Contribution Plan with Social Security**

Option 6 enrolls new employees in Social Security and an employer-provided defined contribution plan. The employer contribution is reduced to supplement Social Security. The employee’s contribution is reduced in this analysis because they will be contributing to Social Security.

**Employee Benefits Consistent with Current State/Teacher Plan Analysis**

To achieve a benefit approximately equivalent to the current plan the employer cost would be 20% with 6.2% paid to Social Security and 13.8% contributed to a defined contribution account. Employees contribute 7.65% of pay, of which 6.2% is paid to Social Security and 1.45% contributed to their defined contribution account. The total combined cost of this option is 27.65% of pay to achieve a benefit similar to the current State/Teacher Plan.

**Employee Benefit with 8% Consistent Employer Cost Analysis**

An employer cost fixed at 8% results in 6.2% paid to Social Security and 1.8% contributed to a defined contribution account. Employees contribute 7.65% of pay, of which 6.2% is paid to Social Security and 1.45% contributed to their defined contribution account. The total combined cost of this option is 15.65% of pay.

The retirement income replacement ratio of a defined contribution plan and Social Security with an 8% and 7.65% employee contribution split 6.2% each to Social Security with the remaining contribution to the defined contribution plan is shown for entry age and pay.

**Average Retirement Income Replacement Ratio at Retirement Age 62**

Age at Hire	<= 19	20 - 22	23 - 25	26 - 28	29 - 31	32 - 34	35 - 37	38 - 40	41 - 43	44 - 46	47 - 49	50 - 52	53 - 55	56 - 58	59+
	46.7%	46.6%	47.0%	47.0%	45.8%	44.1%	42.4%	38.8%	33.2%	28.8%	24.1%	19.2%	14.1%	8.3%	
	42.3%	41.9%	42.0%	41.9%	40.4%	38.9%	37.9%	36.8%	33.8%	29.1%	24.1%	19.4%	14.1%	8.3%	
	38.9%	38.7%	38.2%	37.3%	35.6%	34.0%	32.9%	31.4%	29.7%	28.0%	24.1%	19.1%	14.1%	8.3%	
	36.8%	36.5%	35.9%	35.0%	33.3%	31.7%	29.9%	28.2%	26.4%	25.0%	23.2%	19.2%	14.2%	8.5%	
	35.3%	34.8%	34.2%	33.4%	31.6%	29.9%	28.2%	26.4%	24.8%	22.9%	21.0%	18.9%	13.9%	8.1%	
	34.1%	33.6%	33.0%	32.1%	30.3%	28.6%	26.8%	25.1%	23.3%	21.5%	19.5%	18.1%	14.1%	8.3%	
	33.2%	32.9%	32.3%	31.2%	29.4%	27.5%	25.8%	24.0%	22.1%	20.4%	18.4%	16.9%	14.1%	8.3%	
	31.7%	31.6%	31.3%	30.4%	28.8%	26.9%	25.0%	23.1%	21.2%	19.4%	17.4%	15.7%	13.8%	8.3%	
	30.7%	30.3%	29.9%	29.3%	28.0%	26.3%	24.4%	22.5%	20.7%	19.0%	16.8%	15.1%	13.1%	8.3%	
	29.5%	29.1%	28.6%	28.0%	27.0%	25.7%	23.8%	21.9%	20.1%	18.1%	16.1%	14.6%	12.8%	8.3%	
	28.8%	28.4%	27.8%	27.2%	26.2%	25.2%	23.5%	21.4%	19.7%	17.8%	15.7%	13.8%	12.3%	8.3%	
Pay	< \$11,999	\$12,000	\$17,000	\$22,000	\$27,000	\$32,000	\$37,000	\$42,000	\$47,000	\$52,000	\$57,000 +				



**Option 7 - Task Force Enabling Legislation Plan**

Option 7 enrolls new employees in a modified defined benefit plan and Social Security as described in Resolve 111. Participants vest after six years of service and earn 1% of their final five years average pay. The disability benefit will be integrated with the Social Security disability benefit. A participant who leaves before normal retirement age may elect one of the following:

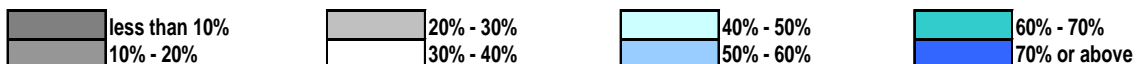
1. Leave contributions and interest in the plan where they will grow at a rate equal to the Consumer Price Index until age 62;
2. Receive a lump sum payment equal to 150% of the employee’s contributions, plus 6% interest;
3. Purchase an annuity from MainePERS equal in value to 180% of the member’s contribution, plus 6% interest.

Under this plan new employees would receive 1% of final five year average compensation for each year of service and a Social Security benefit. The cost to the employer of the retirement benefit described in the task force enabling legislation is expected to be 9.05% of payroll, of which 6.2% will be paid to Social Security and 2.85% will be contributed for the modified defined benefit. The employer normal costs are based on a lower accrual rate, improved termination benefits, and enrolling employees in Social Security. This plan anticipates equal contributions from employers and employees so new employees also contribute 9.05% of pay, of which 6.2% will be paid to Social Security and 2.85% will fund the modified defined benefit. The total combined expected cost of this option is 18.10% of pay.

The retirement income replacement ratio with the modified plan described in the legislation including Social Security assuming expected employer cost is 9.05% is shown for entry age and pay.

**Average Retirement Income Replacement Ratio at Retirement Age 62**

Age at Hire	<= 19	20 - 22	23 - 25	26 - 28	29 - 31	32 - 34	35 - 37	38 - 40	41 - 43	44 - 46	47 - 49	50 - 52	53 - 55	56 - 58	59+
Pay < \$11,999	74.8%	73.5%	72.2%	70.5%	67.3%	63.6%	59.9%	54.3%	46.4%	40.1%	33.4%	26.4%	19.2%	11.2%	
\$12,000	70.5%	68.9%	67.2%	65.1%	61.8%	58.5%	55.5%	52.3%	47.3%	40.6%	33.4%	26.7%	19.2%	11.2%	
\$17,000	67.1%	65.8%	63.4%	60.6%	57.0%	53.5%	50.3%	47.0%	43.2%	39.4%	33.4%	26.2%	19.2%	11.2%	
\$22,000	65.0%	63.4%	61.1%	58.3%	54.8%	51.2%	47.5%	43.7%	39.9%	36.4%	32.5%	26.4%	19.4%	11.5%	
\$27,000	63.4%	61.8%	59.4%	56.7%	53.0%	49.3%	45.7%	41.9%	38.3%	34.3%	30.4%	26.2%	19.0%	11.0%	
\$32,000	62.3%	60.6%	58.1%	55.3%	51.7%	48.1%	44.4%	40.6%	36.8%	32.9%	28.9%	25.4%	19.2%	11.2%	
\$37,000	61.4%	60.0%	57.5%	54.5%	50.8%	46.9%	43.3%	39.6%	35.6%	31.8%	27.8%	24.0%	19.2%	11.2%	
\$42,000	59.9%	58.5%	56.4%	53.7%	50.3%	46.4%	42.5%	38.6%	34.7%	30.9%	26.8%	23.0%	19.0%	11.2%	
\$47,000	58.8%	57.3%	55.0%	52.6%	49.3%	45.8%	41.9%	38.0%	34.2%	30.7%	26.2%	22.3%	18.1%	11.2%	
\$52,000	57.7%	56.1%	53.8%	51.3%	48.5%	45.2%	41.3%	37.4%	33.6%	29.5%	25.4%	22.0%	17.9%	11.2%	
\$57,000 +	56.9%	55.4%	53.0%	50.5%	47.6%	44.7%	41.0%	36.8%	33.2%	29.3%	25.0%	20.7%	17.4%	11.2%	





## Chapter Four – Health Plan Options

The Task Force examined the proposal in Resolve 111 to merge the State employee and teacher health plans for new hires. This examination concluded that there are a series of complex issues that ultimately require further research and analysis. There are numerous variables for consideration. For the purpose of this report the major issues have been identified based on assumptions presented in the text of Resolve 111: all changes with respect to eligibility, premium contribution, benefit design and funding are prospective; it is envisioned that the existing plans for current employees and retirees would remain in place; and a separate merged plan would be implemented to enroll new hires on a date to be determined.

