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

Testimony

In Support

LD 1773: An Act to Increase the State's Share of the Cost of Health Insurance for Retired Teachers

John Kosinski, Government Relations Director, Maine Education Association

Before the Education and Cultural Affairs Committee

May 9, 2023

Senator Rafferty, Representative Brennan and other esteemed members of the Education and Cultural 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 today to testify on behalf of the MEA in **support** of LD 1773, *An Act to Increase the State's Share of the Cost of Health Insurance for Retired Teachers*.

An identical bill, LD 112 sponsored by Representative Dodge was heard by the Labor and Housing Committee, which has jurisdiction over issues related to the Maine Public Employees Retirement System (MainePERS). LD 112 was passed by the Labor Committee with strong bipartisan support and then passed by the House and the Senate and currently sits on the Special Appropriations Table. The measure was passed "under the gavel" in the Senate, but there was one roll call in the House on March 30, 2023, and the vote was 137 in favor, and only seven opposed. Thank you for that support and we hope either LD 112 or LD 1773 are passed and become law.

Because the bills regarding retirement benefits have been directed to other committees, this committee has not had the full exposure to the pension and retirement challenges teachers and ed techs (IIs and IIIs) face and I would like to take a minute to highlight some of these challenges since they are directly related to this bill and to public education.

This Committee has clearly heard about the recruitment and retention challenges in our public schools. The pension and retirement benefits are directly connected to the recruitment and retention trends we are seeing. The sad fact is the meager pension benefits for educators are helping to retain teachers since many tell us they cannot afford to retire, thus keeping them in the classroom beyond what they had hoped. But sadly, the pension system is directly related to our recruitment challenges. The overwhelming majority of retired teachers in Maine would be unlikely to encourage their grandchildren enter teaching given their own challenges of trying to make do and cover basic needs in retirement.

Important Reminders:

- All public-school teachers and other certified professional staff (i.e., administrators, counselors, principals, superintendents, etc.) are in the Maine Public Employees Retirement System.
- Ed tech IIs and IIIs are also in MainePERS but Ed Tech Is, and other hourly school employees are in Social Security.
- Teachers and Ed Techs contribute 7.65% as MainePERS contributions.
- School districts pay a variable rate and currently pay about 4% of salary as contributions to MainePERS.
- Teachers and other public education employees in MainePERS do not contribute to Social Security while working in public education. Social Security payments are currently calculated as 6.2% of salary for both the employer and the employee.

Perfect Storm of Disadvantages:

There are three major problems for teachers and ed techs (IIs and IIIs) in retirement that are worth repeating. Combined, they create a perfect storm of disadvantages that seriously complicate the ability for educators to retire with the dignity they deserve after a career in public education.

- Social Security Offsets – Government Pension Offset (GPO) and Windfall Elimination Provision: Educators in MainePERS who may think they are eligible for Social Security benefits upon retirement are often alarmed when they learn about the two major offsets of the Social Security System – GPO and WEP. These intractable and unjust offsets often result in individuals losing 2/3rds or more of their Social Security benefits. Sadly, there is little the state can do – at least we have been unable to find any state-based solution to this problem. For decades, the National Education Association and advocates from all over the country have pushed for Congress to repeal or at least mitigate the impact of these offsets, to no avail. These offsets specifically impact public servants in about fifteen states, and any fix will be costly. We will continue our efforts but we remain pessimistic about the likelihood of success in the current Congress. This problem will only intensify in the coming years. Due to the current and expected shortages in the near future, our schools will rely on people coming into teaching from other careers. If future recruits know about the GPO/WEP offsets they may be less likely to consider working as a teacher or an ed tech II or III, due to the impact on their benefits whenever they retire.

- 2011 Pension Cuts: In 2011, then-Governor Paul LePage ushered through drastic cuts to the pension plan as part of the biennial budget process. The cuts included lifting the retirement age for new hires to sixty-five but also included two specific cuts to retirees that still are felt today.

