MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

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DATE: March 28, 2023

TO: Senator Michael Tipping, Chair
Representative Amy Roeder, Chair
Members, Joint Standing Committee on Labor and Housing

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

SUBJECT: Testimony on L.D. 1096 – An Act to Help Teachers and State Employees Keep Pace with Inflation by Matching the Cost-of-Living Adjustment for Social Security Benefits

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Good afternoon, Senator Tipping, Representative Roeder, and members of the Joint Standing Committee on Labor and Housing. My name is Kathy Morin, and I am the Director of Actuarial and Legislative Affairs for the Maine Public Employees Retirement System.

MainePERS is neither for nor against L.D. 1096. We are here to provide information and offer any assistance the Committee might need regarding this bill.

We previously provided the Committee with a history of cost-of-living adjustments (COLA) for the State-sponsored retirement programs, which includes state employees, teachers, legislators and judges. Prior to 2011, cost-of-living adjustments for these groups were based on the Consumer Price Index for All Urban Consumers (CPI-U), up to a maximum of 4%, referred to as the COLA cap. In 2011, the COLA cap was reduced from 4% to 3%, and the annual COLA base was limited to the first $20,000 of benefits, indexed by future COLAs. In 2022, the COLA base was $24,186.25.

L.D. 1096 proposes two changes to the cost-of-living provisions. First, it changes the index used to establish COLA from the Consumer Price Index for All Urban Consumers (CPI-U) to the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the Northeast Region. In 2001, the index used to establish COLAs for MainePERS retirees changed from the Consumer Price Index for Urban Wage Earners and Clerical Workers; United States City Average, to the CPI-U which serves as the current basis. At the time of that change, the emergency preamble to the enacting legislation, PL 2001, ch. 181, stated that the change was made "…because (the CPI-U) is the most reflective of the purchasing power of the dollar for the broadest population of consumers, including retired consumers…" For comparison purposes, the CPI-U for the twelve-months ending June 30, 2022, upon which MainePERS retiree COLAs were based was 9.1%, while the proposed CPI-W basis for the same period was 8.6%.

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L.D. 1096 also proposes to eliminate the COLA cap, currently 3%, and instead increase benefits by the full Consumer Price Index increase. As previously indicated, prior to 2011, the COLA cap was 4%, which was established in law in 1977. In years in which the Consumer Price Index exceeds the cap, MainePERS provides information to the Governor's Office regarding the cost of an additional increase, as required by statute.

This bill will have a fiscal impact because the Constitution does not allow the creation of new or additional benefits unless immediately and fully funded. New benefits are created because retirees, both current and future, would receive a higher COLA than currently accounted for and funded, creating a new unfunded actuarial liability (UAL).

We estimate an approximate $672 million increase to the UAL, which is the amount that would have to be paid if this bill is enacted. Additionally, we estimate an ongoing increased normal cost of approximately $11 million per year. Normal costs are paid by the State for its employees and by local school units for teacher members. The increased normal costs cover the cost of the increased COLAs to be paid on future benefits as they are earned.

It is important to note that these estimated costs reflect only the elimination of the 3% COLA cap as proposed by L.D. 1096. They do not reflect any change to the COLA base, which is the level of benefit subject to COLA. The Committee recently voted to pass L.D. 70, which increases the COLA base to $40,000. If the COLA base is increased to $40,000 and the 3% COLA cap is eliminated, the UAL cost would increase by approximately $1.65 billion and the normal cost would increase by approximately $22.6 million per year.

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