



Maine State

# Retirement News

for Members, Retirees and Employers

Maine State Retirement System

SPECIAL LEGISLATIVE ISSUE - Summer 2003

## NOTES

This entire issue is devoted to several important changes made by the recent Legislature.

In order for specific legislation explained in this newsletter to apply to participating local district (PLD) members, further action is required by the PLD Consolidated Plan Advisory Committee and/or action by individual non-consolidated plan PLDs.

### Changes to Provisions that Apply to Disability Retirement Benefit Recipients

During the First Regular Session of the 121<sup>st</sup> Legislature, changes were made to the provisions that apply to certain recipients of an MSRS disability retirement benefit. Those changes pertain to the availability of rehabilitation services and the offset to disability retirement benefits as explained below.

As a result of the enactment of **Chapter 387**, vocational rehabilitation coverage has been expanded for disability benefit recipients of the Maine State Retirement System (MSRS), to include Article 3 disability recipients. Prior to this legislation, only recipients whose benefit is governed by Article 3A were eligible for vocational rehabilitation services. The result of the expansion of coverage is that previously ineligible disability recipients may now seek vocational rehabilitation services with MSRS.

In addition to expanding the coverage for vocational rehabilitation, **Chapter 387** clarifies the scope and purpose of vocational rehabilitation services provided to MSRS disability recipients. Vocational rehabilitation

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### PAYING THE UAL: WHERE ARE WE NOW?

As a person with enough of an interest in the Retirement System to read this newsletter, you know that the retirement plan that covers State employees and teachers has an unfunded actuarial liability (UAL). You also know that the UAL can be thought of as a kind of debt, and you know that the Maine Constitution requires that the UAL "debt" be paid off in a specified period of time. You may also know that when a debt is to be paid over a period of time, it is said to be "amortized," and the period of time is called "amortization period." During the amortization period, payments are made on the debt according to a schedule ("amortization schedule") that will result in the debt being fully paid at the end of the amortization period. The periodic payments are made up of a portion of the debt itself (the "principal") and, almost always, the additional cost of paying the debt over a period of time (the "interest") rather than paying it in full immediately.

The Constitutionally-required amortization period for payment of the UAL is 31 years or less from July 1, 1997. In other words, the Constitution requires that the UAL be paid off in that 31-year period. And, the Constitution permits the UAL to be paid off in any period that is shorter than that. This combination of "requiring" and "permitting" gives the Legislature the legal authority to set and change the amortization period, so long as the period it sets never is longer than 31 years from July 1, 1997.

The length of the amortization period has effects on both near-term and long-term costs in paying the UAL debt, as with any amortized debt. (Just in case the question comes to any reader's mind, the period's length has no effect on the amount of one's current or future benefits.) "Near-term cost" is the making of the periodic payments required by the amortization schedule. "Long-term cost" is the interest, that is, the cost that arises over time of not paying the debt in full immediately. A longer amortization period means lower near-term cost (the periodic payments are lower) and higher long-term cost (interest has to be paid on higher amounts and over a longer period of time). A shorter amortization period means the reverse: higher near-term cost because the periodic payments are larger; lower long-term cost because interest is paid on smaller amounts and over a shorter period of time. Every time the Legislature makes a decision on the length of the amortization period for the UAL it takes into account, implicitly or explicitly, the effects of a period's length on both near- and long-term costs. The UAL is large (\$2.6 billion at June 30, 2002) and must be paid off; the Legislature must also deal with the other large and continuing calls on State revenues - e.g., education, human services, roads and other infrastructure,

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economic programs. Setting/changing the length of the amortization period (always within the outside limit of 31 years from July 1, 1997) is a part of the Legislature's decision-making, as of a given point in time, on how State revenues/resources are to be expended.

Changes made by the Legislature in the UAL amortization period in recent years show this decision-making process. When the investment markets were producing positive returns, and State revenues were strong, the combination of these resources supported shortening the UAL amortization period. That is, in allocating resources in biennial State budgets and in planning for the future, the Legislature decided that the State was able to make higher near-term payments, the effect of which would be lower long-term interest costs. These decisions were embodied in two shortenings of the amortization period, in 1998 and 2000. These two shortenings took a total of nine years off of the full Constitutionally-possible amortization period.

Sudden, persisting reversals in the economy and investment markets began in late 2000. Neither the System's investment returns nor State revenues were immune. The UAL, which is not a fixed amount, became larger. The State's revenue streams ran lower. Forecasts for both were, and are, at best uncertain. The Legislature's view of these realities is embodied in its decision, set out in the State budget for the 2004-05 biennium, to again change the UAL amortization period. The Legislature made a two-part change. First, for the two years of the 2004-05 biennium, it lengthened the amortization period. The required periodic payment in each year of the biennium is thus lower and the long-term interest cost will be higher than would have been the case had the period not been lengthened. Second, at the end of the 2004-05 biennium the amortization period is re-shortened, to the period it would have been absent the lengthening for the biennium. This part of the change has the effect of lessening the increase in long-term interest cost that results from a longer amortization period. The two legislative changes mean that it will take somewhat longer and cost somewhat more to pay the UAL than had the changes not been made.

