Approved: 04/10/15 mac

127th MAINE LEGISLATURE

LD 86 **LR 903(01)**

An Act To Improve Retirement Security for Retired Public Employees

Preliminary Fiscal Impact Statement for Original Bill
Sponsor: Rep. Sherman of Hodgdon
Committee: Appropriations and Financial Affairs
Fiscal Note Required: Yes

Preliminary Fiscal Impact Statement

Current biennium cost increase - General Fund
Potential future biennium cost increase - All Funds

Fiscal Detail and Notes

Current law requires a cost-of-living adjustment (COLA) equal to the Consumer Price Index (CPI) each fiscal year, up to a maximum of 3%, be applied to the first $20,000, also indexed to the CPI, of pension benefits received by retired state employees, teachers, judges and Legislators. This legislation sets a minimum COLA of at least 2.55% for fiscal year 2014-15, fiscal year 2015-16 and fiscal year 2016-17 only. This 2.55% is the actuarial assumption used in developing employer contribution rates for the 2014-2015 biennium and the 2016-2017 biennium. The actual COLA adjustment awarded in September of 2014 (fiscal year 2014-15) was 2.1%.

Retroactively increasing pensions from September 2014 by .45%, the difference between 2.1% and 2.55%, will increase the unfunded liability of the Maine Public Employees Retirement System (MainePERS). Pursuant to the Constitution of Maine, Article IX, Section 18-A, unfunded liabilities may not be created except those that result from experience losses. MainePERS will require a one-time General Fund appropriation for the additional cost of this provision before the one-time lump sum payment can be made. Upon direction of the committee prior to a vote, or upon a favorable vote by the committee, MainePERS will engage the services of its actuary in order to quantify the costs associated with this bill.

According to MainePERS, providing a minimum COLA of 2.55% for benefits received by retired state employees, teachers, judges and Legislators in fiscal year 2015-16 and fiscal year 2016-17 will not result in an actuarially significant cost to the plans due to the provision being provided on a one-time basis. If, however, this provision were to be provided repeatedly in future years, it could result in future costs, as the actuarial assumption for the COLA may need to be increased.

The provisions in this bill may also result in higher costs to the State in future bienniums if the CPI is lower than the actuarial assumption for the COLA in the 2016-2017 biennium due to potential actuarial gains that may have been realized being unavailable to be factored into the development of future employer contribution rates.