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Testimony

In Support

LD 70: An Act to Eliminate the Cap on Retirement Benefits for State Employees and Teachers to Which a Cost-of-living Adjustment Is Made

John Kosinski, Government Relations Director, Maine Education Association

Before the Labor and Housing Committee

February 14, 2023

Senator Tipping, Representative Roeder and other esteemed members of the Labor and Housing 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 in support of LD 70, *An Act to Eliminate the Cap on Retirement Benefits for State Employees and Teachers to Which a Cost-of-living Adjustment Is Made.*

In the past few weeks I have already testified about the various ways educators are disadvantaged in retirement. The Social Security offsets, the drastic cuts to pensions in 2011 and now the impact of inflation on pension benefits constitute a perfect storm that is pushing more retirees into, or dangerously close to, poverty. LD 70 attempts to undo one major cut from the 2011 pension cuts. Namely, it seeks to remove the cap on the cost of living adjustment (COLA) on pension benefits so it applies to the entire pension benefit.

It is important to note there are two major changes passed in 2011 that impact the pension benefits of current retirees. The first is what I refer to as the COLA cap. The cap was set in 2011 so only the first $20,000 was subject to the COLA, and this figure was later adjusted for inflation. Today, more than 10 years after the COLA cap was put in place, the COLA only applies to the first $24,911.84, due in part because the COLA was frozen for three years and retirees received no cumulative increase during this time.

The other cut passed in 2011 was a permanent reduction in the COLA from 4% to 3%. This cut has been most harmful in the inflationary environment we find ourselves in today.

In order to underscore this point, I want to show the Committee the individual and cumulative impact on the COLA cap put in place in 2011.

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For purposes of illustration, I have compared a retired teacher in 2011 with a $30,000 benefit, and compared that to someone with a $30,000 benefit **<u>if the COLA cap had not been applied in 2011 and if the maximum COLA remained at 4% as it was prior to 2011.</u>**

<u>Table A -- $30,000 per year retirement benefit in 2011, No Cola Cap, Maximum COLA at 4%</u>

YEAR	CPI	$30,000.00	Increase
2011	0.036	$ 31,080.00	$ 1,080.00
2012	0.017	$ 31,608.36	$ 528.36
2013	0.018	$ 32,177.31	$ 568.95
2014	0.021	$ 32,853.03	$ 675.72
2015	0.001	$ 32,885.89	$ 32.85
2016	0.01	$ 33,214.75	$ 328.86
2017	0.016	$ 33,746.18	$ 531.44
2018	0.029	$ 34,724.82	$ 978.64
2019	0.016	$ 35,280.42	$ 555.60
2020	0.006	$ 35,492.10	$ 211.68
2021	0.04	$ 36,911.78	$ 1,419.68
2022	0.04	$ 38,388.26	$ 1,476.47

As you can see, someone with a $30,000 retirement benefit could have expected to have a pension benefit today of $38,388.26 if no COLA cap had been applied in 2011 and if maximum COLA remained at 4%.

It is important to note, if benefits had fully kept pace with inflation, as you can see in Table B below, this retired teacher could have expected a current pension benefit of $40,812.

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Table B -- $30,000 Retirement Benefit in 2011, No COLA Cap, Pension Benefits Reflect Inflation Increases

YEAR	CPI	$30,000.00	Increase
2011	0.036	$ 31,080.00	$ 1,080.00
2012	0.017	$ 31,608.36	$ 528.36
2013	0.018	$ 32,177.31	$ 568.95
2014	0.021	$ 32,853.03	$ 675.72
2015	0.001	$ 32,885.89	$ 32.85
2016	0.01	$ 33,214.75	$ 328.86
2017	0.016	$ 33,746.18	$ 531.44
2018	0.029	$ 34,724.82	$ 978.64
2019	0.016	$ 35,280.42	$ 555.60
2020	0.006	$ 35,492.10	$ 211.68
2021	0.054	$ 37,408.67	$ 1,916.57
2022	0.091	$ 40,812.86	$ 3,404.19

Instead, due to the COLA cap placed in 2011 and the three years of COLA freezes imposed on retirees in 2011, retirees have lost ground in purchasing power.

