

Testimony of Jeff McCabe
Maine Service Employees Association, SEIU Local 1989

Relating to the MainePERS Section of LD 206, HP127, An Act to Make Supplemental Appropriations and Allocations from the General Fund and Other Funds for the Expenditures of State Government and to Change Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Year Ending June 30, 2023

Before the Joint Standing Committees on Appropriations and Financial Affairs,
10 AM Monday, January 23, 2023, Electronically

Senator Rotundo, Representative Sachs, members of the Committee on Appropriations and Financial Affairs, I'm Jeff McCabe, director of politics and legislation for the Maine Service Employees Association, Local 1989 of the Service Employees International Union. We are a labor union representing over 13,000 Maine workers, including workers for all three branches of Maine State Government.

First, on behalf of all the members of MSEA-SEIU Local 1989, we thank you for the work you are doing and will be doing on both the proposed Supplemental Budget that is the subject of this hearing and on the proposed two-year State Budget during this 131st Maine Legislature. It's so important to fund the quality services Maine people count on and to ensure that the workers who deliver those services, both those currently working and those who have retired after dedicating their careers in service to all Maine people, are respected, protected and paid fairly for their work. Your work on this committee is central to making that happen.

We're here today because for retirees in the State/Teacher/Legislative/Judicial Retirement Plan who were eligible for a retiree cost-of-living adjustment (COLA) in September 2022, Governor Mills' proposed Supplemental State Budget calls for a one-time payment equal to a 1 percent COLA for an average payment of \$175. Several retiree members of our union also are participating in this hearing to share their personal stories, and thoughts and recommendations relating to this proposal.

For your reference, the proposed language [also linked here](#) is: PART J Sec. J-1. Transfer from General Fund unappropriated surplus. Notwithstanding any provision of law to the contrary, on or before June 30, 2023, the State Controller shall transfer \$6,600,000 from the unappropriated surplus of the General Fund to the Retirement Allowance Fund within the Maine Public Employees Retirement System for the purpose of providing the resources to fund an additional one-time cost-of-living increase of 1.0% of the established 2022 maximum benefit subject to an increase for retirees from the state-sponsored retirement plans. The additional 1.0% applies to retirement benefit payments, up to a maximum of \$24,186.25, for the one-year period ending August 31, 2022. This additional increase applies to retirees who were eligible for a cost-of-living adjustment in September 2022. The additional increase made pursuant to this section is a one-time payment and is not included in the calculation of future benefit adjustments.

While we appreciate this initiative, it's important to note Maine's retired state workers and teachers still haven't caught up from the 2011 pension cuts. In addition to the stories they will share with you today, several of our members in a recent video we made told their stories about being behind the cost of living for the past 12 years. Please watch that video; [it's linked here](#).

We respectfully ask that you build upon the one-time payment in the proposed Supplemental Budget and fully fund a retiree COLA that matches inflation for participants in the Maine Public Employees Retirement System (MainePERS). By doing so, you can build upon the progress we made in the 130th Maine Legislature in strengthening retirement security for participants in the State, Judicial, Legislative and Teacher retirement plan.

Together, let's keep fighting to undo the damage caused by the 2011 pension cuts. As all of you may know, ever since 2011, when taxes for the wealthy were cut at the expense of MainePERS participants, many retired state employees and teachers have struggled to keep up with the cost of living. The 2011 cuts included:

- A freeze on retirees' cost-of-living adjustments (COLAs) for 2011, 2012, and 2013;
- A 3% cap on all future cost-of-living adjustments;
- A permanent limit on cost-of-living adjustments so they only apply to the first \$20,000 of pension income adjusted for inflation.

