



**Maine PERS**  
PUBLIC EMPLOYEES RETIREMENT SYSTEM

**Briefing to the Joint Standing Committee on  
Appropriations and Financial Affairs  
January 30, 2023**

Dr. Rebecca Wyke, CEO  
Michael Colleran, COO/General Counsel  
Kathy Morin, Director of Actuarial and Legislative Affairs

# Presentation Outline

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- ▶ Defined Benefit Plans, p 12
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    - ▶ Judicial Plan
    - ▶ Participating Local Districts Plan

# About MainePERS



# Statutory Purpose

- ▶ “The Legislature finds that the State owes a great debt to its retired employees for their years of faithful and productive service. Part of that debt is repaid by the benefits provided to retirees...” through the retirement programs administered by **MainePERS** 5 M.R.S. §17151

# Benefits Administered

## ▶ **Defined Benefit Plans**

- ▶ Service Retirement and Disability Retirement
- ▶ Provide a lifelong income stream in retirement based on years worked, final average salary and age at retirement
  - ▶ State sponsored plans: State/Teacher, Legislative and Judicial
  - ▶ Participating Local District plans

## ▶ **Defined Contribution Plans - MaineSTART**

- ▶ Provide a variable retirement benefit based on employee contributions

## ▶ **Group Life Insurance**

- ▶ Provide basic, supplemental, and dependent coverage



# Participating Employers & Members

- ▶ MainePERS has approximately 600 employers
  - ▶ State, county and municipal governments
  - ▶ School districts
  - ▶ Others
  
- ▶ MainePERS has over 160,000 members
  - ▶ 52,717 active members
  - ▶ 60,672 inactive members
  - ▶ 49,166 retired members and beneficiaries

# Board of Trustees

- ▶ State law specifies the composition of the 8-member Board:
  - ▶ Two are System members
    - ▶ One proposed/elected by the Maine Education Assoc
    - ▶ One proposed/elected by the Maine Service Employees Assoc
  - ▶ One is a member/retiree of a participating local district (PLD) appointed by the Maine Municipal Association
  - ▶ Four are appointed by the Governor
    - ▶ One a retiree selected from a list of nominees by the Maine Retired Teachers Association
    - ▶ One a retiree selected from a list of nominees by State and/or PLD retirees, or the Maine Association of Retirees
    - ▶ Two are appointed by the Governor knowledgeable in investments, accounting, banking, insurance or as actuaries
  - ▶ Treasurer of State is ex-officio

# Strategic Plan *-adopted by Board of Trustees August 11, 2022*

## Goals

- I. Preservation of the Trust Fund
- II. Stability of the contribution rates
- III. Security and integrity of our information systems
- IV. Cultivation of a member-centric organization
- V. Development of stakeholder relations
- VI. Foster an engaged workforce that advances the organization's mission

<https://www.mainebers.org/about/strategic-plan>



# Strategic Plan cont.

## Mission

MainePERS partners with public employers to deliver retirement and related services.

## Vision

MainePERS is a trusted and effective fiduciary focused on meeting the needs of active and retired members, beneficiaries and employers.

## Values

Accountability - Respect - Collaboration

Stewardship - Agility

# Maine's Constitution Guards the State/Teacher Plan

- ▶ Article IX, Section 18 limits the use of MainePERS trust funds to the “**exclusive benefit**” of members as pension plan recipients
- ▶ The Constitution further safeguards the plan by requiring:
  - ▶ The unfunded actuarial liability (UAL) on new benefits be funded at the time the liability is created
  - ▶ Experience losses be retired within 20 years
  - ▶ Normal costs be funded annually on an actuarially sound basis, and
  - ▶ The 1996 UAL be retired by 2028

# Federal and State Laws & Regulations

- ▶ The “exclusive benefit rule” is also reflected in:
  - ▶ Maine Uniform Trust Code *18-B M.R.S. §802(1) & 5 M.R.S. §17153(3)*
  - ▶ Federal statutes and regulations that qualify MainePERS defined benefit plans for federal tax deferment *26 U.S.C. §401(a)(2) & 26 C.F.R. §1.401-2(a)(3)*
- ▶ The Maine Uniform Prudent Investor Act *18-B M.R.S. §902(1)*
  - ▶ Requires MainePERS to invest and manage trust assets as a prudent investor would
- ▶ Title 5, Part 20, State Retirement System

# Defined Benefit Plans



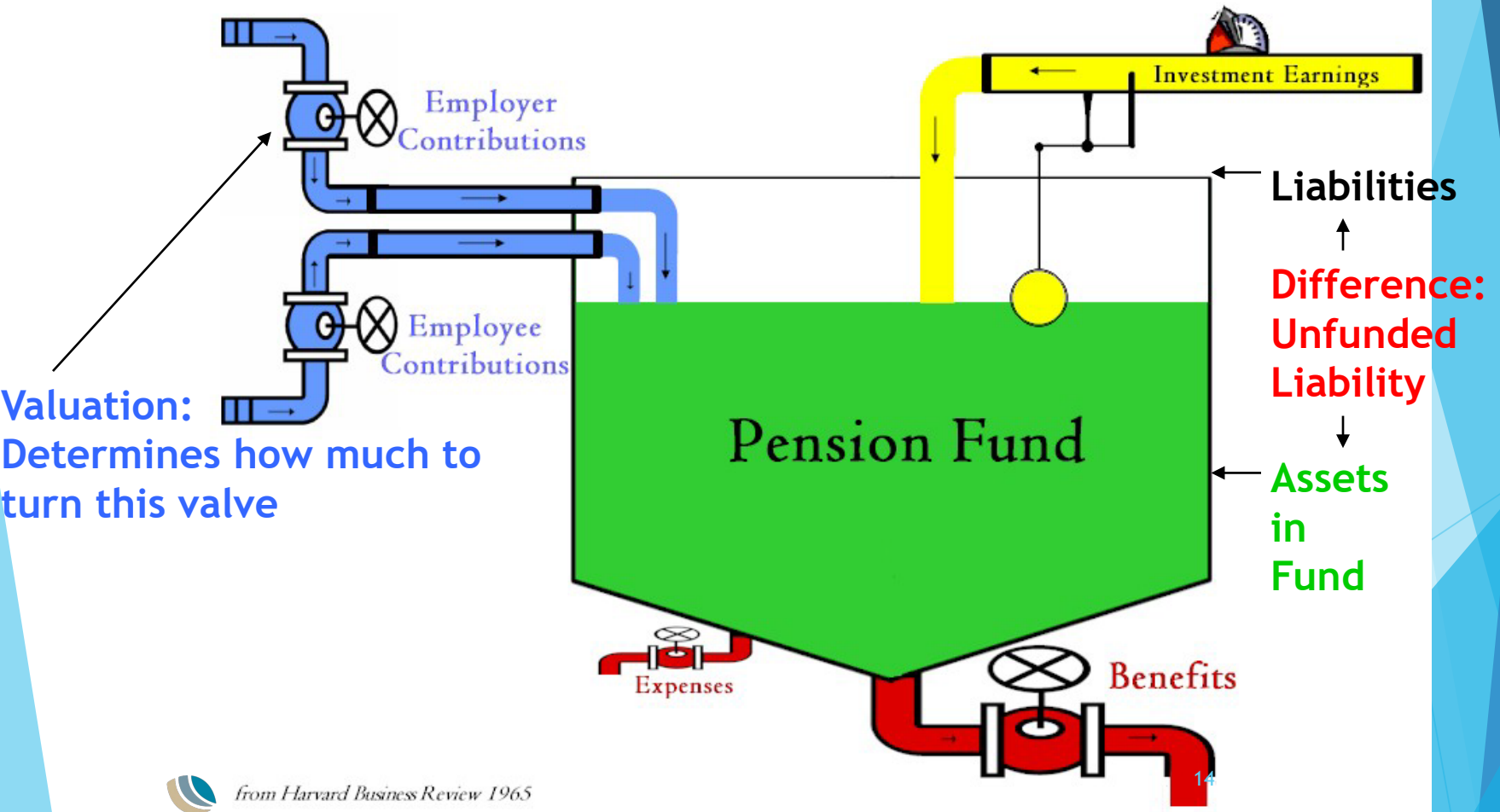
# Defined Benefit Plans


- ▶ Provide members with a fixed benefit throughout retirement
- ▶ Fixed benefit is generally calculated using:
  - ▶ The average of highest 3 years of salary (AFC)
  - ▶ The number of years worked under the plan (service credit)
  - ▶ A multiplier of 2%
- ▶ Special Plans typically permit retirement with fewer years of service, at an earlier age, and/or with a different multiplier
- ▶ The monthly retirement benefit at normal retirement age is:  
$$\text{AFC} \times \text{service credit} \times \text{multiplier} \div 12 = \text{monthly benefit}$$

**Example:** \$60,000 X 20 yrs X .02 = \$24,000/12 = \$2,000
- ▶ State of Maine plans offer a variable cost-of-living adjustment subject to a COLA base and a COLA cap