    - COLA Cap: As part of the budget, the state affixed a cap on the amount of pension benefits subject to cost-of-living increases first, so the COLA only applied to the first $20,000 of earnings and then later adjusted for inflation. This is hugely problematic for retirees, especially retirees who may completely rely on their MainePERS benefit in retirement. The COLA is intended to help retirees keep pace with inflation with retirement, but restricting the COLA so it only applies to a portion of their benefit means they lose ground. Could you imagine getting a raise at your job, but the raise only applies to a portion of your salary? This is what these retirees are facing. The COLA cap now applies to about the first $24,000 of benefits, meaning someone with a $40,000 per year pension will only receive the COLA on the first $24,000.

    - Reduced Maximum COLA: Another change made in the 2011 budget under then-Governor LePage was a reduction in the maximum COLA from 4% to 3%. We certainly did not expect this change to be as problematic as it has turned out to be.

- Inflation: The third wave of the perfect storm is inflation. Inflation has far outpaced the COLA in pension benefits for the past two years and this trend could continue. Inflation above the 3% maximum COLA has a negative impact on pension benefits as the benefit loses ground in terms of purchasing power.

  For example, in FY 21/22, retirees received a 3% COLA on the first $24,000 of pension benefits, but inflation during that same period was 5.4%. Luckily, the Legislature stepped in and added another 1% so retirees saw an increase of 4% for 21/22 although inflation was 5.4%. The pension benefits eroded slightly.

  But in the current FY, 22/23, inflation was a whopping 9.1% but again the COLA was only 3% on the first $24,000 of pension earnings, meaning the benefits eroded by 6.1% in terms of purchasing power.

  The latest figure shows inflation in March of 2023 to be 5%. If inflation for the year is above 3% in June of 2023, again the benefits will erode compared to the cost of goods and services.

  I must point out, while these impacts are felt today by retirees, inflation and the 2011 cuts will be felt by every single teacher and ed tech (II and III) working in a classroom today whenever they retiree. The fact that inflation has outpaced the COLA will mean their benefits can buy less, whenever they retire. Again, it does not help our efforts to recruit teachers and ed techs when they are hearing about the woes of current retired educators and their inability to make ends meet in retirement.

<u>The Cumulative Impact of 2011 Pension Cuts</u>:

I am including with my testimony a previous testimony I prepared in February of 2023 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 that testimony I demonstrate the impact of these changes to someone making a $30,000 per year pension in 2011.

- Table A on page 2 of the testimony shows that someone with a $30,000 per year benefit in 2011 should have a benefit today of $38,388 if the cuts to pensions were not passed in 2011. They do not have a benefit of $38,388.

- Table B on page 3 of the testimony shows this same person with a $30,000 per year benefit should have expected a benefit today of $40,812 if their benefit mirrored inflation.

- Table C shows the real story. Someone with a $30,000 pension benefit in 2011 now has an annual benefit of $34,590 due to the COLA cap put in place in 2011 and the reduction of the maximum COLA from 4% to 3%. Over twelve years, this hypothetical retired teacher has seen an increase in benefits of about $4,500 when, if their pension matched the cost-of-living changes around them, they should have expected double that increase.

- Table D in that testimony is the real gut punch. That table shows the cumulative impact on this retiree since 2011. Someone with a $30,000 benefit in 2011 has lost over $27,000 in pension benefits in the past twelve years. What is more, if you notice on Table D, the pain gets worse the longer they live. With each passing year, the pension benefits erode, and they lose more in benefits and their standard of living declines.

<u>The Solutions This Session:</u>

Your colleagues on the Labor Committee have heard loud and clear about the challenges facing retired educators and have enthusiastically supported efforts to fix these pension issues and we are grateful for the bipartisan support.

However, due to Maine's unique constitutional constraints, fixes to the pension system are expensive. Section 18 of the Maine State Constitution includes a provision that requires the state to pay the entire cost of any pension improvement upfront, not just for current retirees, but for everyone in the plan:

> **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. **Unfunded liabilities may not be created except those resulting from experience losses.** Unfunded liability resulting from experience losses must be retired over a period not exceeding 20 years. (Emphasis added)

This provision of our Constitution inhibits our ability to fix the problems I outlined in this testimony.

