



Maine Public Employees’ Retirement System

Retiree Group Life Insurance Program

Participating Local Districts (PLDs) Actuarial Valuation and GASB Statement No. 74 Report as of June 30, 2022

**Presented by Cheiron
October 2022**

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October 13, 2022

Board of Trustees
Maine Public Employees' Retirement System
PO Box 349
Augusta, Maine 04332-0349

Dear Members of the Board:

The purpose of this report is to provide accounting and financial reporting information under Governmental Accounting Standards Board (GASB) Statement No. 74 and present the estimated Postretirement Group Life Insurance obligations as of June 30, 2022, for the Maine Public Employees' Retirement System (MainePERS or System) based on a full valuation of the obligations as of June 30, 2022.

This report covers the participants of Participating Local Districts Plans (PLDs). This report includes:

- Determination of the discount rate,
- Calculation of the Total OPEB Liability (TOL) from the valuation date to the measurement date,
- Calculation of the Net OPEB Liability (NOL) at the discount rate as well as discount rates one percentage higher and lower than the discount rate, and
- Changes in the Net OPEB Liability.

We have determined the costs and liabilities for the substantive plan using actuarial assumptions and methods that we consider reasonable. The information shown in this report is primarily for financial disclosure purposes since the contributions for the participants of the PLDs are based on premiums set by the premium studies.

The current premium rates reflect rate changes adopted by the Board of Trustees based on a premium study conducted in 2020. The basic premiums increased to \$0.22 bi-weekly per \$1,000 of coverage for fiscal year (FY) 2022 for both active and retired PLD participants. Basic premiums will increase to \$0.23 for FY 2024 and \$0.24 for FY 2026. For active participants, \$0.11 is allocated to fund active benefits in all years, while the difference is allocated to fund future retiree benefits. Any further increases would be determined by the next premium study in 2024.

In preparing our report, we relied on information (some oral and some written) supplied by the System. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and changes in plan provisions or applicable law.

This report does not contain any explicit adjustments for the potential impact of COVID-19. We note that benefit payments over the past fiscal year were close to the long-term assumptions for PLDs, so we did not observe a material short-term increase in mortality experience over the past year. The long-term net impact is not determinable at this time and will be reviewed as part of the next premium study.

This report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This report was prepared for the Maine Public Employees' Retirement System for the purposes described herein and for the use by the Plan auditor in completing an audit related to the matters herein. Other users of this report are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any such other users.

Sincerely,
Cheiron



John Colberg, FSA, EA, MAAA
Principal Consulting Actuary



Ryan Benitez, ASA, MAAA
Consulting Actuary

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SECTION I – SUMMARY OF KEY RESULTS

The reporting date for the Maine Public Employees Retirement System Retiree Group Life Insurance Program presented in this report is June 30, 2022. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2022 and the Total OPEB Liability (TOL) as of the valuation date June 30, 2022. There was an update of census data since the prior valuation.

Beginning of year measurements presented in this report are based on the actuarial valuation as of June 30, 2021. Since this is a full valuation, liability gains or losses due to experience are reported due to the updated census information.

Table I-1 below provides a summary of the key results during this reporting period ending on June 30, 2022.

Table I-1 Summary of Results		
	Measurement Date 06/30/2021	Measurement Date 06/30/2022
Total OPEB Liability	\$ 31,531,361	\$ 32,823,884
Plan Fiduciary Net Position	21,207,382	18,340,729
Net OPEB Liability	<u>\$ 10,323,979</u>	<u>\$ 14,483,155</u>

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SECTION II – DETERMINATION OF DISCOUNT RATE

MainePERS's funding policy is for PLD employees to pay \$0.22 biweekly per \$1,000 in coverage for all participants. Of the \$0.22 for actives, \$0.11 is allocated to the Retiree Fund for retiree benefits.

As recommended in Option 3 of the 2020 Premium Study, the following increases are assumed:

- FYE 2024: \$0.23 for retirees with \$0.12 of active premiums allocated to the Retiree Fund
- FYE 2026: \$0.24 for retirees with \$0.13 of active premiums allocated to the Retiree Fund

The discount rate at June 30, 2022 is 6.50%, which is the assumed long-term expected rate of return on plan investments. The fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. As such, the long-term expected rate of return on the Program's investments was applied to all periods of projected benefit payments in determining the Total OPEB Liability. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made according to the funding policy described in the above paragraph.

