Maine Education Association
Grace Leavitt President | Jesse Hargrove Vice President | Beth French Treasurer
Rebecca Cole NEA Director | Rachelle Bristol Executive Director

Testimony

Neither for Nor Against

LD 205: 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

John Kosinski, Government Relations Director, Maine Education Association

Before the Appropriations and Financial Affairs Committee

January 20, 2023

Senator Rotundo, Representative Sachs and other esteemed members of the Appropriations and Financial Affairs Committee,

My name is John Kosinski (he/him) and I am proud to serve as the Director of Government Relations for the Maine Education Association (MEA). The MEA represents 24,000 educators in the state of Maine, including teachers and other professionals in nearly every public school in the state and faculty and other professional staff in the University of Maine and Community College Systems.

I am here to testify neither for nor against LD 206, 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. Specifically, I am here to testify neither for nor against Part J language in the supplemental budget proposal to provide a one-time, 1% cost of living adjustment, or COLA, for retirees in the MainePERS pension system.

While we certainly appreciate the proposal from the Governor, put simply, it is not enough. This issue impacts every single active and retired teacher and ed tech II and III in our public schools in Maine.

For many educators, the MainePERS pension benefits may be all they have to rely on when they retire. For many educators, MainePERS **is** their retirement benefit. Some may not qualify for Social Security. Even if they do qualify for Social Security, because they entered teaching later in their career or worked second jobs to make ends meet, most are impacted by the intractable and unjust Social Security offsets – the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP). These two offsets generally result in educators losing 2/3rds of the Social Security benefits they have earned when they retire. In some cases, retirees may find all of their Social Security benefits are subject to the offset and they receive nothing. It is unfortunate and we continue to look for fixes but these offsets just underscore the critical role MainePERS benefits play in allowing teachers and ed techs to retire with dignity after a career of educating Maine's students. Our public pension system is not built for the type of inflation we have seen in this state and in this country over the past few years. Without additional help and resources from the state, retired teachers, ed techs (IIs and IIIs) and retired state employees will all see their pension benefits lose purchasing power and the trends are alarming.

In September of 2022, retirees in MainePERS received the maximum 3% cost of living adjustment on pension earnings up to the maximum base amount of $24,186.25. (It is important to note, any pension earnings above this dollar threshold are not subject to a COLA.) Yet, at the same time, inflation was a whopping 9.1%. Without additional help from the state, the pension benefits for retirees in MainePERS will lose 6.1% in terms of purchasing power in the current year alone.

Last year, the 130th Legislature and this Committee, passed a supplemental budget that recognized the problem and increased the COLA with an additional 1% cumulative COLA, resulting in a 4% increase for MainePERS beneficiaries, although at the time inflation registered at 5.4%. Even with that valiant effort, retirees lost 1.4% in terms of purchasing power in their pension benefits. What's more, the supplemental budget passed in 2022 lifted the base amount the COLA applies to. This was huge. By lifting the base amount the COLA applies to by the full 5.4% inflationary amount, the supplemental budget from last year at least insured the pension benefits of active teachers (and ed tech IIs and IIIs) will not lose purchasing power whenever they retire.

At the MEA we are deeply concerned about the impact of inflation on retirement benefits for retired educators. And our current situation has only been exacerbated by changes made by previous Legislatures and Governors.

In 2011, the Legislature and the Governor signed a two-year budget that made a number of significant cuts to the pension system for retired teachers. In addition to lifting the retirement age and freezing COLAs for several years, the previous Governor signed a budget that included two very damaging elements for those in the MainePERS pension system.

First, that budget reduced the maximum COLA from 4% to 3%. Retirees are now feeling the impact of this change. Over the past two years, with inflation at 5.4% and now 9.1%, the cut of the maximum COLA from 4% to 3% has made this problem more severe. There was a heroic effort by this Committee and the Legislature last year just to get back to the 4% cumulative COLA. If inflation continues to come in above 4%, the problem will only intensify.

Second, that same budget in 2011 also reduced the amount the COLA applies to. It was originally set so the COLA only applied to the first $20,000 of pension earnings, and was later to set to adjust by inflation, but again, only by the new maximum of 3%. This change is huge and devastating and has a long tail, especially for career educators. For example, if someone spent 30 or 40 years in a classroom and retired with a pension benefit of $30,000 per year, only the first $20,000 was subject to the COLA. This provision makes it harder for them to keep up the longer they live. The issue compounds.

As we have learned since the budget of 2011, Maine's unique constitutional constraints make these cuts even more devastating. Article IX, Section 18-A of the Maine State Constitution states:

> **Section 18-A. Funding of retirement benefits under the Maine State Retirement System.** Beginning with the fiscal year starting July 1, 1997, the normal cost of all retirement and ancillary benefits provided to participants under the Maine Public Employees Retirement System must be funded annually on an actuarially sound basis. **<u>Unfunded liabilities may not be created except those resulting from experience losses</u>**. Unfunded liability resulting from experience losses must be retired over a period not exceeding 20 years. (emphasis added)

Lifting the COLA cap by the full inflationary amount or increasing the pension benefits of retirees by the full inflationary amount creates "unfunded liabilities" unless paid for up front by the state. This makes even minor changes to the pension system challenging for the state because any improvements, even an improvement just to keep pace with inflation, requires the state to pay the entire cost, not just for current retirees, but future retirees as well. This is why seemingly minor changes to the pension system are regularly slapped with fiscal notes that cost hundreds of millions of dollars per year.

I must point out, there is a significant and mathematical difference between the one-time COLA proposed by the Governor and the ongoing cumulative COLAs that are necessary for educators to meet their basic needs in retirement. A one-time payment is just that – one-time. Retirees will receive a check to help meet their needs this year. But next year, when calculating their retirement benefits, their pension benefits will revert to their current benefit, as if the one-time payment never happened. A one-time versus a cumulative COLA has a compounding impact, hence the importance of securing cumulative COLAs for retirees. No one expects deflation in the year ahead, yet a one-time payment almost assumes that. The one-time payment provides some relief to current retirees, but ignores the compounding impact of cumulative COLAs and does nothing to address the erosion of pension benefits for active teachers and ed techs.

Like other industries and sectors, we are seeing intense workforce shortages in our schools. Teachers and Ed Techs are in high demand with little supply. All across our state, schools are struggling to provide students with certified teachers and qualified ed techs in order to provide the educational opportunities students need and deserve. It is not a good look for the professions and it certainly will not help our efforts to recruit and retain educators if pension benefits continue to erode.

Lastly, we are fully aware that we are unlikely to find the resources in this supplemental budget to make retirees whole in this inflationary environment. MainePERS has conveyed the full cost of moving all retirees from the 3% COLA to the 9.1% and lifting the base amount the COLA applies to by an additional 6.1% will cost a whopping $551 million. Just a few weeks ago, this Legislature passed LD 3, which used excess revenues to prioritize heating and housing assistance for Mainers and created another round of checks to help Mainers cope with increases in food prices, energy prices and housing. We did not object to LD 3 because we fully understand that many Maine people are hurting and struggling. But we hope this Committee and this Legislature will work with us to prioritize the needs of retired and active educators who rely on MainePERS to survive in retirement. We hope, perhaps as part of the biennial budget discussions, we can prioritize those who dedicate their lives to public service to insure they can retire with the dignity they rightfully deserve and address the challenges I have articulated in this testimony.

Thank you for your time and your attention and I am happy to answer any questions you have to the best of my ability.