### Section 4.1 - Benefit Design

While the Task Force may define the parameters for benefit design, the issue of benefit refinement, member out-of-pocket expenses, and plan offerings would be more appropriately assigned to the governing body of a new plan. There must be a vehicle that can adapt to the fluidity of the health care market as new strategies and products emerge. Claims experience and group demographics greatly influence benefit design.

#### *Plan Sponsors*

The plan sponsors have unique configurations requiring varying regulatory jurisdictions. The State employee health plan is an employer-sponsored plan exempt from ERISA due to its public employer status. The Bureau of Insurance has determined that the State employee plan is subject to many of the regulations governing insurance carriers. The MEA Benefits Trust is a health trust rather than an employer-sponsored plan. As such it is governed by Taft-Hartley provisions. The Maine School Management Association (MSMA) is an association-sponsored plan. The regulatory questions related to prospectively merging these three group plans requires thoughtful research and lead to another pivotal issue – governance.

#### **Chapter Four Summary**

- *Unlike the pension benefits, health plan benefits are offered by multiple sponsors with different plan designs, eligibility provisions and group demographics*
- *Current plans combine active employees and non-Medicare retirees in the same risk pools. Active members subsidize the retirees which causes the underlying retiree health costs to be significantly understated*
- *Requiring employee contributions for retiree health is sound policy and provides more predictable expenses but it creates a significant income disparity between current employees and new hires*
- *Regardless of the possible solutions there are complex issues of governance, rating, and risk selection that must be more closely examined*

### *Governance*

There are very significant differences in how each plan is governed. The State Employee Health Commission (SEHC) serves as trustees to the State Employee Plan. The SEHC is a labor/management organization whose membership is expressly prescribed by statute. The MEA Benefits Trust (MEABT) has a board whose nomination and appointment are determined by the Maine Education Association in compliance with relevant regulatory provisions. The Maine School Management Association also maintains a board of trustees comprised of its membership and governing the group plan.

Merging the plans would require a new governance structure that adequately represents all parties and ensures compliance with regulatory authorities. It is likely that the Bureau of Insurance would need to be consulted to determine if enabling legislation is required to establish a governing body and to define questions of jurisdiction.

### *Risk Pools*

One of the most fundamental issues of any group plan relates to establishing and managing the risk pool. Currently each of the major group plans maintains a separate risk pool. The profile reflects eligibility provisions and the demographics of the group. A persuasive argument can be made that a single risk pool of active members and non-Medicare retirees has the potential to stabilize rates by spreading risk over a broader population. A basic principle is that spreading risk reduces the group's vulnerability to volatility in claims. A cursory review of the state employee and MEA Benefits Trust populations revealed fairly comparable claims experience.

Both the State employee and MEABT plans combine actives and non-Medicare retirees in a single pool. The retiree rates are understated and subsidized by active members. This leads to more affordable retiree rates but results in significant costs to the State. Consideration could be given to establishing the retiree rates for non-Medicare retirees based on the true underlying costs for this group rather than merging experience with the active population. Since retirees assume the full cost of dependent premiums, this action would be problematic for retirees with substantially increased rates. Further, establishing rates based on the underlying costs for retirees would be a formula for adverse selection. As premiums escalate only those dependents with serious chronic conditions and significant expenses would likely to be enrolled.

Existing plans provide a separate group offering for those retirees who are Medicare eligible. It would be necessary to continue that practice under a merged risk pool. The Medicare population does not directly affect the active and non-Medicare populations. Since Medicare is the primary payer a good portion of the medical costs are absorbed by Medicare Parts A and B.

### **Section 4.2 - Financing/Funding/Rating**

The maturity of self-insurance offers the most attractive funding arrangement for a large pool of state employees and teachers. In the near term in the absence of sufficient enrollment, claims experience,

and employer/employee contributions the more viable option would be a fully-insured plan. Rating for this population will be challenging. Another option to smooth the year-to-year variability would be to merge all pools (including current state employee and teacher pools) to be combined for experience purposes even though the plan designs and contributions would be different.

Since the actuarial cost of the program is to be recognized prior to members actually retiring (e.g., the cost recognition for the retired population will begin at hire), the impact to the plan's funding will be far more predictable than the pay as you go expense. The actual expense is larger than pay as you go but is less subject to potential swings in claims that can be experienced from year to year. If employees are required to contribute toward their post-retirement health coverage while employed, the financial viability of the plan is enhanced with actual resources available at the time of retirement.

The proposed subsidy for dependent coverage will likely lead to a lower per enrolled dependent cost compared with the current plans where no dependent subsidy exists. However, the overall cost of the program will be greater per eligible member. The higher enrollment rate will generate costs that will offset the impact of positive selection in the group. It will also be challenging to predict the future enrollment patterns for the dependent population.

The most acute question regarding rating is whether or not to continue the practice of consolidating the active and non-Medicare populations. As noted above in the discussion on risk pools, combining those populations severely understates the retiree experience and per member costs.

### *Employee/Retiree Contributions*

The current plans have very different approaches to determining active employee contributions. The statute generally governs employer/employee contributions for state employee individual active employee and retiree contributions. Local school district labor agreements determine employer/employee contributions for active teachers and the State's obligation for retired teachers' premium is governed by statute. Arguments can be made for continuing current practices and also for establishing a more consistent approach. Any departure from the current practices will produce serious labor relations issues.

The proposal calls for payment by both the employer and the employee during active employment in order to pay the present actuarial cost of the future benefits subsidy. This provision has a number of implications that warrant thoughtful analysis:

- The present actuarial cost is generally based on the cost of the post-retirement benefit assumed to be earned in the current year. The calculation is a single lump sum but is comprised of a number of small pieces of "earned" benefit for each active member. How will this lump sum be allocated per member? Decisions will need to be made about whether or not the amount charged to active employees will vary by age, current family status, anticipated family status, etc.

- If members do not elect dependent coverage during active employment can they elect coverage for dependents upon retirement? How will employees who opt for single coverage during active employment be treated in the allocation of the present actuarial cost as active employees?
- If post-retirement non-Medicare retiree contributions are established based on the combined experience of actives and retirees, retiree contributions will be understated. This will lead to an increase in the present actuarial cost and produce an increase in the contribution for retiree health benefits while the employee is active.
- In the initial years of a program there will be fluctuations in the actuarial cost as emerging experience will differ from assumptions. The assumptions include rates of retirement, investment return, termination of employment, mortality, medical cost inflation, etc. Should the per member allocation be “smoothed” in some fashion to adjust for these fluctuations?
- The active employee contributions for the present actuarial cost of the retiree subsidy will not be a trivial amount for employees. Based on a recent actuarial valuation that contribution would be in excess of \$100 per month (without regard to family status). While a sound contribution strategy for post-retirement health benefits, this would cause a significant disparity in net income between current employees and new hires.

### Section 4.3 - Conclusions

Traditionally, health coverage has been an employer-sponsored benefit. As a result, there are a host of issues that require attention. Several of the more technical issues related to a merged plan were identified by the Task Force. It is the consensus that these issues require further research and greater analysis.

Beyond the technical issues there are more pragmatic questions that are not examined in this report. There may be several potential advantages of a larger merged group, beyond the direct immediate question of retiree health benefits. As noted earlier, a large pool spreads the risk and can enhance stability. There is also the potential that the larger the group the more influence it can wield in the market to impact reforms and innovations.

There are several noteworthy obstacles to a merged plan. Plan sponsors and their constituent groups may be very reluctant to relinquish autonomy. The governance of each plan responds to the culture of that organization. Transferring those norms and values can be a long and difficult journey. Common benefit designs can be far easier to administer and produce selected purchasing power. However, is it practical to expect multiple labor organizations representing numerous bargaining units to agree on consistent plan designs? Can this arrangement separate benefits from the bargaining arena? Should they be separated? Initially, there are likely to be perceived “winners” and “losers”. Overcoming the fear of being a “loser” is a powerful hurdle.

One clear conclusion of the Task Force is that merging plans for new hires poses significant problems with respect to risk selection. For example, if a plan was established for new state employee and teacher

hires, the existing plans would experience adverse selection with the loss of younger, better risks from among the new hires. If the new hires were merged in the State Employee Plan, the existing teacher sponsored plans would also experience adverse selection. Adverse selection has a direct affect on premium rates. A solution to the risk selection issue would be to merge existing plans with the current enrollees as well as new hires. While that approach may successfully address the risk selection question, it leaves a host of other complex issues unresolved.