# Actuarial Valuation & UAL



 from Harvard Business Review 1965

# Defined Benefit Plan Costs

## Normal Costs (NC)

- ▶ Cost that covers retirement benefits earned in the current year
- ▶ If nothing changes, normal costs will cover the full cost of each member's retirement benefit throughout their life

## Unfunded Actuarial Liability (UAL)

- ▶ UAL costs are calculated to restore full funding if trust fund losses have occurred

## Events That Can Impact Costs

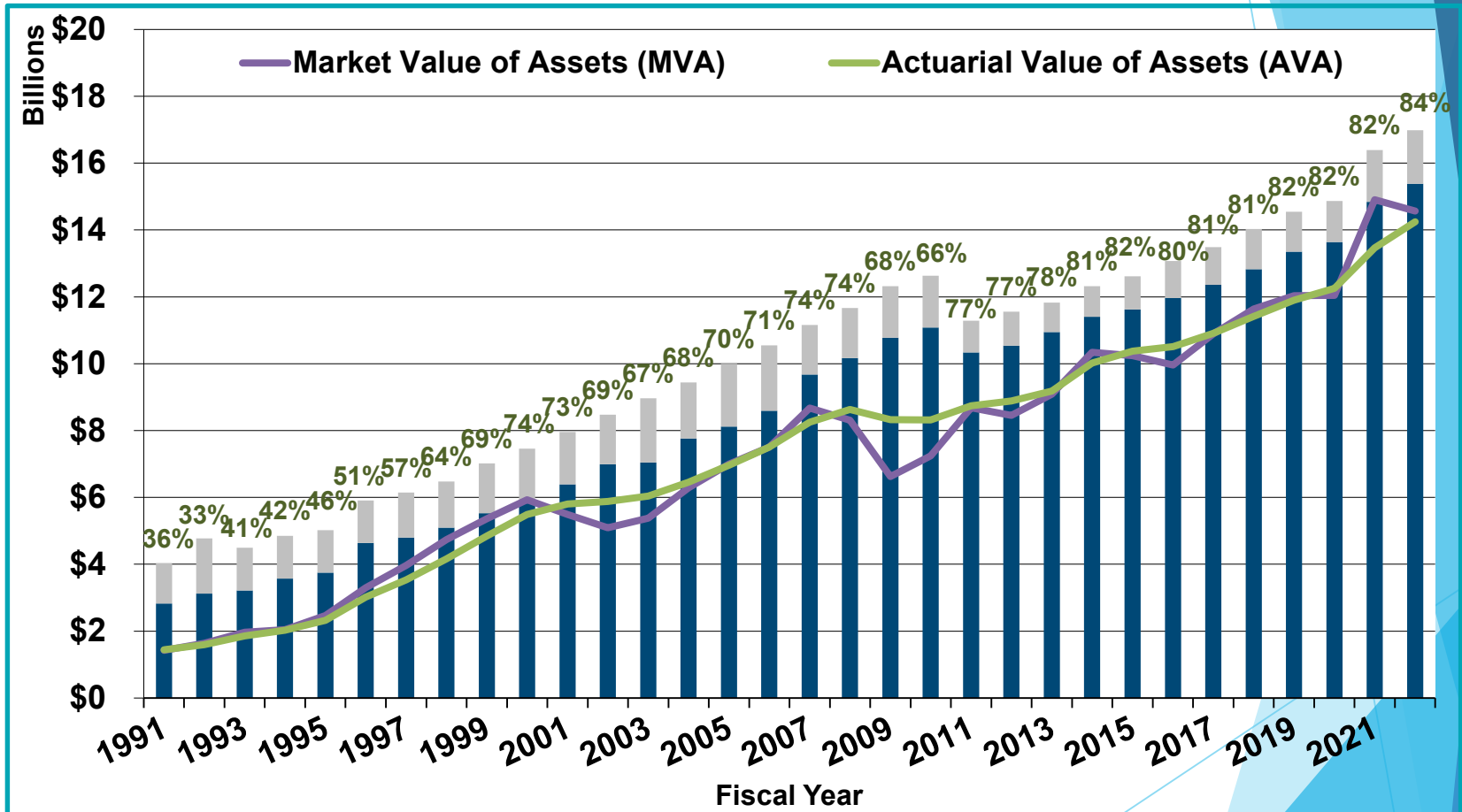
- ▶ Investment Losses
- ▶ Longevity Increases
- ▶ Inflation/Deflation
- ▶ Employment Trends
- ▶ Unfunded Benefit Increases\*
- ▶ NC/UAL Payments not made\*

# Maine's State/Teacher Defined Benefit Plan





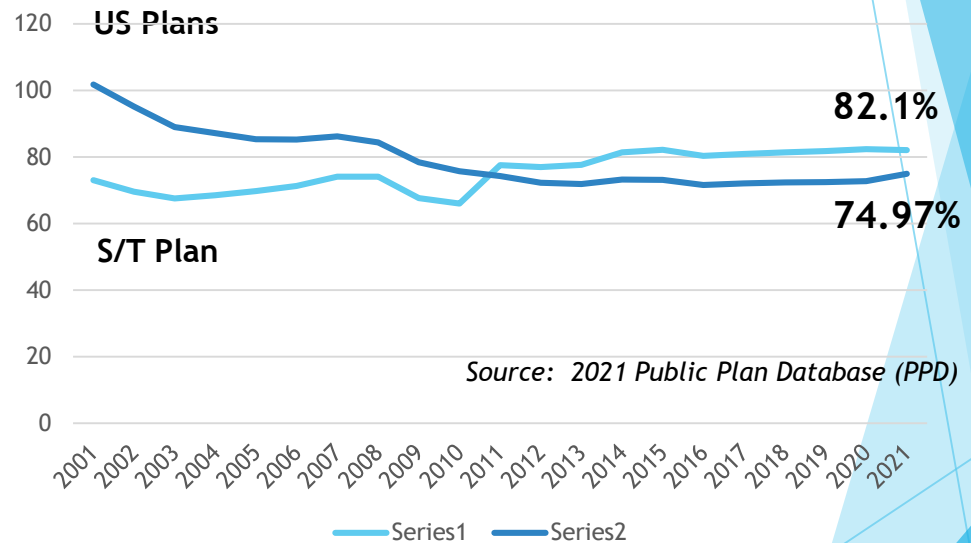
# State/Teacher Funding History



# How Does the S/T Plan Compare?

- ▶ The S/T Plan is well funded compared to the average of public pension plans, and is in the top 25th percentile of all public plans
- ▶ In FY22, Maine's S/T Plan is 83.9% funded

## S/T and US Plan Funding Levels

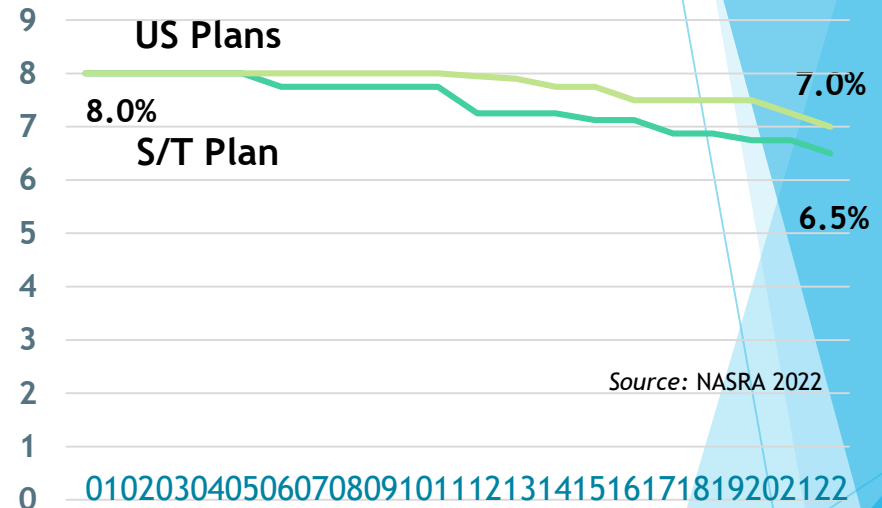


# S/T Plan Earnings Assumption

## Lowering Risk

- ▶ MainePERS has lowered risk by lowering the earnings assumption
  - ▶ Annual costs increase, because less is anticipated to be earned
  - ▶ However the earnings assumption is more likely to be met, therefore strengthening the plan
- ▶ Most states are working towards the MainePERS' rate, U.S. median currently at 7.0%

