

DATE: February 14, 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. 70 – An Act to Eliminate the Cap on Retirement Benefits For State Employees and Teachers to Which a Cost-of-Living Adjustment is Made

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. 70. We are here to provide information and offer any assistance the Committee might need regarding this bill.

The State of Maine defined benefit plans are funded by employer and member contributions and by investment returns. Contributions cover the normal, or annual costs of the plan, as well as payments on the unfunded actuarial liability, or UAL. The required level of contributions is determined on an actuarial basis every two years, by comparing plan assets to liabilities.

Included with this testimony is a chart that shows a partial history of cost-of-living adjustments (COLA) for the State-sponsored retirement programs, which includes state employees, teachers, legislators and judges. As shown, 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%, and the entire benefit was subject to COLA. In 2011, COLA was frozen for three years, during which non-cumulative ad hoc COLAs were paid; the maximum COLA was reduced from 4% to 3%; and the annual COLA base was limited to the first \$20,000 of benefits, indexed by future COLAs. These changes greatly reduced the required unfunded actuarial liability payment, which had increased significantly as a result of the 2008 recession.

L.D. 70 proposes to eliminate the cap on the portion of benefit subject to a COLA from \$20,000 (now at \$24,186.25 as of September 2022), and to instead pay the COLA on the entire benefit received by retirees. 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 \$1.2 billion 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 \$14 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.

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

State-Sponsored Plans COLA History

Prepared by MainePERS – 02/14/2023

YEAR	CPI-U	COLA CAP	COLA PAID	ELIGIBLE BENEFIT (COLA BASE)	MAX COLA	STATUTORY CHANGES
2007	2.70%	4.00%	2.70%			
2008	5.00%	4.00%	4.00%			
2009	-1.40%	4.00%	0.00%			Negative CPI-U; no decrease in benefit. (PL 2009, c. 433)
2010	1.10%	4.00%	0.00%			COLA reduced to account for prior year negative CPI-U. (PL 2009, c. 433)(PL 2009, c. 473)
2011	3.60%	3.00% of eligible benefit	0.00%			COLA frozen; COLA Cap decreased; maximum benefit level eligible for COLA set to \$20,000, indexed (PL 2011, c. 380)
2012	1.70%	3.00% of eligible benefit	0.00%			COLA frozen; one-time non-cumulative COLA of 3% of benefit up to \$20k paid (PL 2011, c. 380)
2013	1.80%	3.00% of eligible benefit	0.00%			COLA frozen; one-time non-cumulative COLA of 1.70% of benefit up to \$20k paid (PL 2011, c. 380)
2014	2.10%	3.00% of eligible benefit	2.10%	\$20,000.00	\$420.00	One-time non-cumulative COLA of 1.8% of benefit up to \$30k paid (PL 2013, c. 578)
2015	0.10%	3.00% of eligible benefit	2.55%	\$20,420.00	\$520.71	COLA rate set for two-year period (minimum 2.55%) (PL 2015, c. 334)
2016	1.00%	3.00% of eligible benefit	2.55%	\$20,940.71	\$533.99	COLA rate set for two-year period (minimum 2.55%) (PL 2015, c. 334)
2017	1.60%	3.00% of eligible benefit	1.60%	\$21,474.70	\$343.60	
2018	2.90%	3.00% of eligible benefit	2.90%	\$21,818.30	\$632.73	
2019	1.60%	3.00% of eligible benefit	1.60%	\$22,451.03	\$359.22	
2020	0.60%	3.00% of eligible benefit	0.60%	\$22,810.24	\$136.86	
2021	5.40%	3.00% of eligible benefit	4.00%	\$22,947.11	\$917.79	Additional 1% COLA eff 9/1/2021 (PL 2021, c. 635, Pt. NN).
2022	9.10%	3.00% of eligible benefit	3.00%	\$24,186.25	\$725.59	2022 COLA base increased to reflect full 2021 CPI-U (PL 2021, c. 635, Pt. NN)
2023						