An analysis of the merger of the current plans requires a very focused and thoughtful examination of these issues. Task Force members recommend continuing the health benefit portion of the study with a newly configured group of healthcare experts.

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## Chapter Five – Pension Plan Selection Guidance

The current State/Teacher Plan rewards longevity over portability. This means that it is functioning as it was originally intended. Any decision to close this plan and create a new plan for new workers will similarly need to consider what the plan is intended to accomplish. This Chapter provides guidance about the options the Task Force studied.

### Section 5.1 - Matching a Retirement Plan to the Workforce

The three primary factors upon which a decision to adopt a new retirement plan pivot are 1) the value to the employee; 2) the cost to both the employee and the employer; and 3) who bears the investment risk. This chapter evaluates plan design's value to the employee in terms of cost and risk.

#### *Recruitment and Retention – The Value of the Plan to the Employee*

Employers want to provide benefits that attract the type of workforce they are seeking at a cost they can afford. They similarly want to retain workers that fit with their specific work and workplace. Employers do this by investing in training and other activities. Unplanned turnover can have a significant cost impact for employers.

What attracts and retains employees can change over time. Maintaining, modifying or replacing a pension plan is based on predicting the retirement needs and wants of today's younger workers 30, 40 and 50 years into the future.

The most important benefit today for employees of all ages is access to healthcare. This may or may not change as the federal government addresses healthcare reform. Motivation to save for retirement, on the other hand, still increases as workers age. The employee's value for a retirement benefit similarly increases as their priority and economic capability change from buying a home and funding their children's education to preparing for their non-working or lower earning retirement years.

Anecdotal data suggests that people's behavior in saving for retirement has not changed over the last half century. What have

#### **Chapter Five Summary**

- *Workplace retirement plans are a recruitment and retention tool that must be matched to the workforce to be effective*
- *Most workers value a retirement plan, with older workers who are moving toward retirement more sensitive to the plan design than younger workers*
- *A specific plan recommendation is not possible without additional guidance about employer cost*
- *The current State/Teacher Plan is cost effective for the State because it costs less than Social Security, but may not be an effective retirement plan for the majority of the workforce because of turnover before retirement*
- *Any retirement plan based on Social Security which has an employer and employee cost of 6.2 % will cost the State more than the current State/Teacher Plan of 5.5%. A new plan may or may not increase current employee cost of 7.65%*

changed are the environmental factors that affect the adequacy of their retirement savings. These factors may affect the way employees value retirement plan design.

The “retirement crisis” that so frequently makes the news is based on the anticipated impact of these changing environmental factors on the historical population’s savings behavior:

- Without an upward adjustment in the retirement age or an increase in retirement benefits, people living longer in their retirement years will require more savings for both day-to-day and healthcare expenses and increased difficulty of predicting or adequately saving for these years.<sup>6</sup>
- Healthcare costs have been increasing faster than general inflation, and most of an individual’s lifetime healthcare expenses can be expected to be incurred in their later years.
- Fluctuating financial markets may change the value of their only income producing assets. Workers today are faced with a new reality that they may not have the resources necessary for adequate income replacement once they stop working, or that adequate savings may turn inadequate by severe or prolonged market declines.
- Workforce mobility has increased, possibly as the nation has moved from a manufacturing to primarily service society and two-income or single head-of-households.

### *Plan Design*

Designing a retirement plan that attracts and retains all workers is not possible because of lifestyle differences. This is further complicated by the age differences of new employees and their life priorities. Increased job marketplace mobility means that workers of all ages enter employment at different stages of their careers and stay for differing lengths of time. What attracts older workers may be very different from what attracts younger workers. Further, what attracts younger workers today may provide a source of regret as they age and wish they had chosen differently. It is extremely difficult to worry about or make effective personal financial decisions forty or fifty years in advance.

Worker mobility and age become primary factors in predicting a retirement plan’s value to employees. Maine’s data suggests a mobile State employee and teacher workforce where less than 20% make their public employment a 25-year-or-more career, and less than half stay more than five years.

Retirement plans in general mean more to employees as they age. Younger workers are primarily concerned with building a career, buying a home, or paying for their children’s education. Retirement savings begins to take over in importance when these life goals are well underway.

Career younger workers generally understand they are building a retirement, but often delay fully understanding the value of that benefit until later in their career. Mobile workers face different

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<sup>6</sup> U.S. Census Bureau Data show life expectancy increased by two years per decade since 1960.



challenges in saving for retirement than career employees because each employer offers different benefits. Mobile workers must either be able to rollover their retirement benefits to future employers or accumulate a variety of benefits upon retirement. They may further lose ground to career employees because they may or may not vest their benefits with every employer. Mobility also creates the temptation to withdraw their retirement savings each time they change employment. Older workers nearing retirement may desire a fixed, determinable benefit as they inventory their assets and realistically assess their retirement readiness.

Younger workers in general may be tempted to use their retirement savings for other life priorities such as buying a house or paying for children's education if those funds are available. Retiring workers able to withdraw their savings in a lump-sum may be tempted to do so, spending a disproportionate amount in the early years of their retirements. These factors have prompted most experts in recent months to strongly advocate annuitizing retirement savings, no matter what the underlying retirement vehicle.

Worker interest in managing their own retirement funds appears to be directly linked to the success of the financial markets. Bull markets increase worker attraction to self-managed funds. Bear markets or recessionary times increase worker attraction to fixed, determinable retirement benefits. Most workers can expect to experience both economic cycles during their careers and their retirement. Timing of these cycles can be devastating if the bear or recessionary market occurs at a worker's planned retirement and their retirement assets have not been converted to less risky investments. Considered paternalistic during the recent bull market years in which everyone could be a successful investor and personal financial expert, limiting investment choice and annuitizing retirement assets are now considered effective risk management for those dollars that replace basic income in retirement.

Finally, many workers are continuing to work into traditional retirement years beyond age 62 for two reasons. The first is need. Few people feel secure in their ability to pay for both their living expenses and their healthcare, most specifically their prescription medicine. The second is longevity and improved health. Workers across the country look forward to retiring from their career, but not necessarily from the workplace. Instead they are seeking less stressful "retirement jobs". The nature of retirement is changing.

## **Section 5.2 - Retirement Plan Guidance for Policymakers**

The brief preceding discussion makes it clear why it is inadvisable to state that any one retirement plan is "best". Any plan design becomes increasingly more desirable as the employer increases contributions to that plan. The challenge is to balance which features attract and retain employees, benefit employees in retirement, and have an affordable plan cost.



*The funding history of the State/Teacher Plan is very important in analyzing a new pension plan for new employees hired after December 31, 2010, because a new plan design can change only the normal costs. The UAL cannot be changed or eliminated – only paid down because it represents future payments of past promises that are obligations of the State.*

The following chart estimates the relative strengths of the various options in retaining and recruiting employees. Low, medium and high means a plan has little strength, moderate strength, or is quite strong in providing the listed attribute of a retirement plan. The guidance in this chapter is based on comparing the normal, or on-going annual, cost of the current State/Teacher Plan with the normal cost of new plan designs.

**Chart 5-1  
Comparison of Pension Plan Options**

Plan Attribute	Plan 1 Current Defined Benefit	Plan 2 Social Security Only	Plan 3 Social Security with DB	Plan 4 Variable Defined Benefit	Plan 5 Defined Contribution Only	Plan 6 Social Security with DC	Plan 7 Resolve 111 Plan
Supports mobility	Low	High	Medium	Low	High	High	Medium
Skewed toward length of service	High	Low	Medium	High	Low	Low	Medium
Encourages retention	High	Low	Medium	High	Low	Low	High
Distributed evenly among workforce	Low	High	Medium	Low	Low	High	Medium
Age Bias - Younger	Low	N/A	Low	Low	Medium	Medium	High
Age Bias - Older	High	N/A	Medium	High	Low	Low	Low
Benefit fixed at hiring	High	High	High	Medium	Low	Medium	High
Adequate income replacement	Medium	Low	Medium	Medium	Low	Medium	High

*Note: Changes in benefits do not reduce the existing State/Teacher Plan unfunded actuarial liability (UAL), which is required by the Constitution of the State of Maine to be paid off by 2028.*

**Any viable pension plan the Task Force recommends, except for staying with the current plan, will incur additional employer costs.** Uncertainty about cost constraints created a dilemma for Task Force members in recommending any one specific plan, especially in the extreme economic downturn of the last two years. Pension plan recommendations are provided, therefore, in the form of guidance commentary in terms of what the Maine State Legislature may hope to accomplish with a new retirement plan and consistent with the enabling legislation.