The changes, taken together, leave the amortization period at the beginning of the next biennium (2006-2007) several years inside its Constitutionally-set outer limit. In establishing the State budget for the 2006-07 biennium and in planning then for the future, the Legislature will make another set of decisions about the allocation of State resources. It is important to remember that, if the UAL amortization period is a part of the decision-making then, the Maine Constitution will still frame legislative action.

  
Executive Director

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services are intended to be provided as a means of returning the disability recipient to substantially gainful activity. In order to be found eligible for rehabilitation services, MSRS must determine that rehabilitation is feasible for the recipient, that it is consistent with the purposes of the statute and that rehabilitation services are likely to lead to substantially gainful activity.

**Chapter 387** also repeals the statutory provisions governing the compulsory nature of vocational rehabilitation services and those that provided for discontinuance of a recipient's disability benefit should the person decline to engage in a vocational rehabilitation plan approved by MSRS. Under the new law, disability benefit recipients are no longer required to participate in the vocational rehabilitation services program. Instead, those services apply only to those recipients who choose to receive the services and who MSRS determines to be eligible to do so.

Another significant change to the rehabilitation portion of the disability statute is that a recipient is now entitled to only a single rehabilitation plan while the recipient of an MSRS disability benefit. The exception to this is when the recipient demonstrates that the termination of a prior plan was reasonable and for good cause. In addition, a recipient's entitlement to amend an existing rehabilitation plan or establish a new one ends in the event that MSRS determines that the recipient is no longer disabled.

Through the enactment of **Chapter 328**, the Legislature addressed the manner in which MSRS disability benefits are offset by Workers' Compensation and Social Security disability benefits. Individuals who, prior to becoming disabled, have employment other than that covered by MSRS may benefit from the inclusion of some of the earnings from that employment when the offset is calculated. The offset calculation is complicated and is best explained in the set context of a specific set of facts rather than in general terms, as is the purpose of this informational article.

The change to the offset of benefits is applicable only to those individuals who were employed by and retire from a participating local district. The application of these statutory changes for disability recipients covered by the PLD Consolidated Plan is dependent upon adoption of the changes by the PLD Advisory Committee. The application of these changes for disability recipients who retired from an employer that does not participate in the Consolidated Plan is dependent upon adoption of the change by the specific participating local district. Individuals with questions about the impact of these changes on their MSRS disability benefit should contact the Disability Program.

## 2003 Legislative Update

### Legislation Enacted in the First Regular Session of the 121<sup>st</sup> Legislature

#### An Act Making Unified Appropriations and Allocations for the Expenditures of State Government... for the Fiscal Years Ending June 30, 2004 and June 30, 2005

**PL 2003, Chapter 20 [LD 1319]**  
**Effective Date: July 1, 2003**

This bill is the "Part 1" State budget. Part NN of this bill changes the amortization period currently in place for payment of the unfunded actuarial liability associated with the retirement plan that covers State employees and teachers. *(See related article on page 1 of the Summer 2003 issue of Retirement News.)*

#### An Act Relating to Employees Whose Membership in the Maine State Retirement System is Optional

**PL 2003, Chapter 261 [LD 672]**  
**Amending: 5 MRSA §§17652, 17703, 17704-A**  
**Effective Date: September 13, 2003**  
**Members Affected: Some State Employees**

This bill changes the purchase of service provisions that apply to optional members in the State employee/teacher retirement plan. It also makes a change to the membership eligibility provisions that apply to specific employees of the Maine Community College System. *(See related article on page 5 of the Summer 2003 issue of Retirement News.)*

#### An Act Pertaining to Former Members of the Maine State Retirement System

**PL 2003, Chapter 273 [LD 831]**  
**Amending: 5 MRSA §18203**  
**Effective Date: September 13, 2003**  
**Members Affected: Some PLD Employees**

This bill permits a withdrawn participating local district to elect to amend the retirement plan by which its employees who remained MSRS members are covered. Any provision of retirement law, whether effective before or after the district's withdrawal, is available for adoption by the withdrawn district.

#### An Act To Authorize Certain Former Members of the Maine State Retirement System To Rejoin the Maine State Retirement System

**PL 2003, Chapter 324 [LD 1535]**  
**Effective Date: May 27, 2003**  
**Members Affected: Some Service Retired State and Teacher**

This bill permits any retiree who in 2001, was working towards earning a sufficient amount of money to become restored to membership, but who was unable to become restored to membership as a result of the repeal of the restoration to service provision, to now make an election so as to accomplish that result.

