"RESOLUTION, Proposing an Amendment to the Constitution of Maine to Reduce Volatility in State Pension Funding Requirements Caused by the Financial Markets"

Do you favor amending the Constitution of Maine to reduce volatility in state pension funding requirements caused by the financial markets by increasing the length of time over which experience losses are amortized from 10 years to 20 years, in line with pension industry standards?

Sandy Matheson is the Executive Director of the Maine Public Employees Retirement System (MainePERS).

MainePERS proposed Question 4 and is in favor of this constitutional amendment. Bi-partisan supermajorities of both houses of the State Legislature voted in favor of Question 4. On November 7, we encourage you to also vote "Yes" on Question 4.

The first question you might ask yourself when considering Question 4 is, "Why make a change in the State Constitution?"

Your "Yes" vote on Question 4 will help MainePERS reduce the ups and downs of the State's share of pension costs. This is particularly important when the $13.8 billion trust fund is reduced by big market events like the 2009 recession. Modernizing the requirement to recover losses over 20 years instead of 10 provides fewer ups and downs and more time for a market recovery to make up big losses.

The history of the State Employees and Teachers Retirement Plan and how funding requirements got into the State Constitution is not only interesting, but tells a remarkable success story. Back in 1986, Maine found itself with a pension plan with 22% funding, one of the worst in the country. A 22% funding level means that only 22 cents had been set aside for every dollar owed in pension benefits.

Governors, legislators, plan members and many others decided to permanently fix this problem and created a comprehensive set of requirements to be placed in the Constitution. Voters overwhelmingly approved an amendment in 1995 ensuring responsible management of pension funding. Maine's Constitution is one of a very few state constitutions that protect pension funding.

And it worked. Today, the State Employee and Teacher Retirement Plan is 80% funded, among the best in the country.

Now we need to keep this remarkable success story going by following industry standards of recovering losses over 20 years instead of 10 years. The reason for making this change is simple. We now have much more money at risk from economic downturns, and recovering losses over 20 years instead of 10 is a more conservative approach to managing that risk. It also lowers the chances of big increases in the State's share of pension costs.

This is what happened during the 2009 recession, when those large market losses caused State-required contributions to nearly double. The big jump in the State's contributions led to a freeze and then a permanent reduction in retiree cost-of-living adjustments in order to decrease contributions to a level the State could afford.

This had a significant negative impact on public employees and retirees, who do not receive Social Security credit for their time in public employment.   This would be like permanently reducing Social Security benefits for everyone else.

We’re fortunate to have strong markets today, but market drops and recoveries will continue to occur. Question 4 helps smooth these out by adjusting only one provision – recovering losses over 20 years instead of 10. This cuts the immediate impact of a big market downturn in half and gives the market more time to recover.

Important facts to remember in determining how you will vote on this important question are:

- The State/Teacher Plan covers approximately 40,000 active members and 34,000 benefit recipients;
- The State/Teacher Plan members receive this pension benefit instead of Social Security;
- Members pay approximately 2/3 of the annual cost of the plan, and their employers pay approximately 1/3;
- MainePERS carefully invests retirement plan funds but cannot entirely avoid market losses;
- The State pays an additional amount to make up for investment market losses while the market recovers; and
- Recovering losses over 20 years is more in line with what other states do and is recommended by professionals in the public plan retirement industry.

MainePERS is in favor of “Yes” on Question 4.