**Guidance 1 – Lowest Normal Cost**

Retaining the current State Employee and Teacher Retirement Program provides the lowest cost of the seven options studied by the Task Force. This plan’s normal costs are expected to continue at approximately 5.5% of payroll in the future. Less than twenty percent of employees earn 25 or more years of benefits, and less than half vest. Benefits increase with length of service and are distributed only to those who vest and do not withdraw their contributions. Consequently, although the plan is designed to retain long-term employees by providing a substantial replacement income in retirement, the overall cost of the plan to the State of Maine is lowered by significant turnover. Portability is limited to the withdrawal of the employee’s 7.65% contribution plus interest earned. All employer contributions are lost to the employees who leave the System and withdraw their contributions. Employees continue to experience the challenges of the Social Security offsets.

The employer retains the investment risk. Sustained recession or depression markets could increase the normal cost of the defined benefit plan.

**Guidance 2 – Lowest Cost with Full Portability**

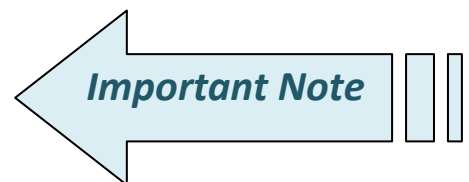
Social Security has an employer cost of 6.2% of payroll, approximately .7% higher than the 5.5% normal cost of the current plan. Social Security is designed to provide basic benefits for all workers, is managed by the federal government on behalf of most employers, and is therefore fully portable. It provides a lesser benefit to many employees than the current plan, but provides a benefit to 100% of employees instead of less than 50% of employees as in the current plan.

Assuming current employment patterns of approximately 1,750 new hires/replacement hires per year at an average new hire salary of \$30,000 continue, the additional .7% in normal costs for placing new employees in only Social Security can be reasonably estimated at:

Year 1	Year 2	Year 3	Year 4	Year 5
\$367,500	\$735,000	\$1,102,500	\$1,470,000	\$1,837,500

The employer cost of Social Security will eventually reach 6.2% of payroll when there are no more State/Teacher Plan active employees and all employees are in the new plan.

*The State of Maine currently pays and submits employer pension contributions for teachers to MainePERS. Social Security employers are required to submit the 12.4% employer and employee contributions to the Internal Revenue Service. Adopting Social Security as a pension plan, included in Guidance 2 and Guidance 3, requires additional discussion between the State of Maine and school districts regarding the funding path of this benefit.*



***Guidance 3 – Portability and Retention***

Social Security with a supplemental defined benefit plan provides a retention incentive while creating portability of both the Social Security credits and the withdrawal of the employee’s contributions to the plan plus interest on those contributions. This could be accomplished by providing a supplemental plan that is a reduced benefit/lower cost plan than the current State/Teacher Plan. One example of how this can be accomplished is to use the current State/Teacher Plan benefit structure and determine an accrual rate for this structure that, when combined with Social Security, creates an income replacement comparable to the current plan. An accrual rate of approximately 1%, half of the current plan accrual rate of 2%, achieves this objective. This approach promotes inter-generational equity while enabling Maine to change the current situation in which employees are not enrolled in Social Security.

Option Three studied by the Task Force approximates this type of plan, and results in an employer normal cost of roughly 11.95% of payroll (6.2% paid to Social Security and 5.75% to MainePERS) when the employee contribution rate remains at 7.65% (6.2% paid to Social Security and 1.45% to MainePERS). The employer cost of 5.75% for the reduced defined benefit remains similar to the current plan 5.5% because only 1.45% of the employee contribution is now going to fund the defined benefit while 6.2% funds their Social Security contribution. Assuming employment patterns of approximately 1,750 new hires/replacement hires per year at an average new hire salary of \$30,000 continue and the current assumed rate of return on investments of 7 ¾%, the additional 6.45% (11.95% less 5.5% in the current plan) in employer normal cost for placing new employees in Social Security and a supplemental modified defined benefit plan can be reasonably estimated at:

<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
\$ 3,386,250	\$ 6,772,500	\$ 10,158,750	\$ 13,545,000	\$ 16,931,250

The employer cost of this option eventually becomes 11.95% of payroll when there are no more State Employee and Teacher Retirement Program active employees and all employees are in the new plan.

The normal cost of the sample plan above is based on providing approximately ½ of the current plan benefit. The cost and recruitment/retention incentives can be modified by modifying the plan provisions. The following examples include how changing plan provisions affect cost, benefits, or outcomes:

1. Implement a variable instead of fixed accrual rate (shares risk between employee and employer);
2. Increase employee contribution for the defined benefit supplemental plan above 1.45% (reduces employer cost);
3. Base the benefit on the 5<sup>th</sup> highest year of income instead of highest three years (reduces cost);
4. Retirement age and structure:

- a. Base on the Social Security normal and early retirement ages and structure (allows normal retirement age to reflect general population); or
  - b. Base on industry standards – for example teachers may require a fixed 25 or 30 year work life;
5. Make COLA and/or survivor benefit optional and funded fully or partially by the employee through a reduction in base benefit (reduces cost);
  6. Adjust final average salary by the Consumer Price Index up to 3% annually for employees terminating prior to retirement who maintain their retirement account at MainePERS until their actual retirement (increase retirement readiness in lieu of portability).

A modified defined benefit plan can act as a retention tool while assisting employees with retirement readiness for a reasonable employee and employer cost. Structured similar to or as above, this plan:

1. Encourages retention without penalizing mobility;
2. Encourages retirement planning by increasing benefits for more years with the plan or transferring benefits earned to another qualified retirement vehicle;
3. Recognizes the effects of living longer with a retirement age pegged to Social Security;
4. Shares investment risk by splitting the normal cost equally between employee and employer.

### *Other Options*

Task Force members considered the merits of defined contribution options and concurred with many industry experts that these plans as currently structured do not adequately assist individuals with retirement readiness or act as a retention incentive. The employee bears 100% of both the investment and longevity risk and rarely has the time to manage their investments to the extent required. These plans as currently structured can leave employees vulnerable at retirement – a time when they most need long-term stability. Target date funds, a recent investment alternative, have not reached a maturity adequate to determine if they address these concerns.

### **Section 5.3 - Disability Provisions**

The existing MainePERS disability program can coordinate with new plans in which members are enrolled in Social Security. Issues arising with a new plan are for the most part addressed in the existing defined benefit plans administered by MainePERS that include options for both MainePERS and Social Security Disability Insurance (SSDI). The language in statute that governs members' eligibility for disability benefits under these plans also exists in the statute governing both State and Teacher members. The Task Force did not foresee any significant additional cost with this provision.

## Attachment A - Resolve, To Reform Public Retirement Benefits and Eliminate Social Security Offsets <sup>7</sup>

### 124th Legislature First Regular Session, Chapter 111, S.P. 515 - L.D. 1431

Sec. 1 Design of unified pension and benefit plan for all state employees and teachers who are first employed with the State after December 31, 2010. Resolved: That the task force established in subsection 2 shall design a unified pension and benefit plan, referred to in this resolve as “the plan,” to apply to all state employees and teachers who are first hired after December 31, 2010 with no prior creditable service. The task force must be staffed within existing resources of the Maine Public Employees Retirement System and the State Employee Health Commission.

**1. Definitions.** For purposes of this resolve, the following terms have the following meanings.

A. “Member” means teachers and state employees first hired after December 31, 2010 with no prior creditable service.

B. “State employee” means:

(1) Employees as defined in the Maine Revised Statutes, Title 5, section 17001, subsection 40;

(2) Judges entitled to retirement benefits under Title 4, chapter 27 or 29;

(3) Members of the State Police; and

(4) Legislators entitled to retirement benefits under Title 3, chapter 29.