#### An Act Concerning Disability Retirement Benefits under the Maine State Retirement System

**PL 2003, Chapter 328 [LD 1248]**  
**Amending: 5 MRSA §18530**  
**Effective Date: September 13, 2003**  
**Members Affected: Some Disability Retired PLD**

This bill changes the amount of a disability retirement benefit that can be paid to a recipient who also receives a workers' compensation and/or a social security disability retirement benefit. *(See related article on page 1 of the Summer 2003 issue of Retirement News.)*

(Over)

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**An Act to Amend Laws Relating to the Maine State Retirement System**

**PL 2003, Chapter 387 [LD 1501]  
Effective Date: September 13, 2003  
Members Affected: State, Teacher and PLD**

This bill makes a number of changes to various provisions of current MSRS statutes. The changes of particular interest include: 1) the period of time that a member may continue to earn creditable service while on a leave of absence in order to serve in the military is increased from four to five years in order to comply with federal law; 2) rehabilitation services are extended to additional disability benefit recipients and participation in those services is made optional (*See related article on page 1 of the Summer 2003 issue of Retirement News.*); and 3) the withdrawal of contributions is made optional for certain participating local district members who terminate membership. (*See related article on page 5 of the Summer 2003 issue of Retirement News.*)

**An Act to Update the Department of Defense, Veterans and Emergency Management Laws**

**PL 2003, Chapter 404 [LD 1513]  
Amending: 5 MRSA §17652  
Effective Date: September 13, 2003  
Members Affected: Some State Employees**

This bill makes membership optional for Maine National Guard members who are on active state service for more than 15 consecutive days. These employees were previously excluded from MSRS membership. (*See related article on page 5 of the Summer 2003 issue of Retirement News.*)

**An Act to Make Supplemental Appropriations and Allocations for the Expenditures of State Government...  
for Fiscal Years Ending June 30, 2003, June 30, 2004 and June 30, 2005**

**PL 2003, Chapter 451 [LD 1614]  
Effective Date: June 12, 2003  
Members Affected: Some State Employees and Retired Teachers**

This bill is the "Part 2" State budget. Part GG of this bill amends the plan coverage for liquor inspectors who were hired prior to September 1, 1984, who were laid off in 2003, and who meet certain eligibility requirements. Part OO of this bill increases the health insurance payment for retired teachers from 35% to 40% effective August 1, 2003.

**An Act to Clarify Eligibility in the Maine State Retirement System Life Insurance Program**

**PL 2003, Chapter 485 [LD 1107]  
Amending: 5 MRSA §18055  
Effective Date: September 13, 2003  
Members Affected: State, Teacher and PLD**

This bill permits individuals who are covered by group life insurance as a retiree to also be covered by group life insurance as an active member of the System. In order to have the additional coverage, the individual must pay the premium associated with the active employee coverage, regardless of whether the employer normally pays the cost of the coverage.

**An Act Concerning Retirement Benefits for State Employees**

**PL 2003, Chapter 486 [LD 1009]  
Amending: 5 MRSA §§17001 and 17704-B  
Effective Date: September 13, 2003  
Members Affected: Active and Retired State Employees**

This bill permits members in the judicial and state employee/teacher retirement plan who were required to take days off without pay during the fiscal year beginning July 1, 2002, to elect to pay member contributions and interest in order to include those earnings as earnable compensation. (*See related article on page 6 of the Summer 2003 issue of Retirement News.*)

## CHANGES TO PROVISIONS THAT APPLY TO OPTIONAL MEMBERS OF THE MAINE STATE RETIREMENT SYSTEM

Some individuals who join the Maine State Retirement System (MSRS) do so because Maine law defines their position to be that of a mandatory member. Other individuals who join the System are in positions that do not require membership, but for which membership is optional. Recently enacted legislation makes changes to several of the provisions that apply to individuals for whom membership in the System is optional.

**Chapter 261** amends the purchase of service provision that applies to optional members in the State employee/teacher retirement plan. Under current law, an optional member who has a period of employment during which MSRS membership was declined may not purchase service credit for that period during which no contributions were made. Under the new law, service credit may be purchased for the period during which an individual opted not to be a member. In order to purchase that service, the member must pay the "actuarial equivalent" cost. This term means that the member is responsible for payment of the full cost of the additional retirement benefit that will result from the additional service credit. Unlike what occurs when service is earned during the normal course of membership whereby employee and employer contributions are paid as salary is earned, when a member purchases service by payment of the actuarial equivalent, no employer contributions are paid to subsidize the cost of the service, so the cost to the member can be significantly high.