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SECTION III – PROJECTION OF TOTAL OPEB LIABILITY

The TOL is measured as of the valuation date June 30, 2022. This is a full valuation, which is completed at least every two years, and roll forward valuations are performed in the off years. The only significant event in calculating the TOL as of the valuation date was an update in census data. The table below shows the calculated TOL at discount rates equal to the rate used for disclosure purposes and plus and minus one percent from the rate used for disclosure purposes. The TOL has been determined using the entry age actuarial cost method as described in paragraph 54 of GASB Statement 74.

Table III-1 shows the TOL as of the valuation date for the assumed discount rate as well as for plus and minus one percent of this discount rate.

Table III-1 Projection of Total OPEB Liability			
Discount Rate	5.50%	6.50%	7.50%
Total OPEB Liability, 6/30/2022			
Actives	\$ 11,860,631	\$ 9,471,040	\$ 7,651,621
Deferred Vested	0	0	0
Retirees	<u>26,137,141</u>	<u>23,352,844</u>	<u>21,018,128</u>
Total	\$ 37,997,772	\$ 32,823,884	\$ 28,669,749

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SECTION IV – NOTE DISCLOSURES

Table IV-1 below shows the changes in TOL, the plan fiduciary net position (i.e., fair value of plan assets), and the Net OPEB Liability during the measurement year. Since this is a full valuation, there is a difference between expected and actual experience due to the updated census information. There were no significant changes in benefits or assumptions during the year.

Table IV-1 Change in Net OPEB Liability - PLD			
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at 06/30/2021	\$ 31,531,361	\$ 21,207,382	\$ 10,323,979
Changes for the year:			
Service cost	308,456		308,456
Interest	2,121,985		2,121,985
Changes of benefits	0		0
Changes of assumptions	0		0
Differences between expected and actual experience	(149,516)		(149,516)
Contributions - employer		1,277,664	(1,277,664)
Contributions - member		0	0
Net investment income		(3,031,547)	3,031,547
Benefit payments	(988,402)	(988,402)	0
Administrative expense	0	(124,368)	124,368
Net changes	1,292,523	(2,866,653)	4,159,176
Balances at 6/30/2022	\$ 32,823,884	\$ 18,340,729	\$ 14,483,155

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SECTION IV – NOTE DISCLOSURES

Changes in the discount rate would affect the measurement of the TOL. Lower discount rates produce a higher TOL and higher discount rates produce a lower TOL. Because the discount rate does not affect the measurement of assets, the percentage change in the NOL can be very significant for a relatively small change in the discount rate. Table IV-2 shows the sensitivity of the TOL and NOL to the discount rate.

Table IV-2 Sensitivity of Net OPEB Liability to Changes in Discount Rate			
	1% Decrease 5.50%	Discount Rate 6.50%	1% Increase 7.50%
Total OPEB Liability	\$ 37,997,772	\$ 32,823,884	\$ 28,669,749
Plan Fiduciary Net Position	<u>18,340,729</u>	<u>18,340,729</u>	<u>18,340,729</u>
Collective Net OPEB Liability	<u>\$ 19,657,043</u>	<u>\$ 14,483,155</u>	<u>\$ 10,329,020</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	48.3%	55.9%	64.0%

A one percent decrease in the discount rate increases the TOL by approximately 15.8% and increases the NOL by approximately 35.7%. A one percent increase in the discount rate decreases the TOL by approximately 12.7% and decreases the NOL by approximately 28.7%.

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SECTION V – REQUIRED SUPPLEMENTARY INFORMATION

Table V-1 Schedule of Changes in Net OPEB Liability and Related Ratios	
	FY 2022
<u>Total OPEB Liability</u>	
Service cost (BOY)	\$ 308,456
Interest (includes interest on service cost)	2,121,985
Changes of benefit terms	0
Differences between expected and actual experience	(149,516)
Changes of assumptions	0
Benefit payments	(988,402)
Net change in total OPEB liability	1,292,523
Total OPEB liability - beginning	31,531,361
Total OPEB liability - ending	\$ 32,823,884
<u>Plan fiduciary net position</u>	
Contributions - employer	\$ 1,277,664
Contributions - member	0
Net investment income	(3,031,547)
Benefit payments	(988,402)
Administrative expense	(124,368)
Net change in plan fiduciary net position	\$ (2,866,653)
Plan fiduciary net position - beginning	21,207,382
Plan fiduciary net position - ending	\$ 18,340,729
Net OPEB liability - ending	\$ 14,483,155
Plan fiduciary net position as a percentage of the total OPEB liability	55.88%
Covered employee payroll	\$ 301,040,000
Net OPEB liability as a percentage of covered employee payroll	4.81%

Notes to Schedule of Changes in Net OPEB Liability and Related Ratios

None

A ten-year schedule of changes in NOL and related ratios is to be included within the Annual Comprehensive Financial Report (ACFR) for MainePERS. However, based on GASB guidance, this ten-year history can be built one year at a time following implementation. We have shown only the current year of this *Schedule of Changes in Net OPEB Liability and Related Ratios* above and believe that you can accumulate these individual years in the MainePERS ACFR to build this schedule to show the full ten-year schedule over time. Notes to this schedule should be included for any factors significantly impacting the trends reported within the period shown in this schedule at that time. As of June 30, 2022, we have not included such a note in the *Notes to Schedule of Changes in Net OPEB Liability and Related Ratios* above. However, it is our expectation that the System staff will make the final determination regarding any notes needed for this schedule and we are available to provide any information they may need for this purpose.