C. “Teacher” has the same meaning as in Title 5, section 17001, subsection 42.

**2. Task force established.** A task force to reform public retirement benefits and eliminate social security offsets is established. The task force is composed of:

A. The Chair of the Board of Trustees of the Maine Public Employees Retirement System, who serves as the task force chair;

B. The Commissioner of Administrative and Financial Services, or a designee of the commissioner;

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<sup>7</sup> <http://www.mainelegislature.org/ros/LOM/LOM124th/124R1/RESOLVE111.asp>, Office of the Revisor of Statutes. The Office of the Revisor of Statutes *cannot* perform research, provide legal advice, or interpret Maine law. For legal assistance, please contact a qualified attorney.

- C. The Executive Director of the State Employee Health Commission;
- D. The State Controller;
- E. An employee member of the Board of Trustees of the Maine Public Employees Retirement System, appointed by the board;
- F. An employee member of the State Employee Health Commission, appointed by the State Employee Health Commission;
- G. A member appointed by the Maine Education Association; and
- H. A member appointed by the Maine School Management Association.

**3. Health plan.** The task force shall design the health plan component of the plan in accordance with this subsection and may propose additional variations on the plan.

A. All active members of the plan and their dependents must be entitled to membership in the health plan. Assessments for coverage under the health plan must be imposed and budgeted in accordance with Title 5, section 286-A and Title 20-A, section 13451. The proportion of the assessment paid on behalf of members by their employers must be in accordance with the law existing on the effective date of this resolve or in accordance with applicable collective bargaining agreements.

B. Every active member of the plan and the spouse and dependents of each such member may continue coverage under the health plan in retirement if criteria for eligibility are met as prescribed in Title 5, section 285, subsection 1-A and Title 20-A, section 13451. The task force may recommend changes in eligibility criteria.

C. The health plan premium for any eligible retired member and any covered spouse or dependent of the member must be paid from the Bureau of Human Resources' State Employee Health Dedicated Revenue Account established in Title 5, section 286-A. Each retired member must be entitled to 3% of the premium for each year of creditable service up to a maximum of 100% of the total premium. For a covered spouse or dependent, the subsidy is 1.5% of the premium for each year of the member's creditable service up to a maximum of 50% of the premium.

D. The present actuarial cost of the future benefit subsidy for retired state employees and teachers must be paid 1/2 by the employee and 1/2 by the employer. Payments as calculated and assessed by the Commissioner of Administrative and Financial Services must be remitted on a regular and periodic basis to the Bureau of Human Resources' State Employee Health Dedicated Revenue Account established in Title 5, section 286-A.

**4. Pension plan.** The task force shall design the pension plan component of the plan in accordance with this subsection and may propose additional variations on the plan.

A. Every member of the plan must contribute to both Social Security and Medicare, and the employer of each member must contribute the employer's share of Social Security and Medicare.

B. Each active member of the plan must be entitled to a supplemental defined benefit pension calculated as a percentage of base compensation for each year of service. Base compensation equals the income received in the 5th highest calendar year of service. Benefits are vested after six years.

C. Normal pension benefits commence after 30 years of service or at 62 years of age, whichever occurs first.

D. A member who separates from service before normal retirement may:

(1) If the member has at least 6 years of service in the plan, leave the member's contributions and interest on account in the plan until the member retires at 62 years of age, with those benefits adjusted each year by an amount equal to the Consumer Price Index, up to an annual maximum of 3.5%;

(2) Withdraw 1.5 times the amount of the member's own contributions, plus 6% interest, with the option to roll the amount withdrawn into a tax-sheltered account;

(3) Purchase one or more irrevocable annuities, or, with a spouse, joint life annuities, to commence at any future time and to end either at death or at the annuitant's normal retirement age for Social Security. The annuity values must equal 1.8 times the member's own contributions plus 6% interest. The Maine Public Employees Retirement System may serve as the annuity underwriter; or

(4) Use a combination of the options under subparagraphs (2) and (3).

**5. Disability plan.** The task force shall design a disability component of the plan whose structure and benefits are integrated with Social Security but are otherwise modeled on disability benefits currently available to employees hired on or before December 31, 2010.

**6. Cost of the plans.** The combined actuarial cost of the retiree health insurance, the supplemental defined pension benefits and the disability provisions of the plan must be divided equally between the member and the member's employer and calculated as a percent of payroll for each member; and be it further

**Sec. 2 Report. Resolved:** That the task force shall submit a report on its design of the plan, together with any necessary implementing legislation, to the Joint Standing Committee on Labor by March 1, 2010. After receipt and review of the report, the joint standing committee may report out a bill to the Second Regular Session of the 124th Legislature.



## **Attachment B - Task Force Meetings**

### **July 28, 2009**

At the Task Force's Initial meeting members outlined their thoughts/concerns regarding the outcome of the work of the Task Force. Senator Peter Mills explained his reasons for submitting the legislation. Members defined and discussed the interests that will be used to design the uniform plan and requested basic information and education to help them understand current benefits and what other public systems offer for benefits.

### **August 28, 2009**

Dallas Salisbury of the Employee Benefits Research Institute in Washington, D.C. made a presentation to the Task Force on pension plans and Social Security.

### **September 8, 2009**

Task Force members briefly discussed the August 28, 2009 presentation by Dallas Salisbury of Employee Benefits Research Institute. Task Force members reviewed the presentations made in April and July by Sandy Matheson to the Appropriations and Labor Committees. A grid was presented as a framework and completed by Task Force members to decide which elements each believed was important in designing a benefit plan from the employee, employer and taxpayer perspectives.

### **October 6, 2009**

Frank Johnson, Executive Director, State Employee Health & Benefits, gave a presentation with health insurance statistics from the June 30, 2008, valuation and outlining some of the major issues to be considered in developing a unified retiree health plan.

### **November 17, 2009**

Gene Kalwarski, F.S.A., Cheiron, and Rowland Davis, F.S.A., presented information on retirement plan alternatives, including two hybrid DB-DC plan concepts.

### **December 16, 2009**

Frank Johnson, Task Force member and Executive Director of State Employee Health and Benefits, presented more information on the State Employee Health plan. Christine Burke of the Maine Education Association Health Trust presented information on the teacher health insurance plan.

### **January 11, 2010**

Gene Kalwarski, F.S.A. and Mike Noble, F.S.A., both of Cheiron, presented the results of the modeling of the various plan alternatives previously requested by the Task Force.

**February 2, 2010**

Task Force members met to discuss the findings and draft report.

**February 24, 2010**

Task Force members met to discuss the findings and draft report.

**March 3, 2010**

Task Force members met to discuss the draft report.

## Attachment C – UAL from FY70 to FY93

The following chart from the January 1994 “Report of the Committee to Study the Maine State Retirement System” identifies the additions to the unfunded liability from FY70 to FY 93. A 1995 constitutional amendment limits benefit-related increases in the unfunded liability by requiring that new benefits are fully funded in the year they are approved.

FY					
	70	M.S. 1/70 to 1/60, AFC from 5-Year Average to 3-Year Average, Minimum Benefit \$80/mo.			
	72	Teacher Prior Service (pre-1947) 1/70 to 1/60, Retired Teachers Increase 16 2/3% - State Special Plan Changes			\$263M
<b>New Actuary</b>	73	No Report Located			
	74	M.S. 1/60 to 1/50, P.S. 1/60 to 1/50, Minimum Benefit \$80 to \$100/mo. - Increase UAL, \$175M Early Retirement 30 years to 25 years			\$465M
	75	Investment Loss \$13.25M, Salary Increases \$6.75M, Old System Teachers	OST	\$10M	\$495M
	76	Experience Losses, Investment Return, Salary Increase, Retirement Ages	OST	\$14M	\$528M
	77	Investment Return, COLA, Retirement Ages	OST	\$6M	\$589M
<b>Assumption Changes</b>	78	Actuarial Assumption Change - \$101M, Experience Loss - \$79M (Salary, COLA, Retirement Age, Invest)	OST	\$30M	\$799M
	79	Teacher Prior Service Pre-1942 1/60 to 1/50 - \$9M, Experience Losses \$47M (Salary, Retirement Ages)	OST	\$18M	\$873M
	80	Experience Losses - \$53M (Salary, Retirement Ages)	OST	\$16M	\$942M
<b>Funding OST Began</b>	81	Experience Losses - \$39M (Salary, Retirement Ages) – Invest Gain	OST	\$20M	\$1,001M
	82	Experience Losses - \$51M (Salary, Retirement Ages) Extra 2% COLA - \$15M – Investment Gain	OST	\$10M	\$1,077M

