



MainePERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Board of Trustees

Public Meeting Packet

January 11, 2024

**MainePERS Board of Trustees
January 11, 2024
139 Capitol Street, Augusta**

AGENDA

9:00 a.m. ¹		CALL TO ORDER		Dick Metivier
9:00 – 9:05 a.m.	1.	<u>CONSIDERATION OF CONSENT CALENDAR</u> <ul style="list-style-type: none">Minutes of December 14, 2023Decision, A.L. Appeal	ACTION	Dick Metivier
9:05 – 9:15 a.m.	2.	<u>PRIVATE MARKETS REVIEW</u> <ul style="list-style-type: none">Private Market Activity		James Bennett Mitchell Pierter
9:15 – 9:30 a.m.	3.	<u>INVESTMENT REVIEW</u> <ul style="list-style-type: none">Investment Monthly Review		James Bennett Mitchell Pierter
9:30 – 9:45 a.m.	4.	<u>SEMI-ANNUAL PROXY VOTING REVIEW</u>		James Bennett Mitchell Pierter
9:45 – 10:10 a.m.	5.	<u>CAPITAL MARKET EXPECTATIONS AND ASSET ALLOCATION</u>		James Bennett Brian McDonnell, Cambridge Assocs.
10:10 – 10:30 a.m.	6.	<u>CONTINUATION VEHICLES</u>		James Bennett George Bumeder, Tom Lynch, Cliffwater
10:30 – 10:35 a.m.	7.	<u>RHIPEB/GLI/OPEB FUNDS</u> <ul style="list-style-type: none">Asset Allocation UpdateAccount Authorizations	ACTION	James Bennett Michael Colleran
10:35 – 10:50 a.m.		<u><i>BREAK</i></u>		
10:50 – 11:10 a.m.	8.	<u>CEO REPORT</u> <ul style="list-style-type: none">Legislative ProcessInvestment Team Activities		Dr. Rebecca M. Wyke Kathy Morin Mitchell Pierter
11:10 – 11:20 a.m.	9.	<u>RULEMAKING</u> <ul style="list-style-type: none">Amendment to Rule Chapter 803 – PLD Consolidated Retirement Plan	ACTION	Michael Colleran
11:20 – 11:30 a.m.	10.	<u>LEGISLATIVE UPDATE</u>		Kathy Morin

¹ All times are estimated based upon the anticipated length of each presentation, hearing, discussion, and action. The presiding officer may take agenda items out of order for more efficient or effective conduct of the meeting.

- 11:30 – 11:40 a.m. 11. MEMBER SERVICES, FINANCE, AND OPERATIONS REPORT Chip Gavin
Sherry Vandrell
Michael Colleran
- 11:40 – 11:45 a.m. 12. LITIGATION UPDATE Betsy Stivers
- 11:45 a.m. ADJOURNMENT Dick Metivier
-

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

Minutes

Board of Trustees
Board Meeting
December 14, 2023

MainePERS
Portland
9:00 a.m.

The Board of Trustees met at MainePERS, 139 Capitol Street, Augusta, ME 04330 at 9:00 a.m. on December 14, 2023. Brian Noyes, Chair, presided. Other Trustees participating were: Dick Metivier, Vice Chair; Henry Beck, State Treasurer; John Beliveau; Shirrin Blaisdell; Mark Brunton; John Kimball and Ken Williams. Joining the Trustees were Dr. Rebecca Wyke, Chief Executive Officer; Michael Colleran, Chief Operating Officer and General Counsel; James Bennett, Chief Investment Officer; Sherry Vandrell, Chief Financial Officer; Chip Gavin, Chief Services Officer; Monica Gorman, Secretary to the Board of Trustees; and Betsy Stivers, Assistant Attorney General and Board Counsel. The Board also was joined for select portions of the meeting by Mara McGowen, Assistant Director of Member Services; Stephanie Whitney, Disability Retirement Business Leader; Brian McDonnell, Cambridge Associates; Tom Lynch and George Bumeder, Cliffwater; and William Greenwood, Albourne.

Brian Noyes called the meeting to order at 9:00 a.m.