## Plan Earnings Assumptions

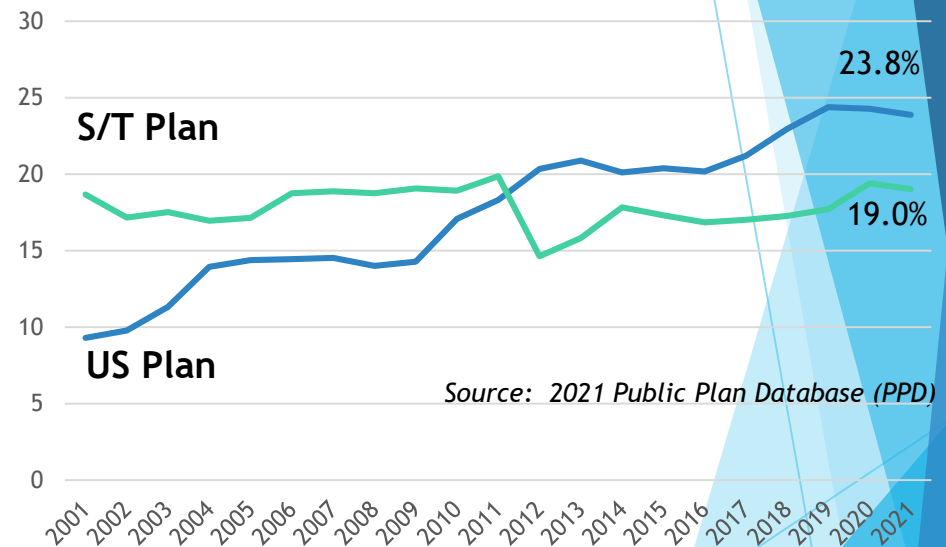


# S/T Plan Contribution Rates

## Stabilizing Rates

- ▶ S/T plan rates have stayed consistent over time because:
  - ▶ The UAL for new benefits must be funded at the time created
  - ▶ The State of Maine has consistently paid the full normal and UAL costs (ARC, Annual Required Contribution)
  - ▶ MainePERS has been de-risking the plan

## S/T Plan ARC v US Plans Average as a % of Payroll



# S/T Plan FY2022 Valuation

## Investment Return

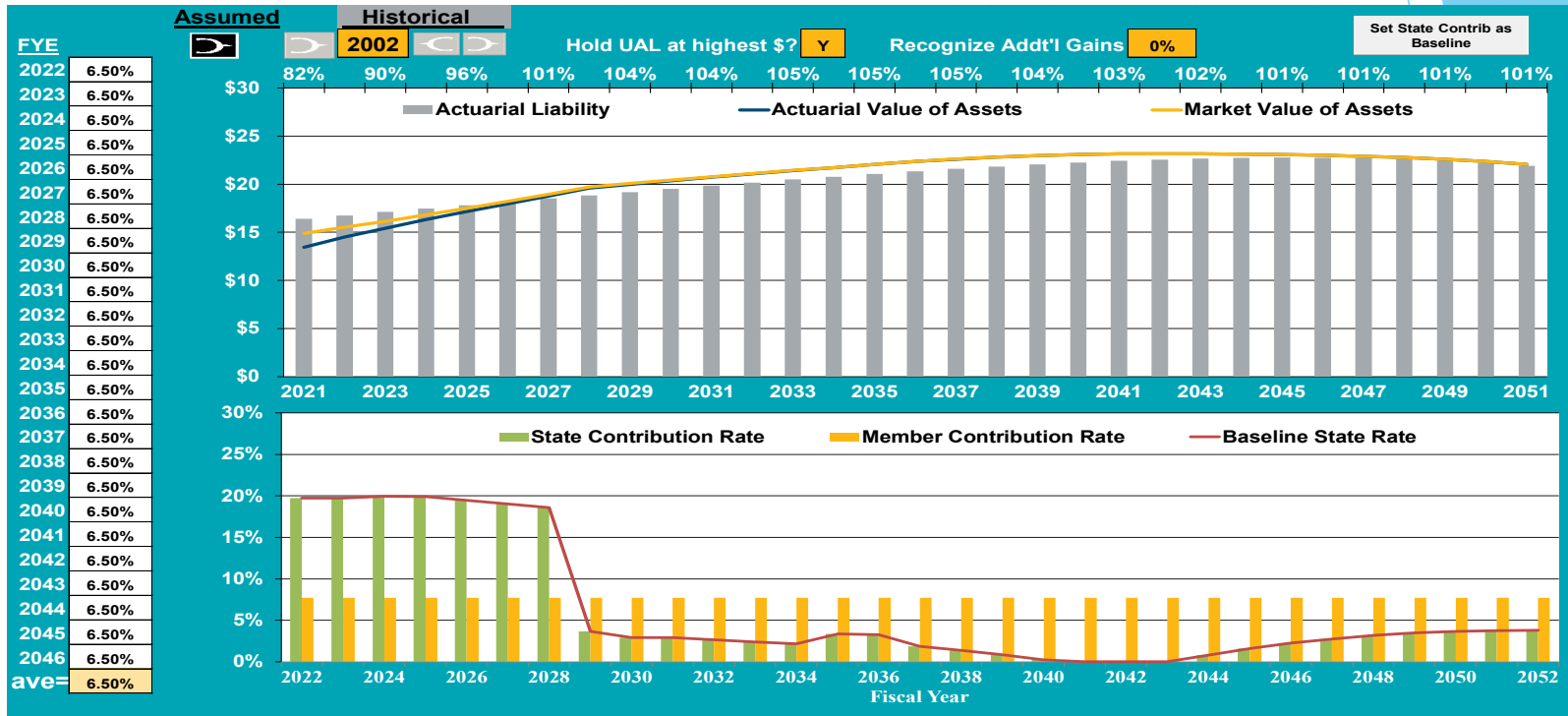
- ▶ Market Value of Assets basis, -0.62%
- ▶ Actuarial Value of Assets basis, 7.7%

Actuarial Funded Ratio, 83.9%

Actuarial Calculated Contribution Rate, 20.65%

# S/T Plan Funding Projection

- ▶ In 2028, the 1996 UAL will be fully retired



# All State Sponsored Plan Costs for FY24 & FY25

- By law, the annual state contribution towards the 1996 UAL may not be lower than the previous year

	6/30/20 (FYs 2022-2023)	6/30/22* (FYs 2024-2025)	Increase
Normal	\$176,278,025	\$230,543,751	\$ 54,265,726
UAL	<u>\$685,107,220</u>	<u>\$747,542,411</u>	<u>\$ 62,435,191</u>
Total	<u>\$861,385,245</u>	<u>\$978,086,162</u>	<u>\$116,700,917</u>

\*Total costs include approximately \$171M that will be paid by local school units.