For example, an amended version 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* was **UNANIMOUSLY** approved by the Labor Committee. The amended version would lift the COLA cap so it would apply to the first $40,000 of pension earnings, instead of to the first $24,000. While Committee members were enthusiastic about passing this amended version, we were all aghast when the fiscal note came back and because of Maine's constitutional prohibition on creating liabilities the cost to the state would be a one-time payment of $744 million.

Another bill, LD 1096, *An Act to Help Retired Teachers and State Employees Keep Pace with Inflation by Matching the Cost-of-living Adjustment for Social Security Benefits* attempted to mirror Social Security by ensuring the COLA reflected the full inflationary amount. So, if inflation was 9.1%, retirees would receive a 9.1% cost of living – not just 3%. The original fiscal note is likely to be over a billion dollars, but the Committee amended the bill to provide an additional 2% COLA for the current year – meaning instead of a 3% COLA they would receive 5% -- yet, again, inflation was 9.1%. This proposal also received **UNANIMOUS** support from the Committee and has a fiscal note of approximately $183 million.

The Case for LD 1773:

This information brings us to fully support LD 1773. We believe firmly pension improvements are necessary and critical for retirees to keep pace and not fall further behind and we truly hope this Legislature will take some action to make improvements for current retirees and future retirees.

LD 1773 (and LD 112) is/are no substitute for direct pension improvements. Over 40,000 retirees receive some kind of pension benefit from MainePERS, and they are feeling the pinch of what I described above. But LD 1773 would help nearly 9,000 retired teachers and ed techs right away and put more money in their pockets, without triggering the constitutional prohibitions on the unfunded actuarial liability.

The bill, like LD 112, proposes to lift the amount the state pays for the healthcare benefits of retired teachers and ed techs from the current 55% to 60% in July of 2023 and 65% in July of 2024.

When the state originally started the program, the intent was to have the state provide 100% of the cost of premium for the retired teacher health care program, but after the economic calamity of 2008, the state's payments were frozen at 45% until Minority Leader Faulkingham added an amendment to a bill in July of 2021 that lifted the state' contribution to 55%. We are grateful for his efforts.

I must also point out; over the past few years the MEA Benefits Trust has worked hard to make the retiree health care plan better and more affordable. The recent switch to a Medicare Advantage plan and the increase of the state share to 55% has resulted in a monthly savings for retired teachers of $80 per month and an annual savings of nearly $1,000 per year.

In 2020, the cost of the plan was $463 per month and a retired teacher was required to pay 55% or $254.66 per month.

But the cost of the plan beginning on July l, 2022 was $387.76 per month and the retiree 45% portion was $174.49 per month.

I want to repeat this - the cost of the plan has decreased since 2020 and retirees are paying less for their health care in retirement. Lifting the amount the state pays to 60% will save retirees approximately $240 more per year.

It is important to remind the Committee that not all retired teachers are eligible for Medicare. For some, the MEA Benefits Trust program may be all they have to rely on for health care in retirement. For these individuals, the state portion covers their plan costs under the active teacher plan. There are approximately 1,800 retired teachers in the state who are not Medicare eligible and for them the retired teacher health care program supplemented by the state is a critical component for accessing health care in retirement.

A goal at the MEA is to make sure career educators can retire with dignity. After a career in public service, caring for and educating students, we hope we all share an obligation to make sure our dedicated retired teachers and ed techs can enjoy their years outside of the classroom without undue financial stress. We hope you agree that individuals who spend decades educating children should be able to provide for their own basic needs in retirement. But across the state I am hearing retired teachers say they are scared. More retirees are struggling to make ends meet on their MainePERS pension. Healthcare is a basic need. And with your help we can help make healthcare more affordable to thousands of retired educators. We can honor the commitment of previous legislators to these dedicated public servants, and we can help give more peace of mind to hundreds if not thousands of retired educators who are starting to feel scared.

Thank you for your time and attention and I am happy to answer any questions you may have.

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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.