CONSIDERATION OF THE CONSENT CALENDAR

The presiding officer called for consideration of the Consent Calendar. The action items on the Consent Calendar were:

- Minutes of November 9, 2023
- Decision, R.Z. Appeal

- Action. Dick Metivier made the motion, seconded by Shirrin Blaisdell, to approve the Consent Calendar. Voted by seven Trustees in approval (Beck, Blaisdell, Brunton, Metivier, Noyes, and Williams) and one abstention (Kimball).

RULEMAKING

Public Hearing on Proposed Amended Rule Chapter 803

Michael Colleran summarized the proposed amendments of Rule Chapter 803 (a one-time, non-cumulative cost of living payment in the amount of 0.5% for PLD Consolidated Plan retirees and removal of special plan 4N as an option effective February 1, 2024).

Brian Noyes reviewed the process for in-person and virtual attendees from the public to participate and comment during the public hearing on the proposed amendments. There were no public comments offered during the hearing.

Brian Noyes stated written public comments may be submitted until 4:00 p.m. on December 26, 2023.

PRIVATE MARKETS ACTION

Wynnchurch Capital Partners VI

- **Action.** Dick Metivier made the motion, seconded by Henry Beck, that MainePERS make a commitment of up to \$40 million to Wynnchurch Capital Partners VI, subject to final due diligence, legal review and negotiations, and authorize the Chief Executive Officer, Chief Investment Officer, and General Counsel as signatories to execute documents in connection with this commitment. Unanimously voted by eight Trustees (Beck, Beliveau, Blaisdell, Brunton, Kimball, Metivier, Noyes, and Williams).

Bain Capital Real Estate III

- **Action.** Shirrin Blaisdell made the motion, seconded by Mark Brunton, that MainePERS make a commitment of up to \$35 million to Bain Capital Real Estate III, subject to final due diligence, legal review and negotiations, and authorize the Chief Executive Officer, Chief Investment Officer, and General Counsel as signatories to execute documents in connection with this commitment. Unanimously voted by eight Trustees (Beck, Beliveau, Blaisdell, Brunton, Kimball, Metivier, Noyes, and Williams).

PRIVATE MARKET REVIEW

Private Market Activity

Jim Bennett reviewed the table of private market funds and co-investments that had closed during the past 12 months. Jim stated there are no manager meetings for December.

INVESTMENT REVIEW

Investment Monthly Review

Jim Bennett reported that as of November 30, 2023 the MainePERS fund had a preliminary market value of \$18.8 billion, the preliminary return for the month was 2.6%, and the preliminary calendar year-to-date return was 6.0%.

QUARTERLY INVESTMENT EDUCATION

Pacing Private Market Investments

Jim Bennett made a presentation on private market commitment pacing. The presentation reviewed the methodology used for developing private market pacing plans and capital budgeting. Jim answered questions from the Trustees.

DIVESTMENT REPORT

Dr. Rebecca Wyke provided the Trustees with an overview of the annual Divestment Report required by the Legislature by January 1, 2024. Jim Bennett shared a presentation with the Trustees covering the System's exposures to fossil fuel and for-profit prison investments as of June 30, 2023. Dr. Wyke and Jim answered questions from the Trustees.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE FACTORS

Review of Board Policy 2.6 - ESG

Dr. Rebecca Wyke and Jim Bennett shared and discussed the 2023 ESG Report, which highlights ESG-related aspects of various public and private investments. Dr. Wyke stated the ESG report includes Board Policy 2.6, which Jim and the Investment Team have reviewed and recommend no changes.

MAINESTART QUARTERLY REPORT

Michael Colleran shared the MaineSTART Quarterly Review for the quarter ending 9/30/2023. Michael reviewed the number of participants, market value, participation and value, and investment fees associated with the MaineSTART Program with the Trustees. Michael, Dr. Wyke, and Chip Gavin answered questions from the Trustees.

MEMBER SERVICES, FINANCE, AND OPERATIONS REPORT

Chip Gavin shared the special one-time COLA for state-sponsored plans was included with the November payroll. Chip stated registrations continue to increase on the Member Portal. He updated the Trustees on the Pension Administration System (PAS) Project. Chip also shared Member Services staffing continues to improve.

