MainePERS defined benefit retirement plans funding levels are at a historical high. With the strong investment results for the plan year ending June 30, 2014, the current funding levels for all MainePERS plans are expected to be at 80% or higher. This has been a long and disciplined journey for the State/Teacher Plan in particular, which was less than 30% funded during the 1980s.

**How to Reach 100% Plan Funding**

This is a complex topic! While there are varying views on exactly how to fund defined benefit plans, there are some principles that are helpful in understanding how plan funding works. The basic funding formula is:

\[
\text{Contributions (Members and Employers)} + \text{Investment Returns} = \text{Benefit Payments}
\]

Member contribution and benefit payments are set in law. Investment returns constantly change with the markets. This means for the formula to work when investment returns decrease, employer contributions must increase, so that when combined, contributions and returns are sufficient to pay the benefits. The 2009 recession, in which employer contributions to the State/Teacher Plan doubled due to the market losses, is an extreme example of this. Subsequent legislative changes reducing the Cost-of-Living Adjustment (COLA) from the CPI-U up to 4% to the CPI-U up to 3% applied to the first $20,000 of benefit restored the employer contributions and plan funding to its pre-recession path toward 100%.

**How are employer contribution rates set?**

By law, employer contribution rates are determined by the MainePERS Board of Trustees. One of the Board’s primary objectives in setting employer rates is to keep their volatility, or ups and downs, low from year to year. Why? Because pension contributions are a big part of an employer’s budget. If employer contributions swing widely from year to year, or even periodically such as what happened during the recession, employers have to cut or increase other planned expenses.

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Rule Change - Returning to Work
(for Classroom-based Employees)

Effective August 1, 2014, the rules will change for classroom-based teacher and State employee retirees who have reached their normal retirement age and return to work in a MainePERS-covered position with the “same” employer. The legislative change impacts those who return as classroom-based employees. This means:

- A retiree employed as a classroom-based employee may be employed by an individual school administrative unit for no more than 5 one-year contracts, which do not have to be consecutive. The 5-year limit is per school administrative unit.

- A retiree employed as a classroom-based employee may return to service at the same school administrative unit for a maximum of 10 years comprised of: 5 one-year contracts at 100% of the compensation for that position and 5 additional years at 75% of the compensation for that position.

- In addition, retirees must terminate all MainePERS-covered employment before retiring; and not return to covered employment before the effective date of retirement; and not return to MainePERS-covered employment for at least 30 days after termination.

State and Teacher retirees (except substitute teachers) who return to work in a MainePERS covered position that is not classroom-based will continue to be limited to reemployment of a maximum term of 5 years at 75% of the established compensation for the position.

Cost of Living Adjustment (COLA) Update

State, Teacher, Legislative and Judicial Retirees:

The three-year freeze on cost-of-living adjustments (COLA) for these plans expired in 2013. This means that for eligible retirees, a COLA increase will resume this September. By law, the COLA is based on the Consumer Price Index for Urban Consumers (CPI-U) as of June 30th applied to the statutory COLA base. The MainePERS Board of Trustees set the 2014 COLA at 2.1% (the CPI-U at June 30, 2014) at their August meeting.

If you are eligible for a COLA, your benefit will increase by the CPI-U amount up to a limit of 3% on the first $20,000 of your annual benefit. This is a permanent increase in your benefit. For example, if your annual benefit is $25,000, your benefit will increase by $420 ($20,000 multiplied by 2.1%) for a total of $25,420.

The $20,000 COLA base will be adjusted each year going forward for any COLA paid. For example, the COLA base in 2015 will be the 2014 base of $20,000, plus the 2.1% COLA, for a new COLA base of $20,420.