Over the years, there's been widespread recognition that those cuts went too far and there have been proposals supported by legislators who are Democrats, Republicans and unenrolled to help provide solutions. In 2022, we made some progress in undoing some of the harm caused by the 2011 pension cuts. The Bipartisan Supplemental State Budget (LD 1995) passed by both the Maine House and the Maine Senate, and signed into law by Governor Mills makes key improvements to MainePERS retirement pensions, including increasing the 2021 cumulative COLA by an additional 1%; adding an additional 2.4% to the pension base; exempting the first \$25,000 in pension income from state income tax beginning next year, and increasing the exemption amount by \$5,000 a year until it matches the exemptions for Social Security benefits. Those changes will help retirees now and will compound in future years, improving retirement benefits for all participants in the State, Judicial, Legislative and Teacher retirement plan.

There is more work to be done and it needs to be done now by fully funding a retiree COLA that matches inflation for participants in the Maine Public Employees Retirement System (MainePERS). To help guide you in your decision-making, we also are attaching to this testimony a letter dated Aug. 16, 2022, from MainePERS Chief Executive Officer Rebecca Wyke to Governor Mills with important information about the retiree COLA over the years.

Thank you and I would be happy to answer any questions.

August 16, 2022

The Honorable Janet T. Mills
Governor of Maine
1 State House Station
Augusta, Maine 04333-0001

RE: 2022 Cost-of-Living Adjustment

Dear Governor Mills:

The Board of Trustees of the Maine Public Employees Retirement System is directed by statute (see 5 M.R.S. §§ 17806) to annually adjust the retirement benefits of its retirees by a cost-of-living adjustment. For the State-sponsored plans, the adjustment must be equal to the change in the Consumer Price Index for Urban Consumers (CPI-U) over the 12 months previous to June of any year up to a maximum amount of 3%, applied to a benefit level established in law ("COLA base"), currently \$24,186.25 for 2022.

For the period July 1, 2021 through June 30, 2022, the Consumer Price Index was 9.1%. At its August 11 meeting, the Board of Trustees formally voted to adopt cost-of-living adjustments in accordance with the statutory requirements. The estimated cost to provide the 3% COLA to the State-sponsored plans is shown below. These costs are included in the ongoing liabilities of the plans.

Plan	Cost
State Employees	\$ 78,173,285
Teachers	\$131,269,336
Legislative	\$ 122,784
Judicial	\$ 500,525
Total	\$210,065,930

When the CPI-U increase upon which retiree cost-of-living adjustments are based exceeds the 3% cap, 5 M.R.S. § 17806 requires the Board of Trustees to adjust benefits by 3% and submit a supplemental budget request to you for funds to support the increase in the CPI-U over 3%, in this case, an additional 6.1%. These calculations are also performed using the COLA base of \$24,186.25.

The following estimated amounts would be required for retirees in the groups as noted:

Plan	Cost
State Employees	\$188,636,069
Teachers	\$329,373,375
Legislative	\$ 252,239
Judicial	\$ 1,285,745
Total	\$519,547,428

FINAL

The amounts for State employees and teachers would require full funding in the current fiscal year in order to avoid the creation of a prohibited unfunded liability under the Maine Constitution. The amounts reported for Legislators and Judges are also the full actuarial costs.

The System also administers a “pay-as-you-go” retirement program for retired Governors, with the funding for this program included separately in the State’s biennial budget. Cost-of-living adjustments for benefit recipients from the Governors’ program are tied to the adjustments to the benefits of retirees in the State Employee and Teacher Retirement Program. Therefore, the following additional supplemental request is submitted in order to fund the additional 6.1% adjustment for these benefit recipients. Since this is a pay-as-you-go program, the costs are based on actual benefits to be paid in the specific fiscal year as compared to the actuarial costs for the groups funded on an actuarial basis.

Governors’ Program	FY 2023 Cost
	\$ 7,377

The amount shown is in addition to the amount submitted earlier in the normal course for payment of benefits in the 2022-2023 biennial budget.