# Appendix

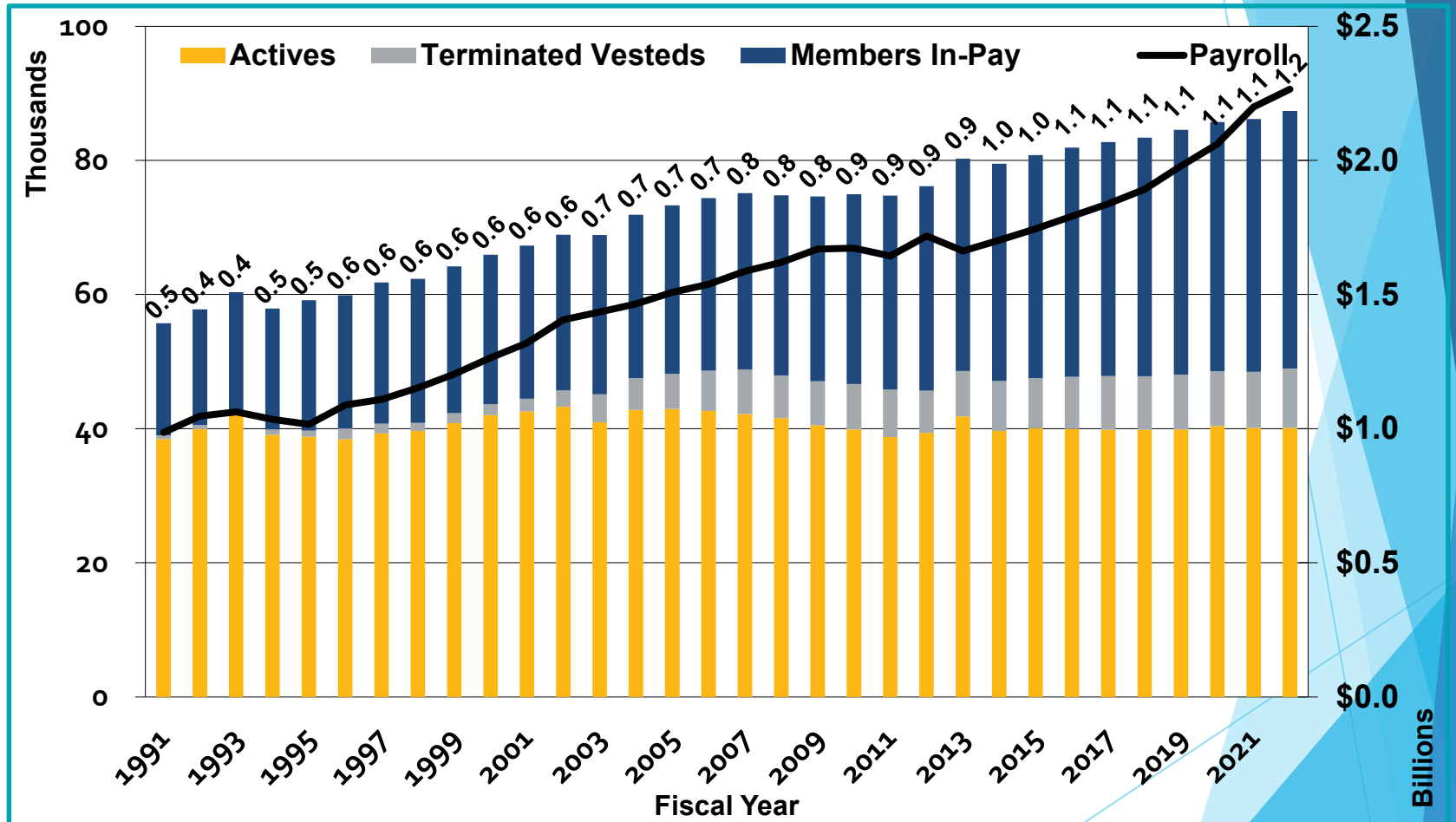




# Other Historical Views

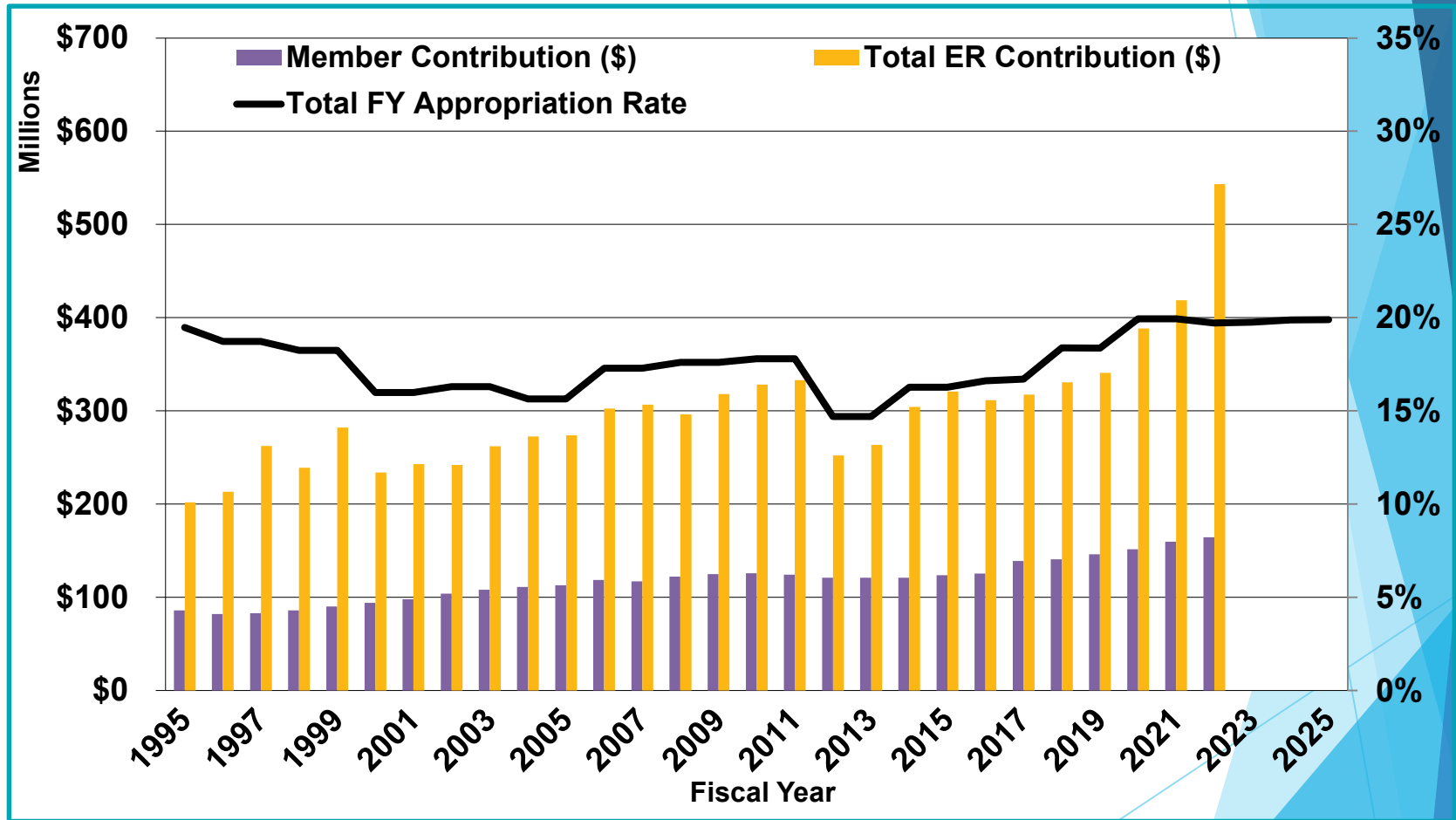


# State/Teacher Membership



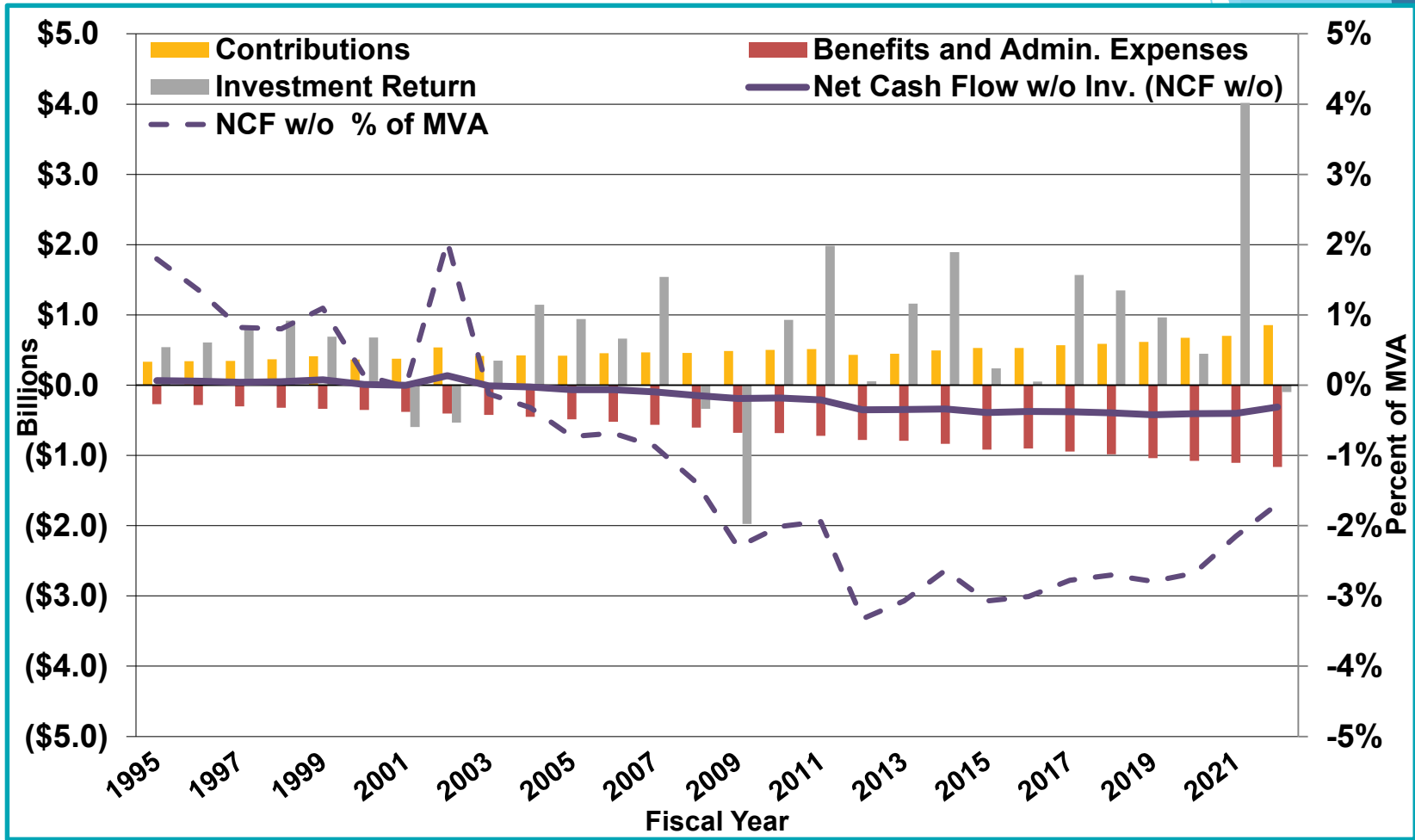
source: Cheiron 26

# State/Teacher Contributions



source: Cheiron 27