2014 is also the final year of the three one-time COLAs approved by the legislature in the years following each of the years in which the regular COLA was frozen, if enough funds remained in the State budget at the end of each fiscal year. Any 2014 one-time COLA will be based on the June 30, 2013 CPI-U of 1.8%. The legislature passed a bill in 2014 increasing the amount of annual benefit on which this final one-time COLA will be calculated from $20,000 to $30,000. If funds remain after the June 30, 2014 year-end accounting is finalized, eligible retirees will receive...continued on page 4
You may wonder how the Board helps keep employer contribution rates stable. One of the most important assumptions for reducing employer contribution volatility is the future earnings assumption. Trustees rely on the MainePERS investment team, investment consultants and the System’s actuary to assist them in determining this important assumption about the future as well as others, such as mortality rates.

In public plans, such as those MainePERS administers, this future earnings rate is used to “discount” back projected benefits members will receive over their lifetime to a current value. This means those future liabilities can be calculated in today’s dollars and compared to the amount of assets in the trust fund. The difference is the over- or under-funding of the plan. Employer contribution rates for the next year or the next biennium, depending on the plan, are then set consistent with the approach for reaching 100% funding.

The MainePERS Board of Trustees reduced the State/Teacher Plan future earning assumption, or discount rate, from 7.25% to 7.125% at their July meeting. Reductions in the discount rate generally increase the security of the fund because the target for the investment team has been lowered. Trustees were able to do this because earnings for the year ending June 30, 2014 were very high, 16.7% for the year.

If the System’s investment team is unable to earn the earnings assumption on average over time, the employer has to contribute more to pay member retirement benefits. Therefore, setting this assumption is a critically important function of the Board. Volatility is generally reduced when the assumed future earnings assumption is reduced because the target has been lowered.

Using excess investment earnings to lower contribution rates or increase benefits is seldom an actuarially sound practice. Excess returns should generally stay in a plan to make up for the years when the markets experience a loss. Taking a look at the market volatility of the last 6 years demonstrates that if you remove the excess earnings, you would simply have to add more into the plan when losses occur.

The State/Teacher Plan is increasingly being recognized as a success story outside of Maine. When asked how the Plan’s funding has been increased by over 50% since the 1980s, my answer is always fairly simple. Employees have always paid their contribution through payroll deduction. The State of Maine has been paying their full pension obligation billed by MainePERS every year without fail since the early 1990s. This and good governance by the MainePERS Board of Trustees has enabled what was once a vulnerable retirement plan to grow into one of the stronger plans in the country.

If you have questions about plan funding, please contact us at Executive.Director@mainepers.org and we will help answer your question.
Online Information Request

You may have noticed that you no longer receive annual member statements in the mail from MainePERS. Last year, we replaced annual statements with a new Information Request feature on our web site. The online feature offers you the ability to request specific information, at your convenience. By using this new feature, you can customize your requests to suit your particular needs at any time. There is also a place where you can send us a note, asking for information on topics of interest to you that may not be listed. Among other things, you can request:

- A statement of your current service credit and contribution totals;
- The names of your current beneficiary(ies);
- An estimate of your retirement benefits;
- Information on purchasing additional service credit;
- Group Life Insurance information; and
- Information on the MainePERS Disability Program.

Because we know life gets busy, MainePERS will mail you a post card each year around your birthday, as a friendly reminder to consider reviewing or requesting information about your retirement account. To review this feature, please visit www.mainepers.org and click on the “Info” icon. Whether you are new to retirement planning, not sure of your current beneficiary designations, or are approaching your retirement age, the online Information Request feature is a simple way to get the information you need.

COLA...continued from page 2

the third and final one-time COLA up to 1.8% on the first $30,000 of annual benefit, up to the maximum of $540. This is in addition to the regular COLA which resumes this year.

Participating Local District Retirees:

The MainePERS Board of Trustees also set the COLA for eligible* PLD retirees at their August meeting. This COLA is calculated by applying the CPI-U up to a maximum of 3% to each retiree’s current benefit. Trustees approved a 2.1% increase in retiree benefits based on the Consumer Price Index for Urban Consumers (CPI-U) (up to 3%) for the year ending June 30, 2014.

* If you are covered by a PLD retirement plan that includes COLA, you are eligible for a COLA equal to the CPI-U (up to 3%) after you have been retired for at least 6 months. You will receive a COLA beginning the September after you have met this requirement.

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