Sherry Vandrell reported that one of the two employers who had fallen behind in reporting is now current. She stated a third employer has fallen behind due to staffing and payroll upgrades.

Michael Colleran stated there have been no employee terminations since July. He shared that Rebecca Grant will be retiring after 33 years of service at the end of the month and Lynn Clark has been promoted to Director of Human Resources and Administration.

CEO REPORT

Disability Retirement Services Compassionate Allowance List

Dr. Rebecca Wyke shared with the Trustees that effective January 1, 2024, MainePERS will use the Social Security Administration's (SSA) compassionate allowance list for expedited processing for disability retirement. Dr. Wyke introduced Mara McGowen, Assistant Director of Member Services and Stephanie Whitney, Disability Retirement Business Leader, who provided an overview of the new process. Mara and Stephanie discussed and answered questions from the Trustees.

Appeals Program

Michael Colleran provided an overview of the Appeals Program. He reviewed the process that occurs prior to the decisions being brought before the Board for consideration. Michael answered questions from the Trustees.

Dr. Rebecca Wyke congratulated Rebecca Grant on her 33 years of service to MainePERS. Dr. Wyke and the Board thanked Rebecca for her dedication and wished her well in her retirement.

CHIEF EXECUTIVE OFFICER COMPENSATION

- Action. Ken Williams made the motion, seconded by John Kimball to enter into executive session pursuant to 1 M.R.S. §405(6)(A) to discuss compensation of an employee. Unanimously voted by eight Trustees (Beck, Beliveau, Blaisdell, Brunton, Kimball, Metivier, Noyes, and Williams).

The Board moved out of executive session.

- Action. Ken Williams made the motion, seconded by Mark Brunton, that the Board authorize porting of the Chief Executive Officer’s service credit from the State/Teacher Plan to the PLD Consolidated Plan in the amount of \$20,000 in recognition of the Chief Executive Officer’s performance; authorize porting of an additional amount effective January 1, 2024 equal to 3% of the Chief Executive Officer’s annual salary as a cost of living adjustment to her compensation; and authorize the Chief Operating Officer and General Counsel and Chief Financial Officer to sign any documents related to effecting this action. Unanimously voted by eight Trustees (Beck, Beliveau, Blaisdell, Brunton, Kimball, Metivier, Noyes, and Williams).

ADJOURNMENT

- Action. Ken Williams made the motion, seconded by Mark Brunton to adjourn the December meeting of the Board of Trustees. Unanimously voted by eight Trustees (Beck, Beliveau, Blaisdell, Brunton, Kimball, Metivier, Noyes, and Williams).

The meeting adjourned at approximately 12:40 p.m.

1/11/24
Date Approved by the Board

Dr. Rebecca M. Wyke, Chief Executive Officer

Date Signed

MAINEPERS

BOARD OF TRUSTEES INVESTMENTS MEMORANDUM

TO: BOARD MEMBERS
FROM: JAMES BENNETT, CHIEF INVESTMENT OFFICER
SUBJECT: MONTHLY INVESTMENT REVIEW
DATE: JANUARY 3, 2024

Following this memo is the Monthly Investment Review for December.

POLICY REFERENCE

[Board Policy 2.1 – Investment Policy Statement](#)

[Board Policy 4.5 – Board/Staff Relations](#)

[Board Policy 4.6 – Communication and Support to the Board](#)

MONTHLY INVESTMENT REVIEW: HIGHLIGHTS AND OBSERVATIONS

Preliminary Fund results for the month include:

- Month-end fund value of \$19.1 billion.
- Monthly return of 1.4%.
- Calendar year-to-date return of 7.6%.
- Fiscal year-to-date return of 2.8%.



MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

Investment Review

January 11, 2024

Investment Policy Objective

Investment Objective

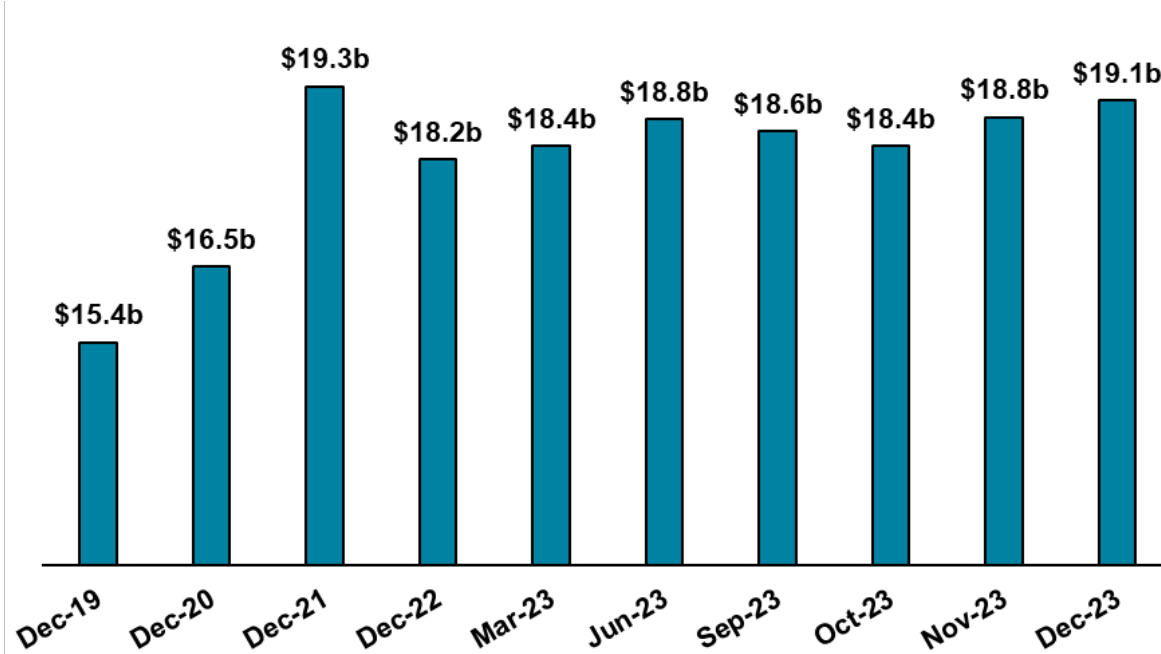
MainePERS' investment objectives balance the System's twin goals of generating investment returns (to ensure growth of the trust funds) and minimizing investment risks (loss of capital and cash flow shortfalls).

The Board recognizes and accepts that these goals are in opposition, and that a trade-off exists between expected risk and return. The Board balances these goals by seeking to optimize portfolio returns consistent with an established targeted portfolio risk level.

Additionally, by optimizing investment returns on trust assets, rather than attempting to maximize them, the Board seeks to maintain contribution rate and funding level volatility at acceptable levels that have been determined from time to time during strategic asset allocation planning and asset/liability reviews.

December 2023 Performance (Preliminary)

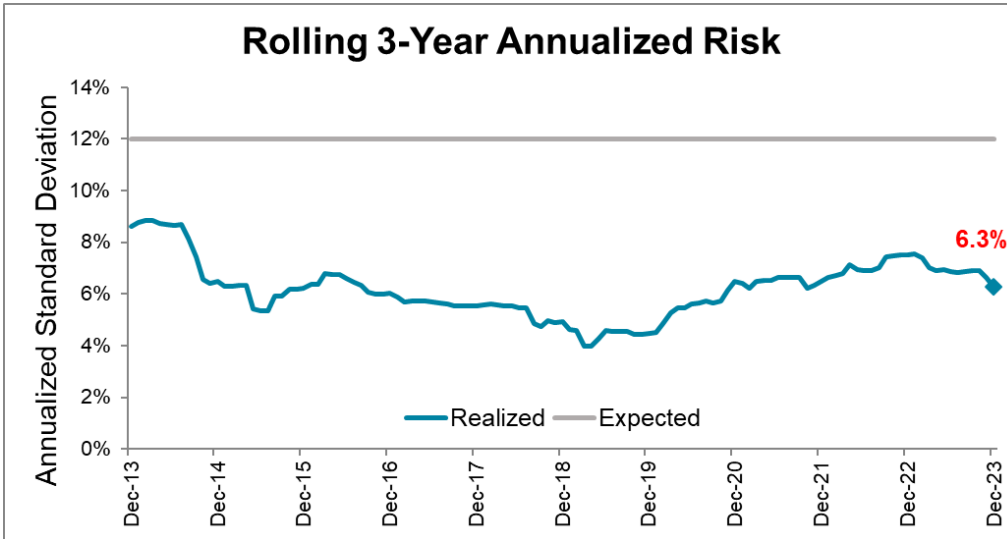
The **preliminary** fund value at the end of December is \$19.1 billion.



