Message from the Executive Director

The financial times in which we are living have provided a continuing set of new challenges many of us have not experienced in our lifetimes. The most significant and unusual events of the last few months relating to public pensions that you may read about and wonder whether they may affect your MainePERS pension are three “Ds” – discount rates, Detroit, and default.

Discount Rates - Discount rates in public pensions are generally the same as the long-term investment rate of return the fund expects to earn over 30 years. This rate is very important, and controversial, because this is the rate that is used to determine the amount of liabilities owed in today’s dollars. Total expected retirement payments for the lifetimes of all plan participants are summed up and then “discounted” back to their value in today’s dollars. This value for liabilities is compared to the assets, or funds, on hand today to determine the funding level of the plans.

MainePERS’ plans’ funding levels average approximately 80% using a 7.25% earnings, or discount, rate. This is one of the lower rates used by public plans. Using a lower discount rate results in a more conservative calculation of liabilities than using a discount rate that is higher, such as 8% (see the section on Detroit below). There is no required discount rate standard. Experts have wide-ranging disagreement on whether these traditional rates or rates as low as 2% or less should be used. Based on the discount rate used in these debates, you may read or hear about MainePERS retirement plans being funded anywhere between 40% and 80%.

We anticipate this subject will continue to be a matter of on-going debate. The MainePERS Board of Trustees regularly reviews the discount rate.

Detroit – The City of Detroit’s public pension plan has been a consistent part of the discussion as that City wrestles with its financial issues. Early in the process, an actuarial firm recalculated the plan’s liabilities, increasing the underfunding from approximately $3.5 billion to approximately $6 billion. The primary reason this increase occurred was that the recalculation used a 7% discount rate instead of the prior rate of 8%. Other changes also contributed to the increase, but in a smaller way.

MainePERS’ funding would only change slightly if we used the exact same methods that were used to recalculate Detroit’s pension liabilities. MainePERS has traditionally calculated its liabilities on the conservative side of public plans to strengthen the funding level of the plans.

Default – It is not clear what the financial market repercussions would be if at some point in the future the federal debt ceiling is not raised when reserve funding is depleted. The debates around what might or might not happen certainly have been 24 hour-a-day headline news in the past few weeks.

While it is not clear what specific event or series of events could trigger an actual federal government default, MainePERS does prepare for these types of events with contingency plans. To minimize any risk that we might not be able to access cash in time to pay monthly benefits, we maintain our accounts so that we can access cash in an emergency and pay monthly benefits on time.

Our regular investment strategy is designed to weather market ups and downs. We do not generally make precipitous changes in market uncertainty because of the probability that we could lose more by trying to time the market swings than by letting the market recovery take its course.
Changes to the Participating Local District (PLD) Program

In December, 2012 the PLD Advisory Committee, made up of PLD Plan employer and employee representatives, unanimously recommended modernization of the PLD Consolidated Plan. Recommendations were a result of a multi-year review by the committee of the Plan’s funding level, which was 87% funded as of June 30, 2012. PLD Committee members requested and reviewed a cost report prepared by MainePERS and unanimously agreed that actions beyond employer rate increases were needed to maintain the plan. PLD Employer rates are scheduled to return to the original aggregate of 8% by fiscal year 2015.

Committee members further agreed any actions should be consistent with good retirement plan management, benefit design, and shared by employers, employees and retirees/beneficiaries.

Modernization . . . . . . . . . . . . . .

The Maine Legislature passed changes to the Participating Local (PLD) Consolidated Plan in the last legislative session, as recommended by the PLD Advisory Committee. The effective date of the legislation is October 9, 2013; however, some of the changes include specific implementation dates.

PL 391 (L.D. 1440) – An Act to Amend the Retirement Laws Pertaining to Participating Local Districts

- Member contribution rates will be established by rule instead of statute. Changes to employee contribution rates take effect July 1, 2014 once the employers’ aggregate rate reaches 8%. (Changes in rates were submitted to the MainePERS Board of Trustees for adoption and implementation.)
- Effective July 1, 2014, the Cost-of-Living Adjustment (COLA) cap is reduced from 4% to 3%.
- Retirees who retire on or after September 1, 2015 will be eligible for a COLA after 12 months of retirement, instead of 6 months for those who retire prior to that date.
- Normal retirement age for new members of the Consolidated Plan after June 30, 2014 will be 65, instead of 60 for members prior to that date. A member who changes employers within the Consolidated Plan is not considered a “new” member under this provision.
- The early retirement reduction for retirees under the Normal Retirement Age (NRA) 65 plan is set at 6% per year.
- The bill sets up a study of specific issues related to the Participating Local District Retirement Program.