Section 17806 also requires that MainePERS report the increase in the Consumer Price Index and the actual cost-of-living adjustments for the past five years. We were asked to provide a ten year history, and that information is as follows:

Year	CPI-U	COLA granted
2012	1.7%	0.0%*
2013	1.8%	0.0%*
2014	2.1%	2.1%
2015	.1%	2.55%**
2016	1.0%	2.55%**
2017	1.6%	1.6%
2018	2.9%	2.9%
2019	1.6%	1.6%
2020	0.6%	0.6%
2021	5.4%	4.0%***

*COLA frozen by PL 2011, c. 380

**As provided by PL 2015, c. 334

***Additional 1% provided by PL 2021, c. 635

We are also including information for your convenience about the cost to provide an additional cost-of-living adjustment, either as a non-cumulative ad hoc COLA or as an ongoing, cumulative COLA. Ad hoc COLAs provide a one-time payment of benefits that does not increase the ongoing level of benefits or the amount of benefit subject to future increases. As such, they are not included in the ongoing liabilities of the plans. Ongoing, cumulative COLAs increase the ongoing level of benefits and may or may not impact the amount of benefit subject to future increases, depending upon whether the COLA base is impacted by the additional COLA. These COLAs are included in the ongoing liabilities of the plan.

We have calculated the costs for an additional COLA based on various percentages, up to the 6.1% by which the CPI-U exceeded the statutory cap. These costs apply to all of the plans addressed in this letter. The estimated costs are as follows:

Cost of Additional COLA				
Additional COLA (%)	Ad Hoc payment (one-time)	Cumulative-COLA base not increased by Additional COLA (%)	Cumulative-COLA base increase by Additional COLA (%)	Cumulative-COLA base increased by 9.1% (full CPI-U)
1.0%	\$ 6.4 M	\$ 70.0 M	\$ 85.2 M	\$162.4 M
2.0%	\$12.8 M	\$140.0 M	\$170.3 M	\$232.5 M
3.0%	\$19.2 M	\$210.1 M	\$255.5 M	\$302.5 M
4.0%	\$25.6 M	\$280.1 M	\$340.7 M	\$372.5 M
5.0%	\$32.0 M	\$350.1 M	\$425.9 M	\$442.5 M
6.1%	\$39.0 M	\$427.1 M	\$519.5 M	\$519.5 M

The costs provided in the above table are additive if a combination of an ad hoc payment and a cumulative payment is considered. For example, if an ad hoc payment of 1% (cost of \$6.4 M) is combined with a 1% cumulative COLA that does not increase the COLA base (cost of \$70.0 M), the combined cost would be \$76.4 M.

Please note that we have provided only the increase in liabilities that would result from a change in the COLA provision. Specifically, these are the amounts that must be paid to avoid the creation of new liabilities under the Constitutional provision. Additionally, future increased normal costs may result depending upon what additional COLA is granted. Those additional costs would be reflected in rates established for fiscal years beyond FY 2025.

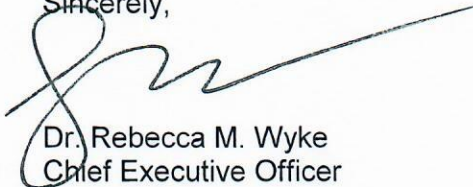
Finally, we were asked to provide the average annual benefit for retirees from the State-sponsored plans. That information is as follows:

Plan	Average Benefit
State Regular	\$22,317
State Special	\$32,477
Teachers	\$27,645
Legislative	\$ 2,183
Judicial	\$62,666
Governor	\$34,583

All of the costs provided in this letter are estimated based on the 2021 Actuarial Valuation and will be updated after the completion of the 2022 Actuarial Valuation by November 2022.

If you or your staff have any questions regarding this information, please do not hesitate to contact me.

Sincerely,



Dr. Rebecca M. Wyke
 Chief Executive Officer

RMW/mg

cc: Mary Anne Turowski, Governor's Office, Senior Policy Advisor
 Kirsten Figueroa, DAFS Commissioner
 Heather Perreault, DAFS Deputy Commissioner
 Michael Colleran, MainePERS Chief Operating Officer and General Counsel
 Kathy J. Morin, MainePERS Director, Actuarial and Legislative Affairs