MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

DATE: March 29, 2021

TO: Senator Craig Hickman, Chair
Representative Mike Sylvester, Chair
Members, Joint Standing Committee on Labor and Housing

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

SUBJECT: Testimony on L.D. 703 – An Act to Increase the Amount to Which a State Employee or Teacher Retiree's Cost-of-living Adjustment is Applied from $20,000 to the Retiree's Actual Retirement Benefit

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Senator Hickman, Representative Sylvester, and members of the Joint Standing Committee on Labor and Housing. My name is Kathy Morin, and I am the Manager of Actuarial and Legislative Affairs for the Maine Public Employees Retirement System.

MainePERS is neither for nor against L.D. 703. We are here to provide information and offer any assistance the Committee might need regarding this bill.

The State of Maine defined benefit plans are funded by employer and member contributions and by investment returns. Contributions cover the normal, or annual costs of the plan, as well as payments on the unfunded actuarial liability, or UAL. The required level of contributions is determined on an actuarial basis every two years, by comparing plan assets to liabilities.

Prior to 2011, cost-of-living adjustments (COLA) for retired state employees and teachers were based on the Consumer Price Index for All Urban Consumers (CPI-U), up to a maximum of 4%. In 2011, COLA was frozen for three years, during which non-cumulative ad hoc COLAs were paid; the maximum COLA was reduced from 4% to 3%; and the annual COLA base was limited to the first $20,000 of benefits, indexed by future COLAs. These changes greatly reduced the required unfunded actuarial liability payment, which had increased significantly as a result of the 2008 recession.

L.D. 703 proposes to eliminate the cap on the portion of benefit on which the COLA is based from $20,000 (now at $22,810.25 as of September 2020 because of indexing), and to instead pay the COLA on the actual benefit received by retirees. This bill will have two fiscal impacts. The first is that it would require immediate funding of the increased liabilities created by a higher COLA on benefits earned to date, in compliance with the State Constitution. The second is that it would increase ongoing employer normal costs. The increased normal costs cover the cost of the increased COLAs to be paid on future benefits as they are earned. Although

MainePERS has not yet determined the fiscal impact of L.D. 703, we know from work on prior COLA-related bills that the cost to restore COLA to apply to the entire benefit would be substantial.

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