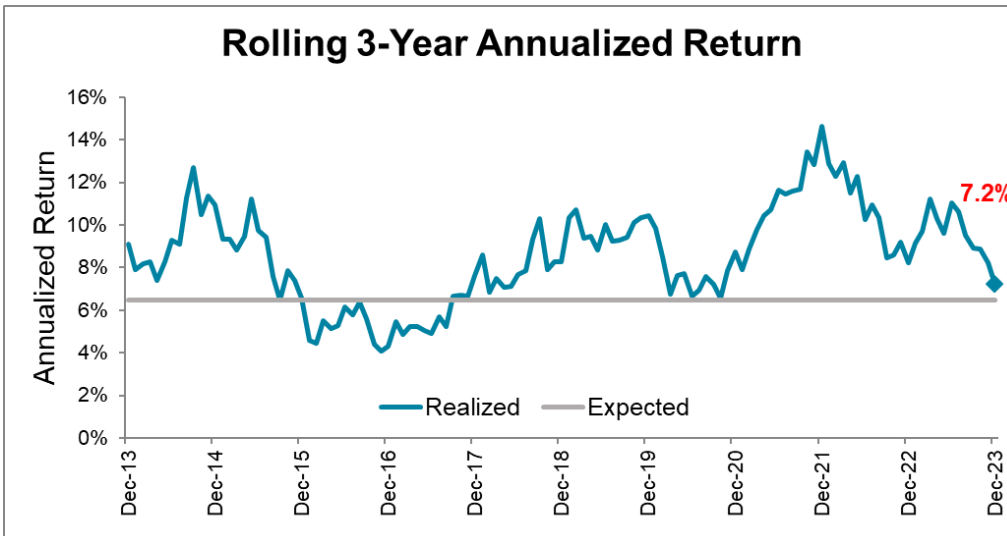
Fund and Benchmark Returns

	Dec-23	CYTD 2023	FYTD 2024
Total Fund	1.4%	7.6%	2.8%
Russell 3000	5.3%	26.0%	8.4%
MSCI ACWI ex-USA	5.0%	15.6%	5.6%
Bloomberg US Aggregate	3.8%	5.5%	3.4%

Investment Objective Measurement: Risk and Return



Despite heightened volatility in 2022, observed risk at the Fund level remains below targeted risk on a rolling 3-year annualized basis.



On a rolling 3-year annualized basis, investment returns have exceeded expected values and the System's discount rate.

Note: Rolling 3-year return and standard deviation are calculated at each point in time based on returns over prior 36 months. All figures are annualized.

