Message from the Executive Director

MainePERS Investments and Current Economic Conditions

The economy and retirement plans are back in the news. That makes this a good time to share why the economy is so important and how it affects MainePERS defined benefit retirement plans. The easiest way to understand why the economy, good or bad, is so important to MainePERS defined benefit retirement plans is to understand how the MainePERS trust fund gets the money needed to pay retirement benefits.

If you are an employee and member of a MainePERS defined benefit plan, you contribute to your retirement through payroll deductions that go into the MainePERS trust fund. MainePERS employers also contribute to your retirement based on payroll paid to you and other employees each month. Finally, MainePERS invests the money in the trust fund in a way designed to continuously grow the balance and pay retirement benefits.

MainePERS defined benefit plans are a valuable part of Maine’s economy because they provide income to tens of thousands of retirees. A large part of the MainePERS retirement benefits paid each year are from investment earnings. This means new money is going into our economy as retirees use their benefit payments for household expenses.

A booming economy is ideal for defined benefit retirement plans. Employers who bear the investment risk may see their contributions go down as trust fund earnings go up. When the economy is slow or in recession, it is difficult or sometimes not possible to create the investment earnings needed to grow the trust fund. When this happens, employer contributions increase in order to keep the retirement plans funded. This can create a budgetary burden for employers.

This is what happened when the 2008-09 recession occurred and losses were severe. Strong investment performance following the recession played a significant role in the recovery of the fund. Changes in provisions such as cost-of-living adjustments helped to return the plan to the pre-recession funding levels.

The current markets are not experiencing a recession, but have had flat or little growth. The MainePERS trust fund returns were 2.0% for FY2015 and less than 1% for FY2016, similar to returns across the country, which will result in increased employer contributions. You may come across news articles in the future discussing how the current financial markets may affect retirement plan earnings.

To read more about how MainePERS invests and our long-term investment results, see the article on page 2.
MainePERS Investments

MainePERS takes the business of investing the retirement system’s assets very seriously. We make trust fund investments using a long range investment policy designed to withstand market fluctuations.

We have carefully developed this policy based on a comprehensive study of the retirement benefits owed and investments available to us. Our study analyzed the performance of various types of investments in both strong and weak economic environments. We then identified investment strategies that balance the challenge of growing the trust while still protecting the trust assets during times of extreme market conditions. This strategy is a positive approach to investing and is carefully designed to reduce the need to react to every market up or down as they occur.

The instinctive reaction among many investors to financial market ups and downs is to buy when prices are rising and to sell when prices are falling. Investing history shows that this approach is often a mistake, and is in contrast to the old investment adage of “buy low and sell high”. In fact, it appears likely that this behavior results in lower long-term returns than having a good investment strategy and sticking to it.

Even though we use a long-term strategy, we closely monitor the markets on a daily basis. We analyze our investments and brief the MainePERS Board of Trustees every month on the status of System funds. MainePERS’ investments are broadly diversified across four common investment categories: growth equity, hard assets (real estate, natural resources etc.), credit and fixed income. We also keep cash on hand to make sure we always make benefit payments every month.

We shared earlier in this newsletter that the current financial markets have been weak, i.e. they are providing little or no earnings. Navigating difficult market conditions is not new to MainePERS. The following chart shows how our returns vary over time depending on the markets, good or bad. As you can see, while shorter term returns can be volatile, returns tend to become less volatile over the long-term.

MainePERS Fiscal Year Performance Results Net of Fees

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Value 1 year</th>
<th>2 year</th>
<th>3 year</th>
<th>5 year</th>
<th>10 year</th>
<th>15 year</th>
<th>20 year</th>
<th>25 year</th>
<th>30 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2016</td>
<td>$12,283</td>
<td>0.6%</td>
<td>1.3%</td>
<td>6.2%</td>
<td>6.0%</td>
<td>5.2%</td>
<td>5.6%</td>
<td>6.6%</td>
<td>7.8%</td>
</tr>
<tr>
<td>FY 2015</td>
<td>$12,610</td>
<td>2.0%</td>
<td>9.1%</td>
<td>9.8%</td>
<td>10.2%</td>
<td>9.5%</td>
<td>9.0%</td>
<td>7.4%</td>
<td>8.1%</td>
</tr>
<tr>
<td>FY 2014</td>
<td>$12,732</td>
<td>16.7%</td>
<td>12.9%</td>
<td>9.3%</td>
<td>12.1%</td>
<td>6.0%</td>
<td>5.5%</td>
<td>8.1%</td>
<td>8.4%</td>
</tr>
<tr>
<td>FY 2013</td>
<td>$11,264</td>
<td>11.1%</td>
<td>5.7%</td>
<td>11.0%</td>
<td>4.3%</td>
<td>6.9%</td>
<td>5.2%</td>
<td>7.5%</td>
<td>8.3%</td>
</tr>
<tr>
<td>FY 2012</td>
<td>$10,470</td>
<td>0.0%</td>
<td>11.0%</td>
<td>11.0%</td>
<td>1.5%</td>
<td>6.3%</td>
<td>5.6%</td>
<td>7.7%</td>
<td>7.8%</td>
</tr>
<tr>
<td>FY 2011</td>
<td>$10,739</td>
<td>22.4%</td>
<td>16.6%</td>
<td>3.4%</td>
<td>4.4%</td>
<td>5.4%</td>
<td>6.3%</td>
<td>8.3%</td>
<td>8.2%</td>
</tr>
<tr>
<td>FY 2010</td>
<td>$8,934</td>
<td>11.1%</td>
<td>-5.0%</td>
<td>-4.4%</td>
<td>1.8%</td>
<td>2.5%</td>
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<td>7.5%</td>
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<tr>
<td>FY 2009</td>
<td>$8,291</td>
<td>-18.8%</td>
<td>-11.3%</td>
<td>-3.0%</td>
<td>1.9%</td>
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</tr>
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<td>FY 2008</td>
<td>$10,538</td>
<td>-3.2%</td>
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<td>6.5%</td>
<td>9.5%</td>
<td>5.0%</td>
<td>8.5%</td>
<td>9.3%</td>
<td>9.6%</td>
</tr>
<tr>
<td>FY 2007</td>
<td>$11,031</td>
<td>10.2%</td>
<td>11.7%</td>
<td>11.9%</td>
<td>11.4%</td>
<td>7.7%</td>
<td>9.8%</td>
<td>9.4%</td>
<td>11.4%</td>
</tr>
<tr>
<td>FY 2006</td>
<td>$9,559</td>
<td>7.5%</td>
<td>9.6%</td>
<td>11.9%</td>
<td>8.4%</td>
<td>7.9%</td>
<td>9.0%</td>
<td>9.2%</td>
<td>10.7%</td>
</tr>
<tr>
<td>FY 2005</td>
<td>$8,921</td>
<td>11.8%</td>
<td>14.2%</td>
<td>11.1%</td>
<td>3.2%</td>
<td>8.8%</td>
<td>9.5%</td>
<td>10.1%</td>
<td>11.0%</td>
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</tbody>
</table>