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SECTION V – REQUIRED SUPPLEMENTARY INFORMATION

If an Actuarially Determined Contribution is calculated, the following schedule is required. An Actuarially Determined Contribution is a contribution amount determined in accordance with Actuarial Standards of Practice.

Table V-2 Schedule of Employer Contributions During Fiscal Year 2022	
	PLD
Actuarially Determined Contribution	\$ 1,942,791
Contributions in Relation to the Actuarially Determined Contribution	<u>1,277,664</u>
Contribution Deficiency/(Excess)	\$ 665,127
Covered Payroll	\$ 301,040,000
Contributions as a Percentage of Covered Payroll	0.42%

Notes to Schedule

Valuation Date: June 30, 2018

Timing: The ADC is calculated in advance of the completion of the prior biennial valuation and thus rolled-forward from prior results. In this case, ADCs for 2022 and 2023 are based on the June 30, 2018 valuation rolled forward and adjusted for changes in assumptions.

Key Methods and Assumptions Used to Determine Contribution Rates for FY 2022

Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	Market Value
Amortization Method:	Level percent closed with 14 years remaining for FY 2022
Discount Rate:	6.750%
Salary Inflation:	2.750%
Administrative Expense Load:	8.66%

A complete description of the methods and assumptions used to determine contribution rates for the year ending June 30, 2022, can be found in the June 30, 2018 Actuarial Valuation report.

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SECTION V – REQUIRED SUPPLEMENTARY INFORMATION

Table V-3 that follows is provided in this report at the request of MainePERS staff, showing the development of the average remaining service life for the Program. GASB 75 requires some items be recognized by employers into OPEB expense over a period “equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.” For the current measurement year ending on June 30, 2022, these values are thus developed based on the prior full biennial valuation data as of June 30, 2020. The development of this value is shown below, including reflection of the decision by MainePERS to round the resulting value to the nearest whole year.

Table V-3			
Average Expected Remaining Service Life			
For Measurement Year Ending June 30, 2022			
Status	Total Expected Future Service	Count	Average Remaining Service Life
Actives	54,870	5,498	10
Inactives	<u>0</u>	<u>2,879</u>	<u>0</u>
Total Membership	54,870	8,377	7

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APPENDIX A – PARTICIPANT DATA, ASSUMPTIONS, AND METHODS

Participant Data as of June 30, 2022

Table A-1 Active Member Data				
Group	Count	Average Age	Average Service	Average Salary
PLDs	5,248	48.8	10.5	\$ 57,363

Table A-2 Non-Active Member Data				
Group	Count	Average Age	Average Benefit¹	
PLDs	3,015	72.7	\$ 19,266	

¹Ultimate benefit (40% of initial base benefit)

Note that all assumptions are based on the MainePERS Pension assumptions, which were updated after the experience study performed two years ago. All assumptions specific to this valuation are detailed in the following section.

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A. Actuarial Assumptions

1. Annual Rate of Investment Return

PLDs	6.50%
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Rate is net of investment expense.

2. Cost-of-Living Adjustment in Life Benefits

N/A. Unlike pension benefits, Life Benefits do not increase with the Cost of Living.

3. Annual Rate of Individual Salary Increase (% at Selected Years of Service)

Years of Service	Rate of Increase
0	11.48%
1	8.66
2	4.81
3	4.29
4	4.03
5	3.78
10	3.26
15	3.26
20	3.01
25	2.75
30	2.75

The above rates include a 2.75% across-the-board increase at each year of service.