# State/Teacher Cash Flows

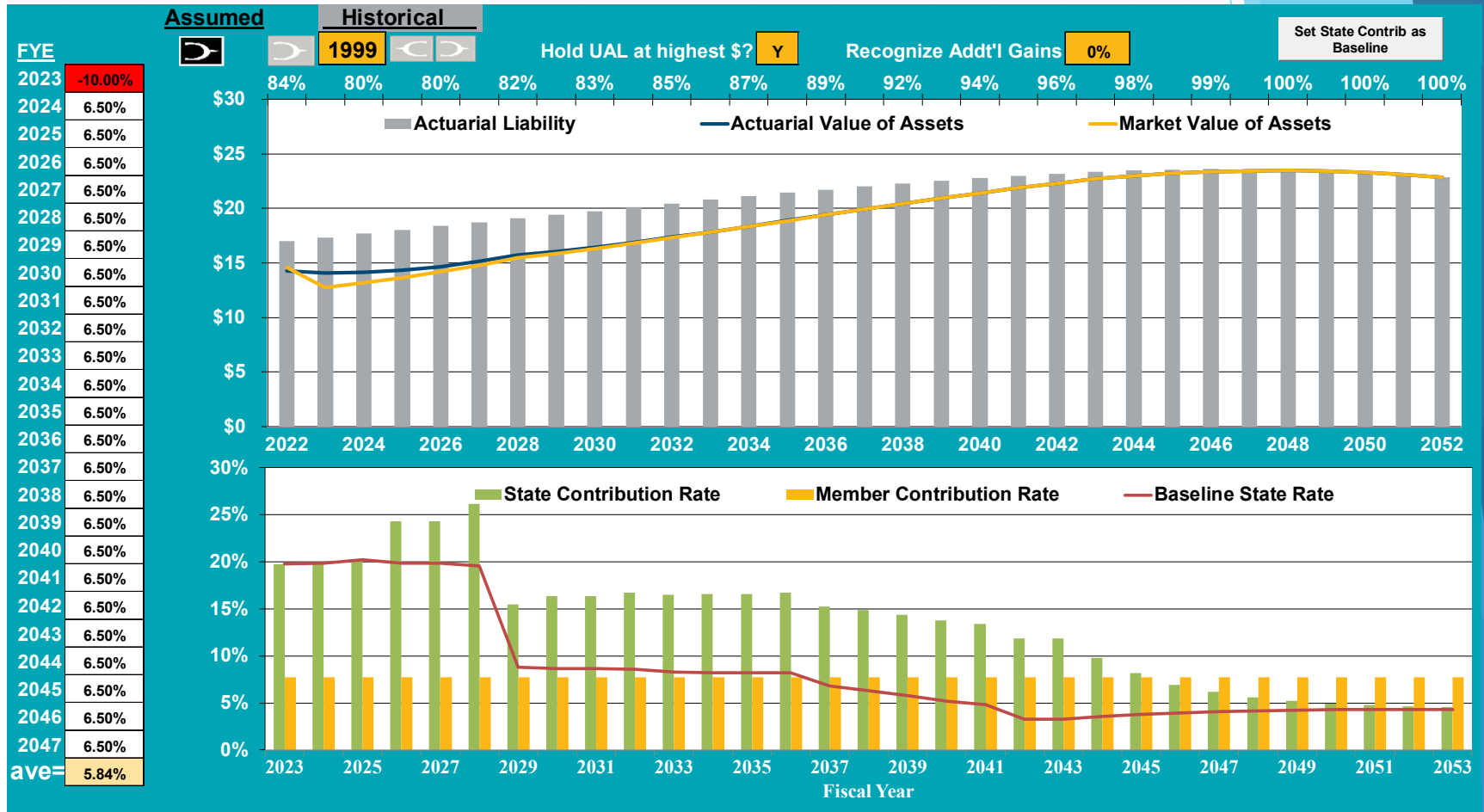


source: Cheiron 28

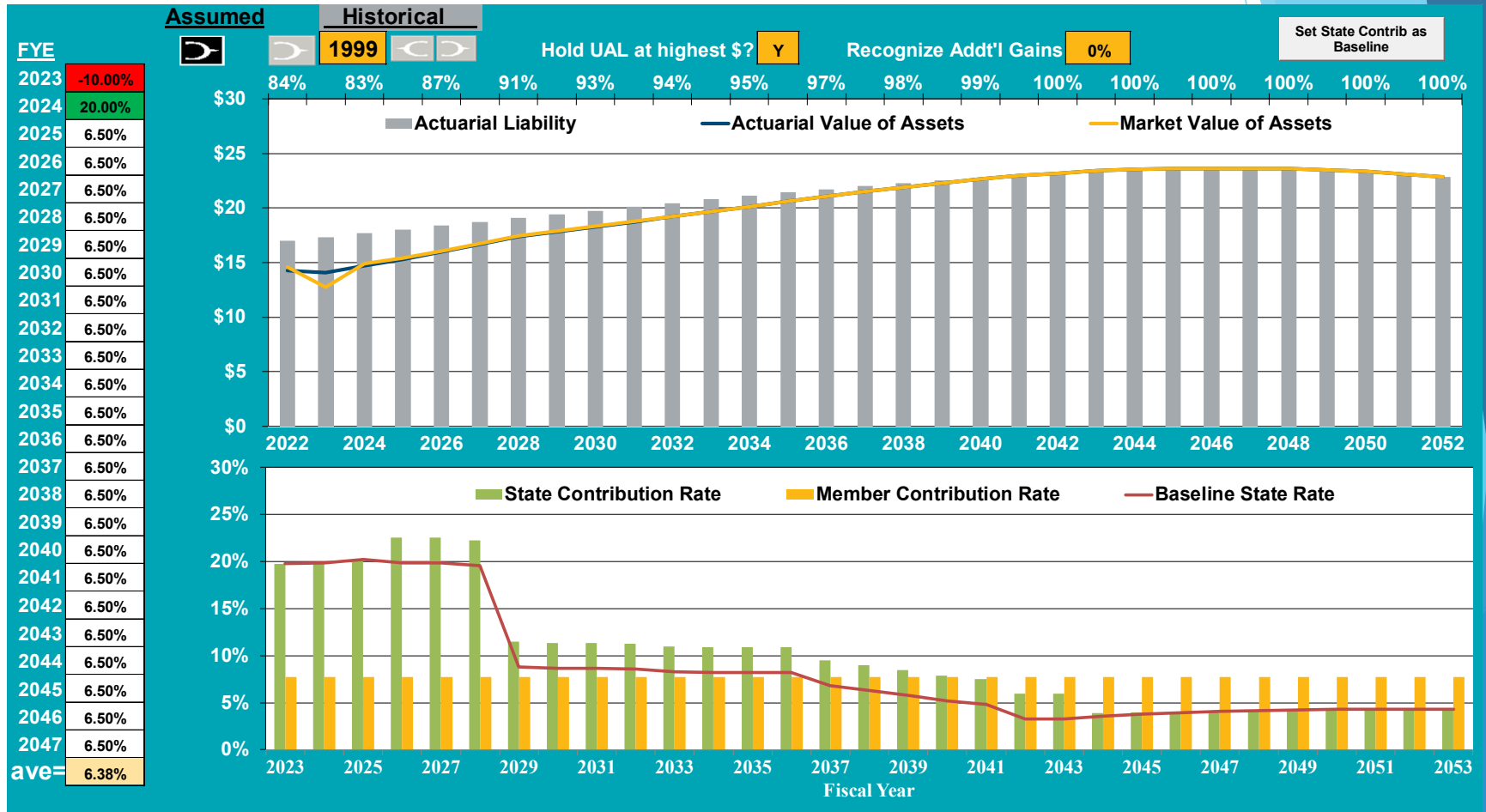
# Other Projection Views



# State/Teacher w/ loss



# State/Teacher w/ loss then gain



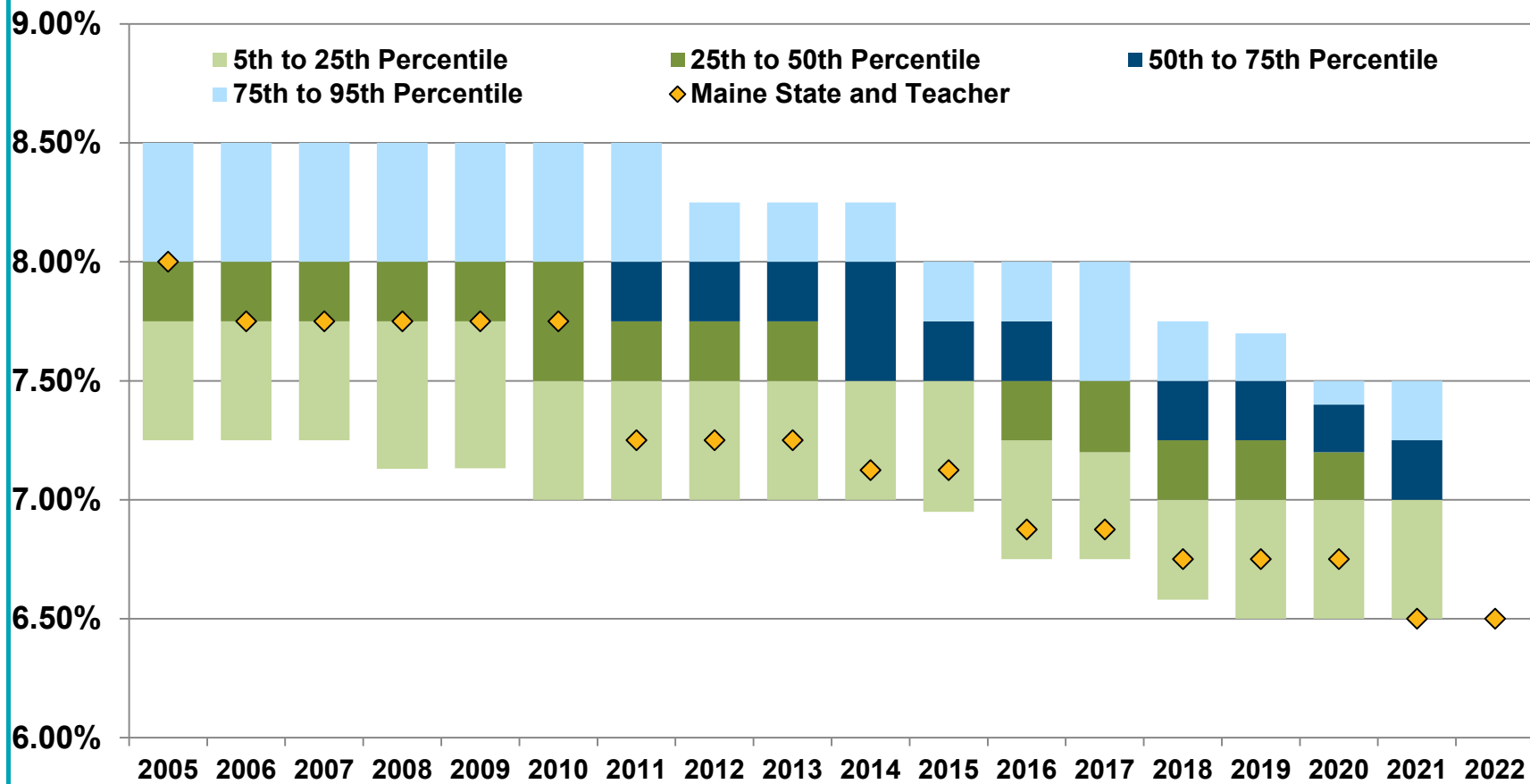
# NASRA Peer Comparisons

National Association of State Retirement Administrators