The second change in this bill pertains to when an optional member who was previously an MSRS member, terminated that membership and subsequently again became a member, may repay those withdrawn contributions plus accumulated interest. Under current law, the member is required to wait until two years of creditable service have been earned before being able to make the repayment. Under the new law, an optional member with previously withdrawn contributions may repay those contributions and interest immediately upon rejoining the System. Since interest accumulates during the two year waiting period, the ability to repay the refunded contributions sooner results in an overall lower cost for repayment for most members.

If you are an optional member of the System and have a period of employment during which you opted not to be a member and you are interested in the cost to purchase service credit for that period of employment, or if you have

previously withdrawn contributions and you are interested in the cost to repay the withdrawn contributions, you should contact the MSRS Retirement Services Department.

The final change made by this bill is relevant to confidential employees of the Maine Community College System. This bill limits when those employees may join or rejoin the MSRS such that specific authorization from the College System is required in order for an employee to participate in the MSRS. Questions pertaining to this limitation should be directed to the Personnel Office of the Maine Community College System.

**Chapter 387** permits an optional member who elects to terminate MSRS membership to leave accumulated contributions on account at the MSRS, thus maintaining the service credit earned through the membership termination date towards the qualification for a future benefit. This new law pertains to participating local district members for whom membership is optional as a result of either participation in the Social Security System under a 218 Agreement or in an employer-provided alternative plan, as defined by law. Under previous law, optional members who elected to terminate MSRS membership were required to withdraw accumulated contributions and to give up all rights towards a benefit under the MSRS.

**Chapter 404** pertains to members of the Maine National Guard who are called into active state service. Under current law, members of the Maine National Guard are excluded from MSRS membership. Under the new law, a member of the Maine National Guard who is called into active state service for a minimum of fifteen consecutive days has the option of joining the MSRS. The election to join or not to join the MSRS is irrevocable and remains in place for so long as the employee is a member of the Maine National Guard. What that means is that once an election to join the System is made, for all periods of activation into state service, the member of the Maine National Guard must contribute to the MSRS. An election is not made separately at each period of activation.

If you are a member of the Maine National Guard who has met the MSRS membership eligibility requirement as stated above and are interested in learning more about MSRS membership, contact the State Unit of the MSRS Retirement Services Department. If you are interested in joining the System, an application for MSRS membership may be obtained from your personnel office.

## Shutdown Days and Average Final Compensation

If you were a State employee or an employee of the Judicial System during the past year, as you know, you were required to take days off without pay. Since you received no pay for those days, no employer or employee contributions were made to the Retirement System. Because retirement law permits most members to continue to earn service credit for up to thirty days while off payroll, unless you had already received the maximum allowable off payroll service credit, the days off without pay do not impact your total service credit towards retirement. However, while existing law permits the inclusion of the service credit, it does not permit the inclusion of the compensation that otherwise would have been paid. So, if the past year was or would have been one of your three highest years of earnings and therefore part of your average final compensation, one of the factors used in the calculation of a service retirement benefit, the exclusion of the shutdown earnings could have the result of lowering your monthly retirement benefit.

**Chapter 486** permits retirees to elect to pay member contributions and interest in order to include as earnable compensation the earnings that otherwise would have been received for the days off without pay. For those members who have not yet retired, this election must be made as part of the retirement process. To aid in the election, as part of the benefit estimation process, the System will provide retiring members with information of the cost to include the earnings, as well as the level of benefit with and without the additional earnings. Retiring members will have 31 days to make the election and the absence of an election within that timeframe will result in the benefit being calculated excluding the earnings. Since the election is part of the overall retirement process, retiring members will want to make the election as soon as possible in order to avoid a delay in the receipt of a retirement benefit check.

Those individuals already retired for whom the inclusion of the additional earnings would result in an increased retirement benefit may also now elect to pay member contributions and interest and to receive a revised benefit check. If you are a retiree and think that this applies to you, you should contact the State Unit of the Retirement Services Department. The System will review your record and advise you of the cost to include the additional earnings as well as any additional benefit that would result from the inclusion of those earnings.

Regardless of whether you make the election as part of the retirement process or you are already retired when you make the election, the contributions and interest due will be deducted from the first benefit check that you receive after making your election.

If you have questions as to how this legislation might affect you, please contact the State Unit of the Retirement Services Department.

## MSRS Contact Information

### SPECIALIZED MSRS UNITS

For State Employee, Legislative  
or Judicial Members:

(207) 512-3158

For Teacher Members:

(207) 512-3159

For Participating Local  
District (PLD) Members:

(207) 512-3247

### OTHER PROGRAMS

Group Life Insurance:

(207) 512-3244

Disability:

(207) 512-3170

All other inquiries should be made  
by calling the following numbers:

Main: (207) 512-3100

Toll-Free: 1-800-451-9800

Fax: (207) 512-3101

TTY: (207) 512-3102



Maine State Retirement System

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MSRS WEB SITE

[www.msrs.org](http://www.msrs.org)