Table C – Estimate of Pension Earnings for a Retired Teacher with a Pension Benefit of $30,000 in 2011

Pension COLA		Max COLA in dollars	New COLA BASE	Benefit
		$ 20,000.00		
0.036	$30,000.00	$ -	$ 20,000.00	$ 30,000.00
0.017	$30,000.00	$ -	$ 20,000.00	$ 30,000.00
0.018	$30,000.00	$ -	$ 20,000.00	$ 30,000.00
0.021	$30,420.00	$ 420.00	$ 20,000.00	$ 30,420.00
0.0255	$30,940.71	$ 520.71	$ 20,420.00	$ 30,940.71
0.0255	$31,474.70	$ 533.99	$ 20,940.71	$ 31,474.70
0.016	$31,818.29	$ 343.60	$ 21,474.70	$ 31,818.29
0.029	$32,451.02	$ 632.73	$ 21,818.29	$ 32,451.02
0.016	$32,810.24	$ 359.22	$ 22,451.02	$ 32,810.24
0.006	$32,947.10	$ 136.86	$ 22,810.24	$ 32,947.10
0.04	$33,864.99	$ 917.88	$ 22,947.10	$ 33,864.99
0.03	$34,590.57	$ 725.59	$ 24,186.25	$ 34,590.57

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Just to be clear.

A retired teacher with a $30,000 pension benefit in 2011 does **not** have a benefit today of $38,388.26 – what they would have if there was no COLA cap in place and the maximum COLA was 4% not 3%.

A retired teacher with a $30,000 pension benefit in 2011 does **not** have a benefit today of $40,812 – what they would have if there was no COLA cap in place and the benefits matched inflation.

Instead, as you can see above in Table C, a person with a $30,000 pension benefit in 2011 has a pension benefit today of approximately $34,590. This is a difference of $3,797 per year if no COLA cap had been put in place and if the maximum COLA remained at 4%. For someone relying on less than $35,000 per year to live, $3,797 is a lot of money.

Despite inflation of over 28% since 2011, this person has only seen an increase of 13% in benefits over this period due in part to the COLA freezes from 2011-2014 and the COLA cap. This is why we are deeply worried about the ability for pension benefits to keep pace with inflation, especially when inflation continues to far outpace the maximum 3% and with the COLA capped at roughly the first $24,000 of earnings.

And these changes in 2011 have a long tail impact for retirees. In Table D I show the cumulative impact of the COLA cap by comparing the pension benefit they would have received with no COLA cap versus my estimate of what they did receive.

Table D: Cumulative Impact, COLA Cap vs No COLA Cap (2011-2022)

YEAR	Pension COLA	Benefit	Max COLA in dollars	New COLA BASE	Diffference
			$ 20,000.00		
2011	0.036	$30,000.00	$ -	$ 20,000.00	$ 1,080.00
2012	0.017	$30,000.00	$ -	$ 20,000.00	$ 1,608.36
2013	0.018	$30,000.00	$ -	$ 20,000.00	$ 2,177.31
2014	0.021	$30,420.00	$ 420.00	$ 20,000.00	$ 2,433.03
2015	0.0255	$30,940.71	$ 520.71	$ 20,420.00	$ 1,945.18
2016	0.0255	$31,474.70	$ 533.99	$ 20,940.71	$ 1,740.05
2017	0.016	$31,818.29	$ 343.60	$ 21,474.70	$ 1,927.89
2018	0.029	$32,451.02	$ 632.73	$ 21,818.29	$ 2,273.80
2019	0.016	$32,810.24	$ 359.22	$ 22,451.02	$ 2,470.18
2020	0.006	$32,947.10	$ 136.86	$ 22,810.24	$ 2,545.00
2021	0.04	$33,864.99	$ 917.88	$ 22,947.10	$ 3,046.80
2022	0.03	$34,590.57	$ 725.59	$ 24,186.25	$ 3,797.68
			$ -	**Cumulative Impact**	**$ 27,045.27**

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Over the past 12 years this retiree lost over $27,000 in cumulative pension earnings. These are funds they could have used to pay for Medicare Part B or their Medicare Advantage plan. This money could have been used for car payments, or to fix the leaky roof. Instead, some took out more credit card debt. Some "made do." Some may have asked their church or family for help.

Our goal at the MEA is to make sure career educators can retire with the dignity they deserve. Sadly, we fear we are failing in this goal due in large part to the cuts imposed by the previous Governor and previous Legislatures. We fully expect this bill before you will have a large fiscal note but we hope all of you can work with us to make sure we find a pathway forward to fix this problem and we can get back to a shared goal of caring for retired teachers and public servants.

Thank you for your time and your service to the state. I will do my best to answer any questions you may have.