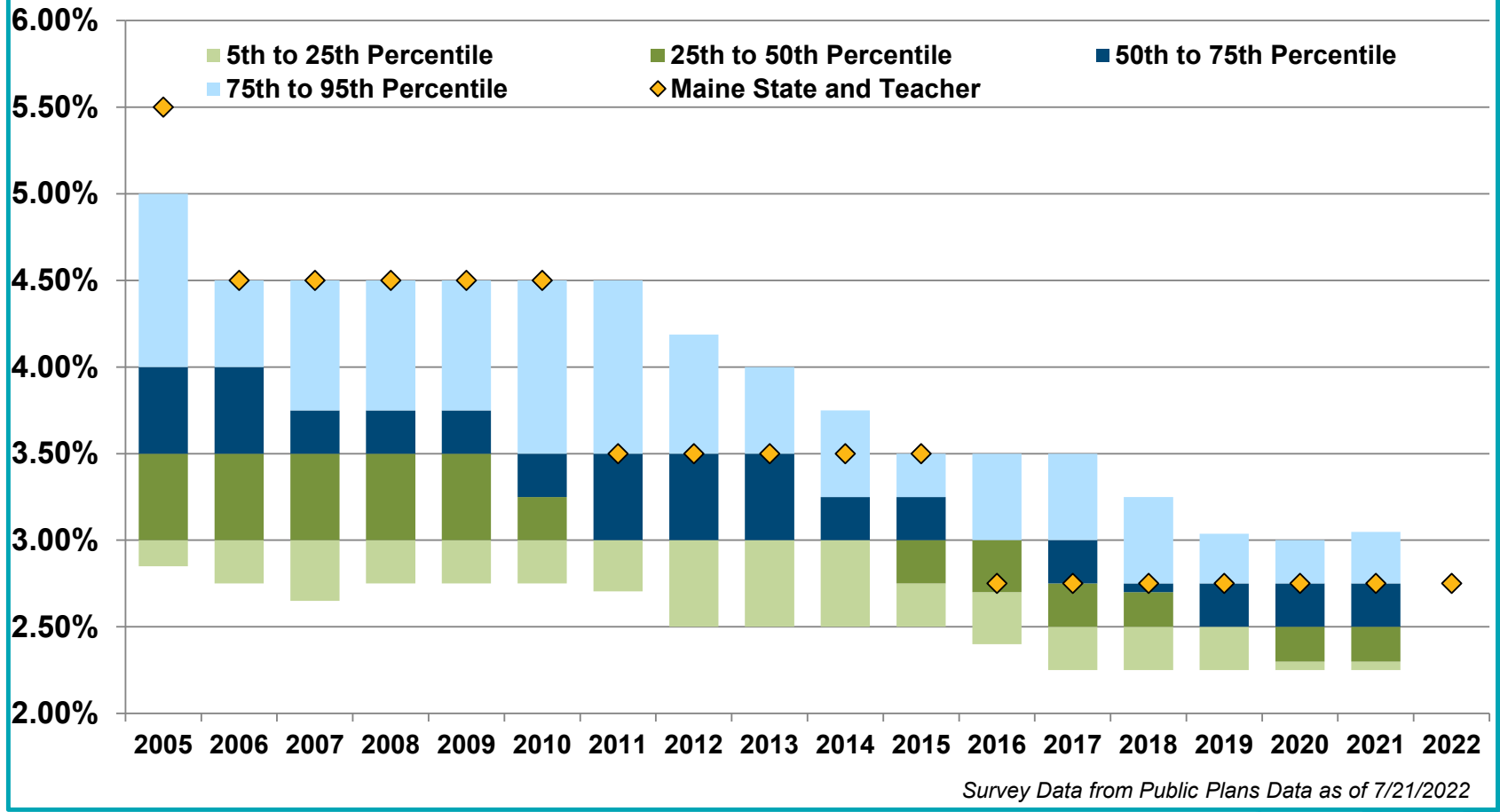
## Discount Rate



Survey Data from Public Plans Data as of 7/21/2022

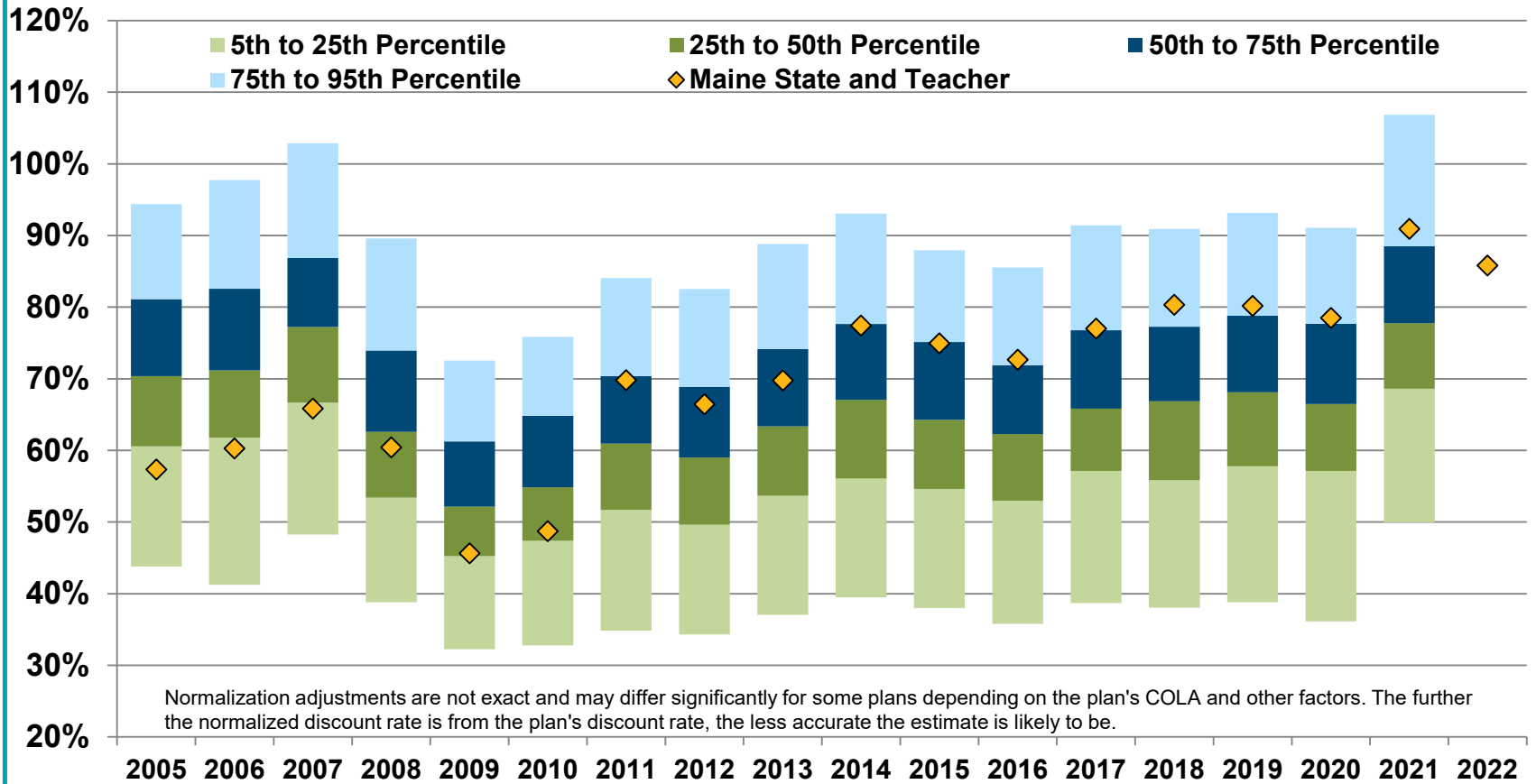
State Employee and Teacher Only

# Inflation



State Employee and Teacher Only