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4. Sample Rates of Termination (% at Selected Years of Service)

Service	Regular	Special
0	28.0%	17.9%
1	21.0	14.4
2	15.0	10.5
3	12.0	9.5
4	10.0	7.8
5	9.0	7.9
10	5.0	4.5
15	3.5	2.9
20	3.5	2.7
25	3.0	0.0

5. Sample Rates of Mortality for Healthy Annuitant Lives at Selected Ages (number of deaths per 10,000 members)

Age	Showing values in 2022	
	Male	Female
50	31	25
55	47	35
60	71	48
65	103	69
70	159	112
75	269	200
80	485	370
85	894	703
90	1,556	1,314
95	2,428	2,146

Rates are based on 112.1% and 118.5% of the 2010 Public Plan General Benefits-Weighted Healthy Retiree Mortality Table, respectively, for males and females. Proposed rates are projected generationally using the RPEC_2020 model, with an ultimate rate of 1.00% for ages 80 and under, grading down to 0.05% at age 95, and further grading down to 0.00% at age 115, with convergence to the ultimate rates in 2027. All other parameters used in the RPEC_2020 model are those included in the published MP-2020 scale.

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6. Sample Rates of Mortality for Active Lives at Selected Ages (number of deaths per 10,000 members)

(showing values in 2022)		
Age	Male	Female
20	3	1
25	3	1
30	4	2
35	6	3
40	7	4
45	9	5
50	12	7
55	18	11
60	28	17
65	39	25

Rates are based on 83.5% and 88.6% of the 2010 Public Plan General Benefits- Weighted Employee Mortality Table, respectively, for males and females. These rates are generationally projected using the same version of the RPEC_2020 model as described in the healthy annuitant mortality.

7. Sample Rates of Mortality for Disabled Annuitant Lives at Selected Ages (number of deaths per 10,000 members)

(showing values in 2022)		
Age	Male	Female
25	36	21
30	54	37
35	73	57
40	90	76
45	113	99
50	161	143
55	219	184
60	278	213
65	330	222
70	389	262

Rates are based on 107.3% and 103.2% of the 2010 Public Plan Non-Safety Benefits-Weighted Disabled Retiree Mortality Table, respectively, for males and females. These rates are generationally projected using the same version of the RPEC_2020 model described in the healthy annuitant mortality.

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APPENDIX A – PARTICIPANT DATA, ASSUMPTIONS, AND METHODS

8. Sample Rates of Retirement at Selected Ages (number retiring per 1,000 members)

Regular Plans

Age	Regular Plans	
	NRA 60	NRA 65
45	N/A	N/A
50	N/A	N/A
55	N/A	N/A
60	120	60
65	250	200
70	1,000	250
75	1,000	1,000

In the case of PLD employees, NRA 60 refers to those who were hired prior to July 1, 2014, and NRA 65 refers to those who were hired on or after July 1, 2014.

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Special Plans

Years of Service	Special Plans
20	350
21	300
22	280
23	250
24	200
25	350
26	250
27	230
28	250
29	400
30	250
31-33	250
34	330
35+	1,000

Note that all retirement rates are only applied once the member is eligible to retire, so those in 25-year plans are not assumed to retire at 20 years of service. For Special Plan retirements with less than 20 years of service, we assume 250 retirements per 1,000 members.

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9. Sample Rates of Disability at Selected Ages (number becoming disabled per 10,000 members)*

	Regular	Special
25	0.9	2.3
30	1.2	3.0
35	1.8	4.5
40	4.2	10.5
45	8.7	21.8
50	16.5	41.3
55	28.5	70.0
60	30.0	70.0

10. Premium Expense Assumption

To reflect administrative expenses associated with the distribution of benefits, the following loads, determined in the 2020 Premium Study, have been added to the liabilities, normal cost, and benefit payments.

PLDs: 9.36%

11. Technical and Miscellaneous Assumptions

Decrement Timing: Middle of the valuation year.

Pay Increase Timing: Salary provided is treated as the rate of pay as of the valuation date. Annual increases are applied as of the beginning of each subsequent valuation.

Conversion Charges: Applies to the cost of active group life insurance, not retiree group life insurance.

Form of Benefit Payment: Lump Sum.

Participation Percent for Future Retirees: 100% of those currently enrolled.

Retirement for Participants who are not members of MainePERS: Age 62.

12. Rationale for Assumptions

The revised demographic assumptions were adopted by the Board of Trustees at their March 11, 2021 meeting. The revised discount rate was adopted by the Board of Trustees at their August 12, 2021 meeting. The demographic assumptions adopted are based on an

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experience study covering the period from July 1, 2015 through June 30, 2020, and the economic assumptions are based on this experience study along with advice of the MainePERS investment consultants.

13. Changes since Last Valuation

None

14. Rationale for Change in Actuarial Assumptions

N/A

15. Disclosure of Models used

Proval: Cheiron utilizes ProVal, an actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate the liabilities, normal costs, and projected benefit payments. We have relied on WinTech as the developer of ProVal. We have reviewed ProVal and have a basic understanding of it and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this actuarial valuation.