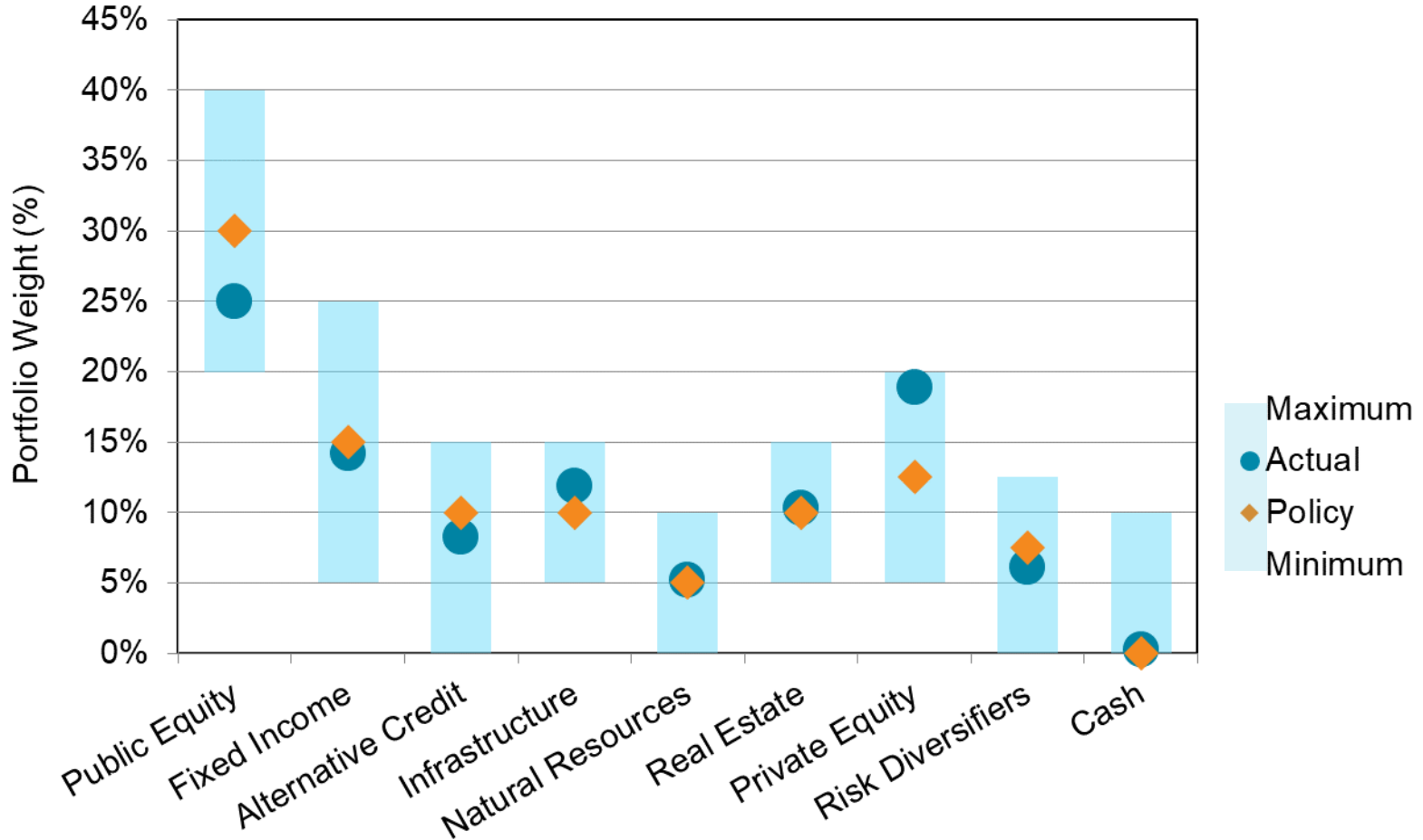
December 2023 Asset Allocation (Preliminary)

Assets (Millions)	Value	% of Fund	Policy %
MainePERS Portfolio	\$ 19,066	100.0%	100.0%
Domestic Equity	\$ 2,969	15.6%	18.8%
International Equity	\$ 1,791	9.4%	11.2%
Fixed Income	\$ 2,704	14.2%	15.0%
Alternative Credit	\$ 1,575	8.3%	10.0%
Infrastructure	\$ 2,266	11.9%	10.0%
Natural Resources	\$ 985	5.2%	5.0%
Private Equity	\$ 3,596	18.9%	12.5%
Real Estate	\$ 1,970	10.3%	10.0%
Risk Diversifiers	\$ 1,158	6.1%	7.5%
Cash	\$ 52	0.3%	0.0%

Portfolio weights for most asset classes remain near MainePERS Investment Policy asset allocation weights.

Private equity remains overweight at ~19% of Fund value, and private markets assets in aggregate comprise 54.5% of the overall portfolio, above the 47.5% policy weight.