	83	Experience Gains & Losses Balanced, Extra 50¢ COLA - \$17M – Investment Gain	OST	\$11M	\$1,102M
	84	Experience Losses - \$51M (Salary, Retirement Ages, Investment Benefit Revision (Soucy) - \$1.3M, Extra 1.4% COLA	OST	N/C	\$1,155M
	85	Experience Losses - \$25M (Retirement Ages) – Investment Gain			\$1,190M
<b>New Actuary</b>	86	Funding Method Changed from “Attained Age Normal” to “Entry Age Normal,” Assumptions Changed			\$1,046M
<b>Assumption Changes</b>	87	Assumptions Strengthened (Retire Age 60) Experience Losses (Salaried, Retirement Ages) Asset Gain \$23M			\$1,185M
	88	Experience Losses – Asset Loss of \$23M			\$1,301M
	89	Experience Losses – Asset Loss of \$3M			\$1,311M
	90	Experience Losses – Asset Gain of \$3M			\$1,308M
<b>Benefit Changes</b>	91	Experience Losses – Asset Loss of \$10M – Benefit Changes (Gain) - Contributions Less Than Expected - \$13M			\$1,349M
<b>Assumption Changes</b>	92	Experience Losses – Asset Gain of \$29M – Contributions Less Than Expected - Assumption Changes			\$1,488M
	93	Experience Losses – Asset Gain of \$82M – Contributions Less Than Expected - Gain - Assumption Changes			\$1,252M

## Attachment D - Plan Design Detail

### Consistent Employee Benefit Analysis

Each of the alternative plans is compared to each other on a basis that gives an approximately equal retirement benefit, with the exception of the Option 2 - Social Security Only and Option 7 – Benefits Described in the Enabling Legislation. The comparison shows how the resulting cost to the employer differs for the same benefit.

Individual 1 - Basic Data							
Age at hiredate	25						
Retirement age	62						
Salary at hire	\$ 20,000.00						
Pay at Retirement (current \$s)	\$ 32,676.77						
Final Average Pay (current \$s)	\$ 31,289.84						
	\$ 29,981.11						
Benefits from MainePERS (current \$s)	Option 1 Current DB Plan	Option 2 Social Security	Option 3 Mod. DB + Soc.Sec.	Option 4 Variable DB	Option 5 Defined Contribution	Option 6 DC + SS	Option 7 Legislative
MainePERS DC Account at Retirement	\$0.00	\$0.00	\$0.00	\$0.00	\$430,898.87	\$237,656.70	\$0.00
MainePERS Annuity from DB Plan	\$ 23,154.48	\$0.00	\$12,734.96	\$ 23,154.48	\$0.00	\$0.00	\$11,093.01
MainePERS Social Security	0.00	9,493.39	9,493.39	0.00	0.00	9,493.39	9,493.39
MainePERS DC Benefit as Annuity	0.00	0.00	0.00	0.00	24,402.53	13,458.90	0.00
<b>Total Annual Benefit at Retirement</b>	<b>\$23,154.48</b>	<b>\$9,493.39</b>	<b>\$22,228.35</b>	<b>\$23,154.48</b>	<b>\$24,402.53</b>	<b>\$22,952.29</b>	<b>\$20,586.40</b>
Retirement Benefit as a Percent of Pay	70.9%	29.1%	68.0%	70.9%	74.7%	70.2%	63.0%
Expected Employer Cost	5.50%	6.20%	11.95%	13.20%	20.00%	20.00%	9.05%
Variation of Cost Over Time	High	None	High	Minimal	None	None	Moderate

Individual 2 - Basic Data							
Age at hiredate	35						
Retirement age	62						
Salary at hire	\$ 31,000.00						
Pay at Retirement (current \$s)	\$ 43,830.88						
Final Average Pay (current \$s)	\$ 41,970.52						
	\$ 40,215.06						
Benefits from MainePERS (current \$s)	Option 1 Current DB Plan	Option 2 Social Security	Option 3 Mod. DB + Soc.Sec.	Option 4 Variable DB	Option 5 Defined Contribution	Option 6 DC + SS	Option 7 Legislative
MainePERS DC Account at Retirement	\$0.00	\$0.00	\$0.00	\$0.00	\$390,648.81	\$215,457.30	\$0.00
MainePERS Annuity from DB Plan	\$ 22,664.08	\$0.00	\$12,465.24	\$22,664.08	\$0.00	\$0.00	\$10,858.06
MainePERS Social Security	0.00	10,023.65	10,023.65	0.00	0.00	10,023.65	10,023.65
MainePERS DC Benefit as Annuity	0.00	0.00	0.00	0.00	22,123.10	12,201.71	0.00
<b>Total Annual Benefit at Retirement</b>	<b>\$22,664.08</b>	<b>\$10,023.65</b>	<b>\$22,488.90</b>	<b>\$22,664.08</b>	<b>\$22,123.10</b>	<b>\$22,225.36</b>	<b>\$20,881.72</b>
Retirement Benefit as a Percent of Pay	51.7%	22.9%	51.3%	51.7%	50.5%	50.7%	47.6%
Expected Employer Cost	5.50%	6.20%	11.95%	13.20%	20.00%	20.00%	9.05%
Variation of Cost Over Time	High	None	High	Minimal	None	None	Moderate

Individual 3 - Basic Data								
Age at hiredate	45							
Retirement age	62							
Salary at hire	\$ 48,000.00							
Pay at Retirement (current \$s)	\$ 58,731.23							
Final Average Pay (current \$s)	\$ 56,238.43							
	\$ 53,886.20							
Benefits from MainePERS (current \$s)	Option 1 Current DB Plan	Option 2 Social Security	Option 3 Mod. DB + Soc.Sec.	Option 4 Variable DB	Option 5 Defined Contribution	Option 6 DC + SS	Option 7 Legislative	
MainePERS DC Account at Retirement	\$0.00	\$0.00	\$0.00	\$0.00	\$305,772.34	\$168,644.78	\$0.00	
MainePERS Annuity from DB Plan	\$ 19,121.07	\$0.00	\$10,516.59	\$ 19,121.07	\$0.00	\$0.00	\$9,160.66	
MainePERS Social Security	0.00	9,413.89	9,413.89	0.00	0.00	9,413.89	9,413.89	
MainePERS DC Benefit as Annuity	0.00	0.00	0.00	0.00	17,316.40	9,550.64	0.00	
Total Annual Benefit at Retirement	\$19,121.07	\$9,413.89	\$19,930.48	\$19,121.07	\$17,316.40	\$18,964.53	\$18,574.54	
Retirement Benefit as a Percent of Pay	32.6%	16.0%	33.9%	32.6%	29.5%	32.3%	31.6%	
Expected Employer Cost	5.50%	6.20%	11.95%	13.20%	20.00%	20.00%	9.05%	
Variation of Cost Over Time	High	None	High	Minimal	None	None	Moderate	

The following individuals are assumed to start working for a MainePERS employer, but to terminate before retirement and work for an employer outside the System until retirement.