For more information, please visit www.mainepers.org/Pensions/PLD-Legislation.htm or contact us at 1-800-451-9800.
When life is busy and complicated, it is difficult to remember all of the significant details you may need at some point. We hope the following information is helpful in remembering important facts about your MainePERS benefits when or if you need to use our programs. If you have questions about any of these topics, please contact us at 1-800-451-9800. You may also want to use our new website feature that provides a quick and easy way to request information and receive a personalized response. Please look for the Information Request feature on our home page or go directly to www.mainepers.org/ASP/ContactMainePERS/InformationRequest.aspx.

Workers’ Compensation

Earnings you receive while on a workers’ compensation leave are earnable compensation. That means you will continue to earn service during your leave and you are required to pay MainePERS contributions on your workers’ compensation earnings. For instance, if 7.65% is normally deducted from your paycheck for your MainePERS contribution, you must remit 7.65% of your Workers’ Compensation benefit to MainePERS to receive creditable service. We are not allowed to include your time on Worker’s Compensation or your workers’ compensation earnings until we collect the premiums before finalizing your retirement benefit. Please contact the Retirement Services Department for more information by email at Retirement.Services@mainepers.org or by phone at 1-800-451-9800.

MainePERS and Social Security

Your MainePERS service retirement benefit is never reduced because you have had other employment covered by Social Security. Your Social Security benefit, however, may be reduced because you do or will receive a MainePERS benefit for employment not covered by Social Security. The amount of the reduction depends on how many years you paid into Social Security. The Social Security Administration (SSA) determines your Social Security benefit. We encourage you to contact SSA at 1-866-882-5422 (local) or visit www.ssa.gov/pgm/reach.htm if you have questions about that benefit.

Members and the Disability Program

One of the benefits of being a member of MainePERS is that you may be eligible for Disability Retirement benefits for certain long-term conditions. This program does not cover short-term medical situations. Information about the eligibility criteria can be found on our website at www.mainepers.org/Disability/Disability.htm. It is important to understand these requirements because they are different than Social Security Disability or Veteran’s Administration eligibility criteria. Because of these differences, qualification for Social Security or Veteran’s benefits does not mean that you also qualify for MainePERS disability benefits. Our Disability staff members are available by phone at 1-800-451-9800 or in person to discuss your situation and answer your questions.

Dependent Group Life Insurance Coverage

Are you paying for dependent life insurance coverage? If so, we urge you to periodically review whether your dependent still qualifies so that you are not unnecessarily paying premiums. We are not able to determine this for you because dependent names and ages are not required to enroll for this coverage. MainePERS staff can answer your questions about dependent coverage and assist you in determining whether you should continue this coverage. Please contact the Survivor Services Unit at 1-800-451-9800 or Survivor.Services@mainepers.org. You can also access your Certificate of Coverage from the Publications section of our website at www.mainepers.org.

Have you moved out of State?

We often receive calls from members who have moved from Maine and wonder how to handle the state taxes withheld from their monthly pension payment. If you are no longer a Maine resident and no longer want state taxes withheld because you’re now a permanent resident in another state, please complete a new Form W-4ME, sections 1-6 and send it to us. The form is available on our website or if you’d prefer, we will mail a form to you.

We also encourage you to consider contacting the Maine Revenue Services (www.maine.gov/revenue). This is a helpful resource for determining what (if any) taxes you may need to have withheld depending on your current living status.
NON-CUMULATIVE COLA CALCULATION

How is the noncumulative cost-of-living adjustment (COLA) for MainePERS State, Teacher, Legislative, and Judicial retirees calculated?

The non-cumulative COLA was created by the Legislature in 2011 to provide retirees with additional income during the time period in which the regular COLA was frozen. Legislation affecting this COLA spans a three year period from 2011 through 2013. The original 2011 legislation provided for a one-time COLA to be paid annually in the year following each of three years in which the COLA was frozen if surplus State budget funds up to $15 million were available. For example, the FY 2011 non-cumulative COLA of 3% on the first $20,000 of benefit was paid in FY 2012 based on the Consumer Price Index for Urban Consumers (CPI-U) of 3.2% at June 30, 2011.

The Legislature changed the maximum pool of money available to pay the 2012 COLA in 2013 from $15 million to $6.97 million in the 2013 budget process. Because the appropriated amount was slightly less than the amount needed to pay the 2012 CPI-U of 1.7% on the first $20,000 of benefits to eligible retirees, MainePERS pro-rated the total available to each eligible retiree. This resulted in a COLA of 1.67% on the first $20,000 of retirement benefits.

The 2013 legislation also changed the way the pool of money available to pay a 2014 COLA will be determined. In 2014, MainePERS will certify the maximum amount necessary to fund the total cost of the one-time COLA payment to eligible retirees. The 2013 CPI-U of 1.8% will be the basis for any noncumulative COLA payments in 2014.

~ Helpful Reminders ~

Advices of Deposit are not mailed every month, only when your net benefit changes by more than a dollar, regardless of the month. We continue to mail your year-end advice in December for your tax preparation purposes. Also, keeping your December Advice of Deposit can be helpful with your end of the year tax preparation.