Finding a sound investment strategy and sticking with it helps our returns over the long term. We believe in this strategy for our own personal investments as well.
MainePERSpective - Fall 2016

Understanding Social Security and Your MainePERS Pension

Maine is one of 14 states in which many public employers offer a state or local pension in lieu of Social Security. You can easily determine if you are in one of these retirement plans if your pay stub shows no deduction for Social Security taxes with the exception of Medicare taxes.

Understanding some basic facts about how the Federal government treats this type of MainePERS pension benefit is important when planning your current or future retirement. The Social Security Administration uses two provisions to “offset” or reduce your Social Security benefit when you are receiving a retirement benefit from employment where you did not pay into Social Security. These are the Windfall Elimination Provision and the Government Pension Offset.

The Windfall Elimination Provision (WEP) may reduce your Social Security benefit if you have earned and are receiving a pension benefit from a public employer where Social Security was not collected and have also worked for employers where Social Security taxes were withheld from your earnings. This provision may apply to you if you reached age 62 after 1985 and you first became eligible for a monthly pension based on non-Social Security work after 1985. You can determine if and how your Social Security benefit may be affected by calling the Social Security Administration or reading their pamphlet located at https://www.ssa.gov/pubs/EN-05-10045.pdf.

The Government Pension Offset (GPO), enacted by the Federal Government in 1977, is based on federal law that requires a person’s spouse, widow, or widower Social Security benefit be offset or reduced by their own Social Security benefit. The Social Security administration will use your pension benefit earned in employment where you did not pay into Social Security to determine your eligibility for Social Security spouse benefits. For more information, check their pamphlet located at: https://www.ssa.gov/pubs/EN-05-10007.pdf.

Behind the Scenes - MainePERS Actuarial Valuation Process

Each year, MainePERS works with our actuarial experts to prepare an annual actuarial valuation for each of the defined benefit retirement plans we administer. These valuations, or “vals” as we call them, document important historical and statistical information that we use to manage each plan. One of the most important uses is to determine the plan funding level and upcoming employer contribution rates.

Because of the complex nature of this activity, MainePERS works with an external actuarial firm specializing in pensions. Actuarial valuations require specialized expertise to make the economic and demographic assumptions we need to manage member data and the plans. These complex but informative documents take 4-5 months to complete after the close of each fiscal year on June 30th. Completed valuation reports are located at www.mainepers.org if you would like to learn more. Please use the Quick Links section on the left of the homepage, click on Publications & Newsletters and scroll down to Actuarial Valuation Reports.

While we make plans for the upcoming fall weather, we are enjoying all of the great produce from the State of Maine.

Here is a recipe we came across that we want to share with you using the wonderful blueberries of Maine.

Molasses Blueberry Cake

1/2 cup sour milk 1/4 cup butter
1/2 cup sugar 1/2 tsp. each of cinnamon, ginger & salt
1/2 cup molasses 2 cups flour
1 tsp. baking soda 1 cup floured blueberries
1 egg

Turn into well-greased 8x8 pan. Bake at 350 for 40 minutes. Makes 9 servings.

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(3)
The Second Regular Session of the 127th Legislature adjourned on April 29, 2016. As reported in the MainePERSpective - Spring 2016 issue, several new laws were approved that pertain to MainePERS members, retirees and employers. The two pending law proposals that were previously reported as awaiting further consideration were not approved.

In addition to the new laws discussed in the previous issue, Resolve Chapter 78 (L.D. 1677) was enacted to direct the Department of Administrative and Financial Services and MainePERS to identify pre-July 1, 2015 retirees whose retirement benefit would increase if lost wages due to frozen merit increases in fiscal years 2012 and 2013 were included in the calculation of the retirement benefit, and to calculate the projected costs associated with permitting those increases. The information required by this law will be reported to the Legislature in January 2017 for further consideration.

More information about the newly approved laws can be found on our website at www.mainepers.org.

Understanding Social Security and Your MainePERS Pension

Both the Windfall Elimination Provision and the Government Pension Offset are Federal Government provisions and only affect your Social Security benefit. The State of Maine has no authority over the reductions or the ability to make any changes to them. These offsets cannot affect or reduce your MainePERS benefit.

The Social Security Administration’s website offers calculators for both the Windfall Elimination and Government Pension Offset provisions. These may aid in your financial planning. To determine your status under either the Windfall Elimination Provision or the Government Pension Offset visit www.socialsecurity.gov or call toll free at 1-800-772-1213.