Individual 4 - Basic Data								
Age at hiredate	25							
Salary at hire	\$ 20,000.00							
Termination Age	40							
Pay at Termination (current \$s)	\$ 23,773.86							
Final Average Pay in MainePERS (current \$s)	\$ 22,764.80							
Retirement age	62							
Pay at Retirement (current \$s)	\$ 32,676.77							
	\$ 21,812.64							
Benefits from MainePERS (current \$s)	Option 1 Current DB Plan	Option 2 Social Security	Option 3 Mod. DB + Soc.Sec.	Option 4 Variable DB	Option 5 Defined Contribution	Option 6 DC + SS	Option 7 Legislative	
MainePERS DC Account at Retirement	\$0.00	\$0.00	\$0.00	\$0.00	\$202,374.90	\$111,617.26	\$0.00	
MainePERS Annuity from DB Plan	\$3,564.24	\$0.00	\$1,960.33	\$3,564.24	\$0.00	\$0.00	\$1,707.58	
MainePERS Social Security	0.00	3,848.67	3,848.67	0.00	0.00	3,848.67	3,848.67	
MainePERS DC Benefit as Annuity	0.00	0.00	0.00	0.00	11,460.83	6,321.07	0.00	
MainePERS Annual Benefit at Retirement	\$3,564.24	\$3,848.67	\$5,809.00	\$3,564.24	\$11,460.83	\$10,169.74	\$5,556.25	
Outside 401(k) Account at Retirement	\$67,226.31	\$67,226.31	\$67,226.31	\$67,226.31	\$67,226.31	\$67,226.31	\$67,226.31	
Outside Social Security	\$5,644.72	\$5,644.72	\$5,644.72	\$5,644.72	\$5,644.72	\$5,644.72	\$5,644.72	
Outside 401(k) Benefit as Annuity	3,807.14	3,807.14	3,807.14	3,807.14	3,807.14	3,807.14	3,807.14	
Outside Annual Benefit at Retirement	\$9,451.86	\$9,451.86	\$9,451.86	\$9,451.86	\$9,451.86	\$9,451.86	\$9,451.86	
Total Retirement Benefit	\$13,016.09	\$13,300.53	\$15,260.85	\$13,016.09	\$20,912.69	\$19,621.60	\$15,008.11	
MainePERS Retirement Benefit as % of Pay	10.9%	11.8%	17.8%	10.9%	35.1%	31.1%	17.0%	
Total Retirement Benefit as % of Pay	39.8%	40.7%	46.7%	39.8%	64.0%	60.0%	45.9%	

Individual 5 - Basic Data							
Age at hiredate	35						
Salary at hire	\$ 31,000.00						
Termination Age	50						
Pay at Termination (current \$s)	\$ 36,849.48						
Final Average Pay in MainePERS (current \$s)	\$ 35,285.44						
Retirement age	62						
Pay at Retirement (current \$s)	\$ 43,830.88						
	\$ 33,809.59						
Benefits from MainePERS (current \$s)	Option 1 Current DB Plan	Option 2 Social Security	Option 3 Mod. DB + Soc.Sec.	Option 4 Variable DB	Option 5 Defined Contribution	Option 6 DC + SS	Option 7 Legislative
MainePERS DC Account at Retirement	\$0.00	\$0.00	\$0.00	\$0.00	\$235,397.55	\$129,830.47	\$0.00
MainePERS Annuity from DB Plan	\$7,424.55	\$0.00	\$4,083.50	\$7,424.55	\$0.00	\$0.00	\$3,557.01
MainePERS Social Security	0.00	5,568.70	5,568.70	0.00	0.00	5,568.70	5,568.70
MainePERS DC Benefit as Annuity	0.00	0.00	0.00	0.00	13,330.96	7,352.52	0.00
MainePERS Annual Benefit at Retirement	\$7,424.55	\$5,568.70	\$9,652.20	\$7,424.55	\$13,330.96	\$12,921.21	\$9,125.70
Outside 401(k) Account at Retirement	\$45,671.22	\$45,671.22	\$45,671.22	\$45,671.22	\$45,671.22	\$45,671.22	\$45,671.22
Outside Social Security	\$4,454.96	\$4,454.96	\$4,454.96	\$4,454.96	\$4,454.96	\$4,454.96	\$4,454.96
Outside 401(k) Benefit as Annuity	2,586.44	2,586.44	2,586.44	2,586.44	2,586.44	2,586.44	2,586.44
Outside Annual Benefit at Retirement	\$7,041.39	\$7,041.39	\$7,041.39	\$7,041.39	\$7,041.39	\$7,041.39	\$7,041.39
Total Retirement Benefit	\$14,465.94	\$12,610.09	\$16,693.59	\$14,465.94	\$20,372.35	\$19,962.61	\$16,167.10
MainePERS Retirement Benefit as % of Pay	16.9%	12.7%	22.0%	16.9%	30.4%	29.5%	20.8%
Total Retirement Benefit as % of Pay	33.0%	28.8%	38.1%	33.0%	46.5%	45.5%	36.9%

### Consistent Employer Cost Analysis

This section compares each of the alternative plan options on a basis of equal employer cost of 8%. This contribution level is used because it reflects the higher contribution rates of alternative plan options and demonstrates the differences between resulting benefits. Analysis using a consistent employer contribution results in varying retirement benefit for employees. The expected employer cost is not 8.0% for Option 2 – Social Security Only or Option 7 – the plan described in the Task Force enabling legislation since those options have specific mandated benefits.

The following charts show approximate retirement benefits that would be earned by five individuals from MainePERS under the seven options described above. These options create an approximately equivalent employer cost of 8% for each plan.

Individual 1 - Basic Data							
Age at hiredate	25						
Retirement age	62						
Salary at hire	\$ 20,000.00						
Pay at Retirement (current \$s)	\$ 32,676.77						
Final Average Pay (current \$s)	\$ 31,289.84						
	\$ 29,981.11						
Benefits from MainePERS (current \$s)	Option 1 Current DB Plan	Option 2 Social Security	Option 3 Mod. DB + Soc.Sec.	Option 4 Variable DB	Option 5 Defined Contribution	Option 6 DC + SS	Option 7 Legislative
MainePERS DC Account at Retirement	\$0.00	\$0.00	\$0.00	\$0.00	\$243,890.32	\$50,648.15	\$0.00
MainePERS Annuity from DB Plan	\$ 23,154.48	\$0.00	\$6,946.34	\$ 14,471.55	\$0.00	\$0.00	\$11,093.01
MainePERS Social Security	0.00	9,493.39	9,493.39	0.00	0.00	9,493.39	9,493.39
MainePERS DC Benefit as Annuity	0.00	0.00	0.00	0.00	13,811.92	2,868.29	0.00
Total Annual Benefit at Retirement	\$23,154.48	\$9,493.39	\$16,439.73	\$14,471.55	\$13,811.92	\$12,361.68	\$20,586.40
Retirement Benefit as a Percent of Pay	70.9%	29.1%	50.3%	44.3%	42.3%	37.8%	63.0%
Expected Employer Cost	5.50%	6.20%	8.00%	8.00%	8.00%	8.00%	9.05%
Variation of Cost Over Time	High	None	Moderate	Minimal	None	None	Moderate

Individual 2 - Basic Data							
Age at hiredate	35						
Retirement age	62						
Salary at hire	\$ 31,000.00						
Pay at Retirement (current \$s)	\$ 43,830.88						
Final Average Pay (current \$s)	\$ 41,970.52						
	\$ 40,215.06						
Benefits from MainePERS (current \$s)	Option 1 Current DB Plan	Option 2 Social Security	Option 3 Mod. DB + Soc.Sec.	Option 4 Variable DB	Option 5 Defined Contribution	Option 6 DC + SS	Option 7 Legislative
MainePERS DC Account at Retirement	\$0.00	\$0.00	\$0.00	\$0.00	\$221,108.64	\$45,917.13	\$0.00
MainePERS Annuity from DB Plan	\$ 22,664.08	\$0.00	\$6,799.22	\$14,165.05	\$0.00	\$0.00	\$10,858.06
MainePERS Social Security	0.00	10,023.65	10,023.65	0.00	0.00	10,023.65	10,023.65
MainePERS DC Benefit as Annuity	0.00	0.00	0.00	0.00	12,521.75	2,600.36	0.00
Total Annual Benefit at Retirement	\$22,664.08	\$10,023.65	\$16,822.88	\$14,165.05	\$12,521.75	\$12,624.02	\$20,881.72
Retirement Benefit as a Percent of Pay	51.7%	22.9%	38.4%	32.3%	28.6%	28.8%	47.6%
Expected Employer Cost	5.50%	6.20%	8.00%	8.00%	8.00%	8.00%	9.05%
Variation of Cost Over Time	High	None	Moderate	Minimal	None	None	Moderate

