

DATE: February 20, 2024

TO: Senator Nicole Grohoski, Chair
Representative Joe Perry, Chair
Members, Joint Standing Committee on Taxation

FROM: Kathy J. Morin, Director, Actuarial and Legislative Affairs

SUBJECT: Testimony on L.D. 457 - An Act to Amend Maine's Tax Laws

Good afternoon, Senator Grohoski, Representative Perry, and members of the Joint Standing Committee on Taxation. My name is Kathy Morin, and I am the Director of Actuarial and Legislative Affairs for the Maine Public Employees Retirement System.

MainePERS is neither for nor against L.D. 457. We are here to provide information and offer any assistance the Committee might need regarding Sections 2 and 3 of the amendment to this bill.

Under current law, eligible retirees from State-sponsored programs, which includes state employees, teachers, legislators and judges, receive an annual cost-of-living adjustment (COLA) of up to 3% of eligible benefits. The level of benefits eligible for an adjustment is referred to as the COLA Base. Cost-of-living adjustments for these groups are based on the Consumer Price Index for All Urban Consumers (CPI-U). The COLA Base for the adjustment that will be made in September 2024 is currently \$25,659.20.

L.D. 457 proposes to increase the COLA Base for the 2024 COLA (i.e., paid in September 2024) to \$40,000.00. This would be a one-time change and the COLA Base for 2025 (i.e., paid in September 2025) would revert to the level it would otherwise have been absent this change. This change would impact those retirees who receive an annual benefit in excess of the current COLA Base and the additional adjustment paid in 2024 would become a permanent part of their ongoing benefit, on which future increases will be paid.

This bill will have a fiscal impact because the Constitution does not allow the creation of new or additional benefits unless immediately and fully funded. New benefits are created because retirees would receive a higher COLA and higher ongoing benefits than currently accounted for and funded, creating a new unfunded actuarial liability (UAL). We estimate an approximate \$40 million increase to the UAL, which is the amount that would have to be paid in full if this bill is enacted.

Thank you for your consideration of this testimony. I would be happy to answer your questions and will be available at your work session.