# MVA Funded Ratio - Normalized

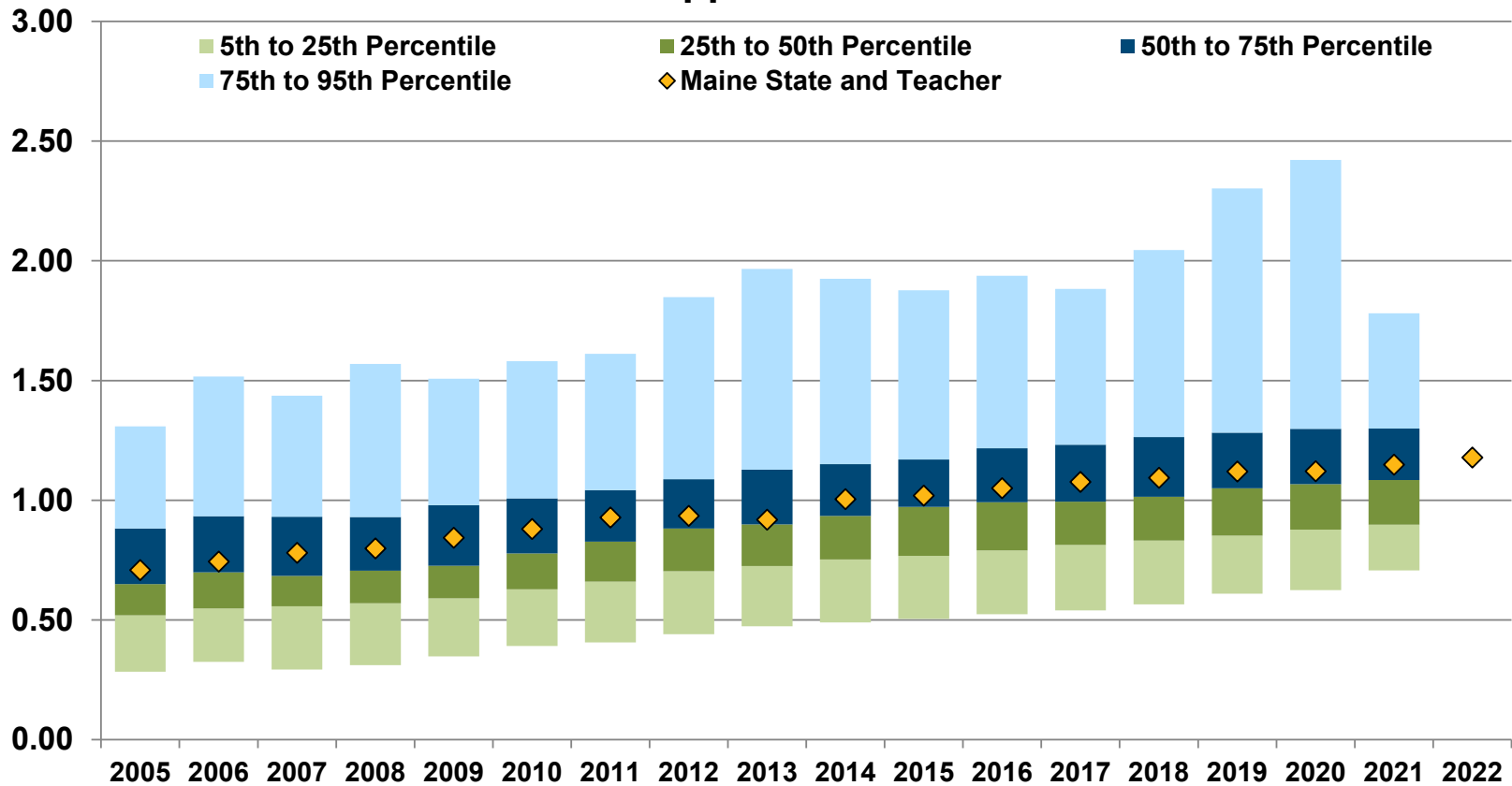


Normalization adjustments are not exact and may differ significantly for some plans depending on the plan's COLA and other factors. The further the normalized discount rate is from the plan's discount rate, the less accurate the estimate is likely to be.