Individual 3 - Basic Data							
Age at hiredate	45						
Retirement age	62						
Salary at hire	\$ 48,000.00						
Pay at Retirement (current \$s)	\$ 58,731.23						
Final Average Pay (current \$s)	\$ 56,238.43						
	\$ 53,886.20						
Benefits from MainePERS (current \$s)	Option 1 Current DB Plan	Option 2 Social Security	Option 3 Mod. DB + Soc.Sec.	Option 4 Variable DB	Option 5 Defined Contribution	Option 6 DC + SS	Option 7 Legislative
MainePERS DC Account at Retirement	\$0.00	\$0.00	\$0.00	\$0.00	\$173,068.25	\$35,940.69	\$0.00
MainePERS Annuity from DB Plan	\$ 19,121.07	\$0.00	\$5,736.32	\$11,950.67	\$0.00	\$0.00	\$9,160.66
MainePERS Social Security	0.00	9,413.89	9,413.89	0.00	0.00	9,413.89	9,413.89
MainePERS DC Benefit as Annuity	0.00	0.00	0.00	0.00	9,801.15	2,035.38	0.00
Total Annual Benefit at Retirement	\$19,121.07	\$9,413.89	\$15,150.21	\$11,950.67	\$9,801.15	\$11,449.27	\$18,574.54
Retirement Benefit as a Percent of Pay	32.6%	16.0%	25.8%	20.3%	16.7%	19.5%	31.6%
Expected Employer Cost	5.50%	6.20%	8.00%	8.00%	8.00%	8.00%	9.05%
Variation of Cost Over Time	High	None	Moderate	Minimal	None	None	Moderate

The following individuals are assumed to start working for a MainePERS employer, but to terminate before retirement and work for an employer outside the System until retirement.



**Individual 4 - Basic Data**

Age at hiredate	25	
Salary at hire	\$ 20,000.00	
Termination Age	40	
Pay at Termination (current \$s)	\$ 23,773.86	
Final Average Pay in MainePERS (current \$s)	\$ 22,764.80	\$ 21,812.64
Retirement age	62	
Pay at Retirement (current \$s)	\$ 32,676.77	

Benefits from MainePERS (current \$s)	Option 1 Current DB Plan	Option 2 Social Security	Option 3 Mod. DB + Soc.Sec.	Option 4 Variable DB	Option 5 Defined Contribution	Option 6 DC + SS	Option 7 Legislative
MainePERS DC Account at Retirement	\$0.00	\$0.00	\$0.00	\$0.00	\$114,544.92	\$23,787.28	\$0.00
MainePERS Annuity from DB Plan	\$3,564.24	\$0.00	\$1,069.27	\$2,227.65	\$0.00	\$0.00	\$1,707.58
MainePERS Social Security	0.00	3,848.67	3,848.67	0.00	0.00	3,848.67	3,848.67
MainePERS DC Benefit as Annuity	0.00	0.00	0.00	0.00	6,486.87	1,347.11	0.00
MainePERS Annual Benefit at Retirement	\$3,564.24	\$3,848.67	\$4,917.94	\$2,227.65	\$6,486.87	\$5,195.78	\$5,556.25
Outside 401(k) Account at Retirement	\$67,226.31	\$67,226.31	\$67,226.31	\$67,226.31	\$67,226.31	\$67,226.31	\$67,226.31
Outside Social Security	\$5,644.72	\$5,644.72	\$5,644.72	\$5,644.72	\$5,644.72	\$5,644.72	\$5,644.72
Outside 401(k) Benefit as Annuity	3,807.14	3,807.14	3,807.14	3,807.14	3,807.14	3,807.14	3,807.14
Outside Annual Benefit at Retirement	\$9,451.86	\$9,451.86	\$9,451.86	\$9,451.86	\$9,451.86	\$9,451.86	\$9,451.86
<b>Total Retirement Benefit</b>	<b>\$13,016.09</b>	<b>\$13,300.53</b>	<b>\$14,369.80</b>	<b>\$11,679.50</b>	<b>\$15,938.73</b>	<b>\$14,647.64</b>	<b>\$15,008.11</b>
MainePERS Retirement Benefit as % of Pay	10.9%	11.8%	15.1%	6.8%	19.9%	15.9%	17.0%
<b>Total Retirement Benefit as % of Pay</b>	<b>39.8%</b>	<b>40.7%</b>	<b>44.0%</b>	<b>35.7%</b>	<b>48.8%</b>	<b>44.8%</b>	<b>45.9%</b>

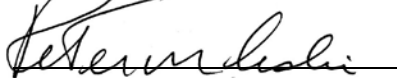
**Individual 5 - Basic Data**

Age at hiredate	35	
Salary at hire	\$ 31,000.00	
Termination Age	50	
Pay at Termination (current \$s)	\$ 36,849.48	
Final Average Pay in MainePERS (current \$s)	\$ 35,285.44	\$ 33,809.59
Retirement age	62	
Pay at Retirement (current \$s)	\$ 43,830.88	

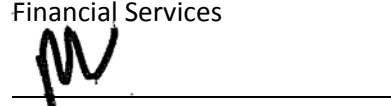
Benefits from MainePERS (current \$s)	Option 1 Current DB Plan	Option 2 Social Security	Option 3 Mod. DB + Soc.Sec.	Option 4 Variable DB	Option 5 Defined Contribution	Option 6 DC + SS	Option 7 Legislative
MainePERS DC Account at Retirement	\$0.00	\$0.00	\$0.00	\$0.00	\$133,235.86	\$27,668.79	\$0.00
MainePERS Annuity from DB Plan	\$7,424.55	\$0.00	\$2,227.36	\$4,640.34	\$0.00	\$0.00	\$3,557.01
MainePERS Social Security	0.00	5,568.70	5,568.70	0.00	0.00	5,568.70	5,568.70
MainePERS DC Benefit as Annuity	0.00	0.00	0.00	0.00	7,545.37	1,566.93	0.00
MainePERS Annual Benefit at Retirement	\$7,424.55	\$5,568.70	\$7,796.06	\$4,640.34	\$7,545.37	\$7,135.63	\$9,125.70
Outside 401(k) Account at Retirement	\$45,671.22	\$45,671.22	\$45,671.22	\$45,671.22	\$45,671.22	\$45,671.22	\$45,671.22
Outside Social Security	\$4,454.96	\$4,454.96	\$4,454.96	\$4,454.96	\$4,454.96	\$4,454.96	\$4,454.96
Outside 401(k) Benefit as Annuity	2,586.44	2,586.44	2,586.44	2,586.44	2,586.44	2,586.44	2,586.44
Outside Annual Benefit at Retirement	\$7,041.39	\$7,041.39	\$7,041.39	\$7,041.39	\$7,041.39	\$7,041.39	\$7,041.39
<b>Total Retirement Benefit</b>	<b>\$14,465.94</b>	<b>\$12,610.09</b>	<b>\$14,837.46</b>	<b>\$11,681.74</b>	<b>\$14,586.77</b>	<b>\$14,177.02</b>	<b>\$16,167.10</b>
MainePERS Retirement Benefit as % of Pay	16.9%	12.7%	17.8%	10.6%	17.2%	16.3%	20.8%
<b>Total Retirement Benefit as % of Pay</b>	<b>33.0%</b>	<b>28.8%</b>	<b>33.9%</b>	<b>26.7%</b>	<b>33.3%</b>	<b>32.3%</b>	<b>36.9%</b>

## Attachment E – Task Force Signatures

MainePERS Board of Trustees Chair  
(Task Force Chair)

  
Peter M. Leslie

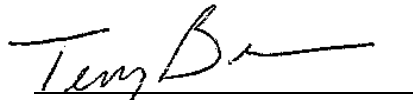
Maine Commissioner of Administrative and  
Financial Services

  
Ryan Low

Executive Director of the Maine State  
Employee Health Commission

  
Frank Johnson

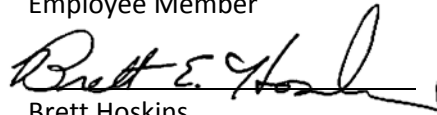
Maine State Controller

  
Terry Brann

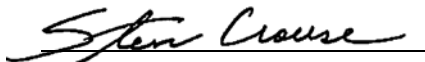
MainePERS Trustee Employee Member

  
Benedetto (Ben) Viola

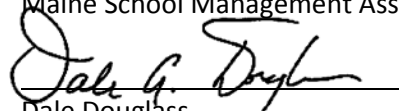
Maine State Employee Health Commission  
Employee Member

  
Brett Hoskins

Maine Education Association

  
Steve Crouse

Maine School Management Association

  
Dale Douglass