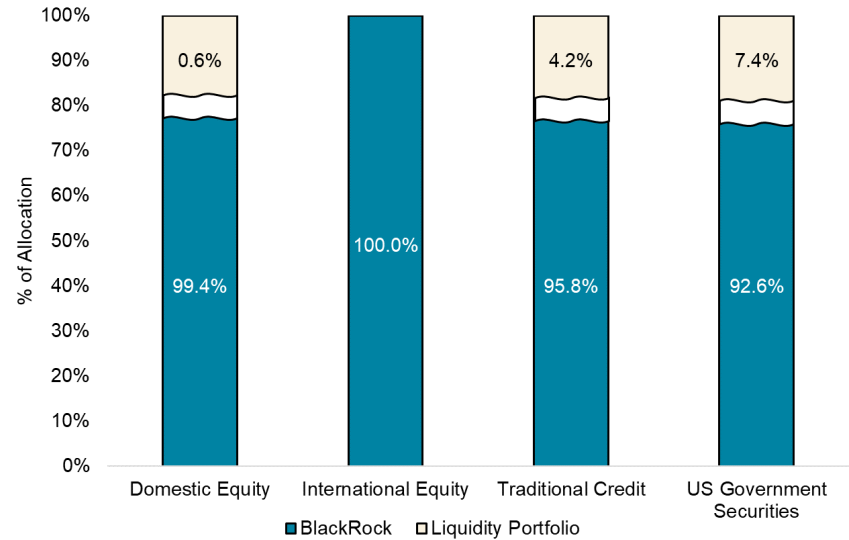
December 2023 Asset Allocation (Preliminary)



Public Securities: Liquidity Portfolio

At the end of December, 1.0% of Fund assets were invested via ETFs and futures contracts in an account managed by Parametric Associates.

The Liquidity Portfolio accounts for 2.5% of MainePERS' total exposure to public securities.



MainePERS Liquidity Portfolio	Market Value (Millions)	Exposure Type
Parametric Domestic Equity	\$17.9	Futures
Parametric International Equity	\$0.0	Futures
Parametric Traditional Credit	\$35.9	ETFs
Parametric US Government Securities	\$136.5	Futures
Total Liquidity Portfolio	\$190.3	

Derivatives and Leverage

MainePERS has **exposure to derivatives** in the following areas:

- Public Equities, Public Fixed Income, and Risk Diversifiers

MainePERS has **financial leverage** (borrowing and investing) in the following areas:

- BlackRock – Financial leverage in securities lending
- JP Morgan – Financial leverage in securities lending
- Alternative Credit
- Infrastructure
- Natural Resources
- Private Equity
- Real Estate

Investment Related Fees: December 2023

Description	FYTD 24	FY 23	FY 22	FY 21	FY 20
Investment Mgmt. Fees	\$67,225,431	\$133,285,971	\$130,884,088	\$120,429,567	\$122,567,451
Securities Lending Fees ¹	605,912	1,303,543	1,744,317	1,653,172	2,239,396
Consulting Fees	607,500	1,193,543	1,120,000	1,120,000	1,120,000
Broker Commissions ²	37,993	136,039	77,558	52,364	37,461
Placement Agent Fees	0	0	0	0	0
Total	\$68,476,836	\$135,919,096	\$133,825,963	\$123,255,103	\$125,964,308
Percentage of Fund ³	0.72%	0.72%	0.73%	0.68%	0.86%

1. Securities Lending Fees are through 11/30/2023
2. Actual paid commissions reported by JP Morgan
3. For FY24: Total fees projected for the full fiscal year (\$136,953,672) divided by current Fund value.
For prior FY: Total fees divided by FYE Fund value.

Securities Lending: November 2023

	Average Lendable Assets	Average Assets On Loan	Total Sec Lending Revenue	Revenue Split	MainePERS Net Income	MainePERS Net Income, FYTD
BlackRock						
Fixed Income	\$1,896,483,973	\$1,281,503,401	\$197,275	60%/40%	\$118,365	\$631,112
Total Equity	\$1,578,396,047	\$167,264,511	\$85,986	60%/40%	\$57,073	\$317,477
Total Blackrock	\$3,474,880,020	\$1,448,767,912	\$283,261		\$175,438	\$948,589
JP Morgan						
Domestic Equities	\$2,675,209,576	\$115,657,850	\$24,175	85%/15%	\$20,555	\$150,870
Total JP Morgan	\$2,675,209,576	\$115,657,850	\$24,175		\$20,555	\$150,870
Total	\$6,150,089,596	\$1,564,425,762	\$307,436		\$195,993	\$1,099,459
Total Annualized Securities Lending Income, FY 2024:				\$2,638,702 (0.01%, or 1.4 bps)		
Total Actual Securities Lending Income, FY 2023:				\$2,557,153 (0.01%, or 1.4 bps)		