Mortality Improvement Model: Cheiron utilized the RPEC_2014_v2020 Model Implementation Tool for the purposes of developing the customized version of MP-2020 used in this report. This tool is updated and published annually by the Society of Actuaries and their Retirement Plans Experience Committee and allows actuaries to develop customized versions of mortality improvement scales based on the parameters and data underlying the published MP-2020 scale but allowing practitioners to vary parameters from those used in the published MP-2020 scale.

We have reviewed this model and believe it is appropriate to our intended use in developing a customized mortality improvement scale for the Programs. Further, we are aware of no material inconsistencies that would limit our ability to use this model for its intended purpose.

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B. Actuarial Methods

1. Funding Method

The individual entry age normal method is used to determine liabilities. Under this funding method, a normal cost rate is calculated for each member. This rate is determined by taking the value, as of age at entry into the Plan, of the member's projected future benefits, and dividing it by the value, also as of the member's entry age of his expected future salary. The normal cost for each member is the product of their annual salary at the valuation date and their normal cost rate. The normal cost amount for the group is then the sum of the normal costs for all members.

The Actuarial Liability is defined as the present value of future benefits, as of the valuation date, for all current members less the present value of future normal costs for all current members. For funding purposes, the Unfunded Actuarial Liability is then equal to the Actuarial Liability, less the actuarial value of the System's assets.

The discount rate used reflects the long-term funding policy to fully fund the benefits on an actuarial basis by FY 2036 for PLDs.

2. Asset Valuation Method

Figures were reported by MainePERS without audit or change.

3. Changes since Last Valuation

None

4. Rationale for Change

N/A

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APPENDIX B – SUMMARY OF KEY PLAN PROVISIONS

Membership

Service Retirement: A retiree must have participated in the group life insurance program for at least ten years and possess coverage just prior to retirement.

Disability Retirement: An employee must have participated in the group life insurance program immediately prior to disablement.

Basic Insurance

Average final compensation is calculated for retirement purposes.

Amount of Insurance for a Retiree

Service Retirement: The Basic Insurance will be reduced by 15% per year until the amount equal to the greater of (a) 40% of the initial Basic Insurance, or (b) \$2,500.

Disability Retirement: The amount of basic life insurance in force prior to retirement will be continued until normal retirement age. At normal retirement age, the amount of insurance will be reduced as for service retirement.

Retiree Contribution

PLD Employees: PLD must pay \$0.22 biweekly per \$1,000 of base benefit, based on the coverage amounts declining from 100% to 40%. Biweekly rates increase to \$0.23 in FYE 2024 and \$0.24 in FYE 2026.

Normal Retirement Age

The specified age, the years of service requirement, or any age and years of service combination at which a participant may become eligible for unreduced service retirement benefits.

Discontinued Coverages at Retirement

- Supplemental Life
- Accidental Death and Dismemberment
- Dependent Life

(Discontinued coverage may be ported to another group term product or converted to an individual policy.)

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APPENDIX C – GLOSSARY OF TERMS

1. Actuarially Determined Contribution

A target or recommended contribution for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.

2. Actuarial Valuation Date

The date as of which an actuarial valuation is performed. This date may be up to 24 months prior to the measurement date and up to 30 months prior to the employer's reporting date.

3. Entry Age Actuarial Cost Method

The actuarial cost method is required for GASB 74 and 75 calculations. Under this method, the actuarial present value of the projected benefits of each individual, included in an actuarial valuation, is allocated on a level basis over the earnings of the individual between entry age and assumed exit ages. The portion of this actuarial present value allocated to a valuation year is called the Service Cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future service costs is called the Total OPEB Liability.

4. Measurement Date

The date as of which the Total OPEB Liability and Plan Fiduciary Net Position are measured. The Total OPEB Liability may be projected from the Actuarial Valuation Date to the Measurement Date. The Measurement Date must be the same as the Reporting Date for the plan.

5. Net OPEB Liability

The liability of employers and non-employer contributing entities for employees for benefits provided through a defined benefit OPEB plan. It is calculated as the Total OPEB Liability less the Plan Fiduciary Net Position.

6. Plan Fiduciary Net Position

The fair or market value of assets.

7. Reporting Date

The last day of the Plan or employer's fiscal year.

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APPENDIX C – GLOSSARY OF TERMS

8. Service Cost

The portion of the actuarial present value of projected benefit payments that is attributed to the current period of employee service in conformity with the requirements of GASB 74 and 75. The Service Cost is the normal cost calculated under the entry age actuarial cost method.

9. Total OPEB Liability

The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB 74 and 75. The Total OPEB Liability is the actuarial liability calculated under the entry age actuarial cost method.