Survey Data from Public Plans Data as of 7/21/2022

State Employee and Teacher Only

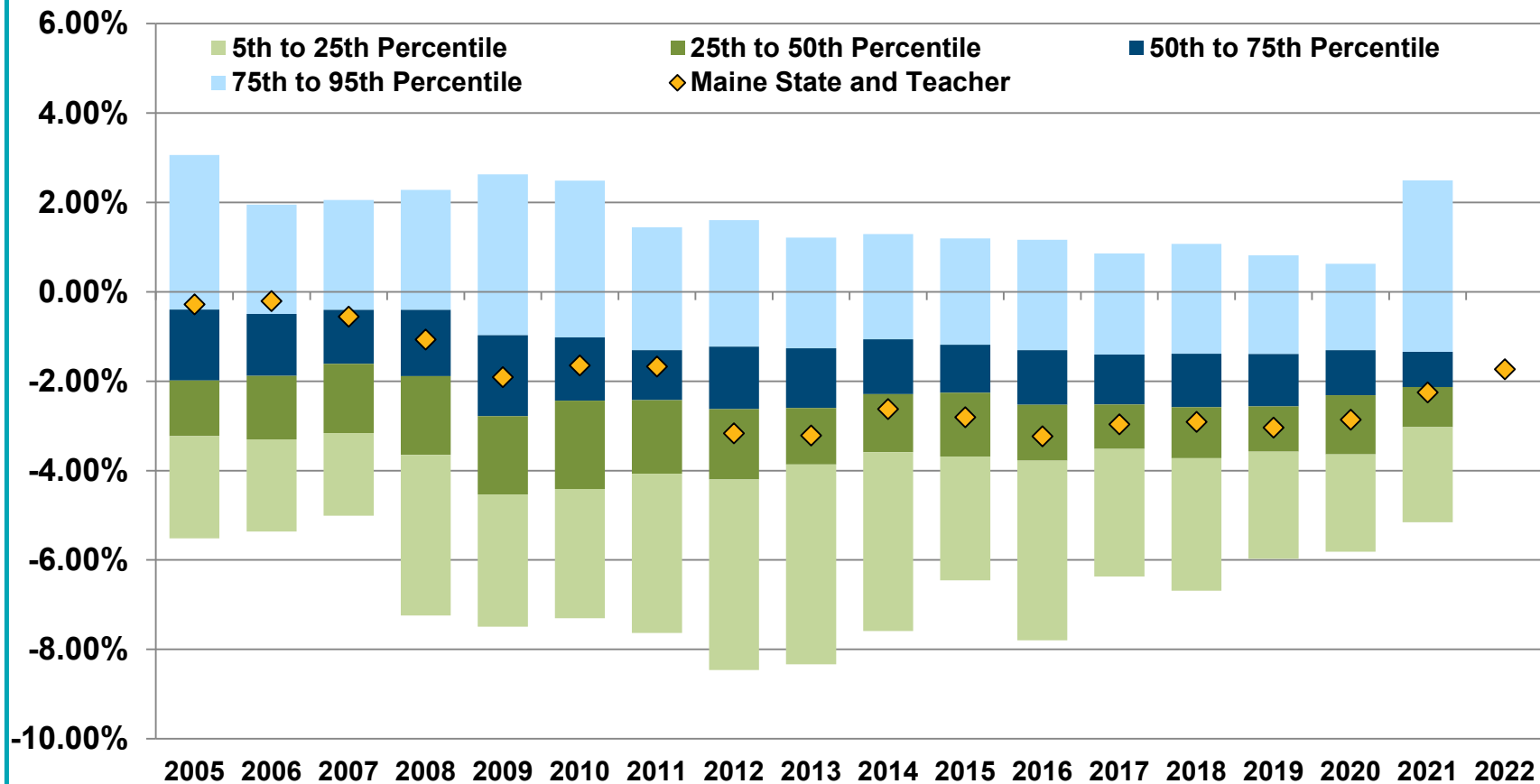
## Support Ratio



Survey Data from Public Plans Data as of 7/21/2022

State Employee and Teacher Only

## Net Cash Flow Rate



Survey Data from Public Plans Data as of 7/21/2022

# Valuation Results

State/Teacher, Legislative, Judicial and Consolidated PLD Plans

# Valuation Results: S/T Plan

<i>(all dollars are in millions)</i>		June 30,			
<i>*except for average salary &amp; benefit</i>		<u>2021</u>	<u>2022</u>	<u>2022</u>	<u>2021 to 2022</u>
<u>Membership</u>	<u>Valuation</u>	<u>Valuation</u>	<u>Valuation</u>	<u>% change</u>	
Actives	40,099		40,121		0.1%
Payroll	\$ 2,199	\$ 2,260	\$ 2,265		3.0%
Average Salary *	\$ 54,851		\$ 56,463		2.9%
In Pay Status	37,690		38,408		1.9%
Total Annual Benefits	\$ 884	\$ 951	\$ 931		5.4%
Average Benefit *	\$ 23,456		\$ 24,250		3.4%
<u>Assets and Liabilities</u>					
Actuarial Liability	\$ 16,392	\$ 16,936	\$ 16,982		3.6%
Actuarial Value of Assets	\$ 13,461	\$ 14,262	\$ 14,248		5.8%
Unfunded Actuarial Liability (UAL)	\$ 2,931	\$ 2,674	\$ 2,734		-6.7%
Actuarial Funded Ratio	82.1%	84.2%	83.9%		
Market Value of Assets (MVA)	\$ 14,901	\$ 14,414	\$ 14,569		-2.2%
MVA Funded Ratio	90.9%	85.1%	85.8%		
Accrued Liabilities	\$ 14,841	NC	\$ 15,383		3.7%
Unfunded Accrued (using MVA)	\$ (60)	NC	\$ 814		NC
Accrued Funded Ratio	100.4%	NC	94.7%		
<u>Total Contribution</u>					
Normal Cost Rate	4.64%	4.64%	4.58%		
UAL Rate	17.08%	15.93%	16.07%		
Total Calculated Rate	21.72%	20.57%	20.65%		

source: Cheiron 39

# Valuation Results: Legislative

<i>(all dollars are in thousands)</i> <i>*except for average salary &amp; benefit</i>		June 30,			
		<u>2021</u>	<u>2022</u>	<u>2022</u>	<u>2021 to 2022</u>
<u>Membership</u>	<u>Valuation</u>	<u>Valuation</u>	<u>Valuation</u>	<u>% change</u>	
Actives	178		174		-2.2%
Payroll	\$ 2,802	\$ 2,879	\$ 2,801		0.0%
Average Salary *	\$ 15,742		\$ 16,099		2.3%
In Pay Status	222		223		0.5%
Total Annual Benefits	\$ 502	\$ 618	\$ 529		5.4%
Average Benefit*	\$ 2,261		\$ 2,372		4.9%
<b><u>Assets and Liabilities</u></b>					
Actuarial Liability	\$ 10,678	\$ 11,192	\$ 10,977		2.8%
Actuarial Value of Assets	\$ 15,049	\$ 15,739	\$ 15,788		4.9%
Unfunded Actuarial Liability (UAL)	\$ (4,371)	\$ (4,547)	\$ (4,811)		10.1%
Actuarial Funded Ratio	140.9%	140.6%	143.8%		
Market Value of Assets (MVA)	\$ 16,659	\$ 15,907	\$ 16,143		-3.1%
MVA Funded Ratio	156.0%	142.1%	147.1%		
Accrued Liabilities	\$ 10,309	NC	\$ 10,791		4.7%
Unfunded Accrued (using MVA)	\$ (6,350)	NC	\$ (5,352)		-15.7%
Accrued Funded Ratio	161.6%	NC	149.6%		
<b><u>Total Contribution</u></b>					
Normal Cost Rate	5.74%	5.74%	3.46%		
UAL Rate	-5.74%	-5.74%	-3.46%		
Total Calculated Rate	0.00%	0.00%	0.00%		

source: Cheiron 40



# Valuation Results: Judicial

<i>(all dollars are in thousands)</i> <i>*except for average salary &amp; benefit</i>		June 30,			
		<u>2021</u>	<u>2022</u>	<u>2022</u>	<u>2021 to 2022</u>
<u>Membership</u>	<u>Valuation</u>	<u>Valuation</u>	<u>Valuation</u>	<u>% change</u>	
Actives	60		60		0.0%
Payroll	\$ 8,745	\$ 8,986	\$ 8,694		-0.6%
Average Salary *	\$ 145,752		\$ 144,897		-0.6%
In Pay Status	85		90		5.9%
Total Annual Benefits	\$ 4,730	\$ 5,099	\$ 5,350		13.1%
Average Benefit *	\$ 55,647		\$ 59,449		6.8%
<u>Assets and Liabilities</u>					
Actuarial Liability	\$ 75,788	\$ 77,615	\$ 77,426		2.2%
Actuarial Value of Assets	\$ 81,208	\$ 83,665	\$ 83,933		3.4%
Unfunded Actuarial Liability (UAL)	\$ (5,420)	\$ (6,050)	\$ (6,507)		20.1%
Actuarial Funded Ratio	107.2%	107.8%	108.4%		
Market Value of Assets (MVA)	\$ 89,894	\$ 84,557	\$ 85,821		-4.5%
MVA Funded Ratio	118.6%	108.9%	110.8%		
Accrued Liabilities	\$ 71,860	NC	\$ 73,878		2.8%
Unfunded Accrued (using MVA)	\$ (18,033)	NC	\$ (11,943)		-33.8%
Accrued Funded Ratio	125.1%	NC	116.2%		
<u>Total Contribution</u>					
Normal Cost Rate	12.17%	12.21%	12.71%		
UAL Rate	-7.48%	-8.12%	-9.03%		
Total Calculated Rate	4.69%	4.09%	3.68%		

source: Cheiron 41

# Valuation Results: Consol. PLD

<i>(all dollars are in millions)</i> <i>*except for average salary &amp; benefit</i>		June 30, 2021	June 30, 2022	2021 to 2022
<u>Membership</u>	<u>Valuation</u>	<u>Valuation</u>	<u>% change</u>	
Actives	11,704	12,362	5.6%	
Payroll	\$ 664	\$ 738	11.2%	
Average Salary *	\$ 56,713	\$ 59,704	5.3%	
In Pay Status	10,093	10,400	3.0%	
Total Annual Benefits	\$ 178	\$ 190	6.6%	
Average Benefit *	\$ 17,615	\$ 18,224	3.5%	
<u>Assets and Liabilities</u>				
Actuarial Liability	\$ 3,719	\$ 3,944	6.0%	
Actuarial Value of Assets	\$ 3,389	\$ 3,597	6.1%	
Unfunded Actuarial Liability (UAL)	\$ 330	\$ 347	5.0%	
Actuarial Funded Ratio	91.1%	91.2%		
Market Value of Assets (MVA)	\$ 3,751	\$ 3,678	-2.0%	
MVA Funded Ratio	100.9%	93.3%		
Accrued Liabilities	\$ 3,347	\$ 3,674	9.8%	
Unfunded Accrued (using MVA)	\$ (404)	\$ (3)	-99.2%	
Accrued Funded Ratio	112.1%	100.1%		
<u>Composite Contribution</u>		<u>for FY 2023</u>	<u>for FY 2024</u>	
Total Normal Cost Rate		14.1%	14.2%	
UAL Rate		4.6%	4.5%	
Total Calculated Rate		18.7%	18.7%	
Final Aggregate Employer Paid		10.8%	10.9%	
Final Aggregate Member Paid		7.8%	7.8%	

source: Cheiron 42