Liquidity Schedule: December 2023

Term	Market Value	Percent of Portfolio
Liquid ¹	\$7,516m	39.4%
Semi-Liquid ²	\$2,433m	12.8%
Illiquid ³	\$9,117m	47.8%
Total	\$19,066m	100.0%

<u>Sources and Uses of Liquidity</u>		
	Last 12 Months Actual	Next 12 Months Projection
Private Markets Activity		
Capital Contributions	-\$1,333m	-\$740m
Distributions	\$1,280m	\$1,850m
Net Private Markets Activity	-\$54m	\$1,110m
Benefit Payments	-\$445m	-\$460m
Net Cash Flows	-\$499m	\$650m

¹Liquid assets includes public equities and public fixed income

²Semi-liquid assets includes risk diversifiers, open-end real estate investments, and listed alternative credit funds

³Illiquid assets includes closed-end alternative credit, infrastructure, natural resources, private equity, and real estate funds

MainePERS Alternative Investments Summary

<i>as of 12/31/2023</i>	# of Funds	# of GP Relationships
Alternative Credit	25	13
Infrastructure	35	11
Natural Resources	16	10
Private Equity	124	34
Real Estate	34	18
Risk Diversifiers	11	10
Total*	245	87

*GP Total may not add due to overlapping relationships

Currently, MainePERS is invested in 245 funds,
and has 87 distinct manager relationships.

MainePERS Alternative Investments Summary

<i>(in \$millions)</i> as of 12/31/2023	<u>Current Market Value</u>			<u>Unfunded Commitment</u>	
	Dollars	% of Fund	Policy %*	Dollars	% of Fund
Alternative Credit	\$ 1,575	8.3%	10.0%	\$ 709	3.7%
Infrastructure	\$ 2,266	11.9%	10.0%	\$ 527	2.8%
Natural Resources	\$ 985	5.2%	5.0%	\$ 200	1.0%
Private Equity	\$ 3,596	18.9%	12.5%	\$ 1,005	5.3%
Real Estate	\$ 1,970	10.3%	10.0%	\$ 377	2.0%
Risk Diversifiers	\$ 1,158	6.1%	7.5%	\$ 105	0.6%
Total Alternatives	\$ 11,550	60.6%	55.0%	\$ 2,922	15.3%

For more details please see Private Markets Investment Summary at <http://www.maineper.org/Investments/>

*Investment Policy weights approved by the Board of Trustees effective May 2022

Note: Market values shown above are preliminary estimates. Private market asset values are based on 6/30/2023 values, adjusted for subsequent cash flows.

<i>(in \$millions)</i> as of 12/31/2023	<u>Private Market Commitments by Vintage Year</u>				3-Year Average ¹
	2021	2022	2023	2024	
Alternative Credit	\$ 410	\$ 550	\$ 80	\$ 100	\$ 347
Infrastructure	\$ 180	\$ 200	\$ 50	\$ -	\$ 143
Natural Resources	\$ -	\$ 30	\$ 40	\$ -	\$ 23
Private Equity	\$ 438	\$ 218	\$ 71	\$ 59	\$ 242
Real Estate	\$ 285	\$ 180	\$ 50	\$ -	\$ 172
Total Commitments	\$ 1,313	\$ 1,178	\$ 291	\$ 159	\$ 927

¹13-Year Average: 2021-2023

MainePERS Private Market Investments Summary: 09/30/2023

Asset Class Summary	Commitment (A)	Amount Contributed (B)	Total Distributions (C)	Current Market Value (D)	Total Value (C+D)	Interim Net IRR
Alternative Credit	\$ 2,476,510	\$ 1,928,817	\$ 793,139	\$ 1,490,551	\$ 2,283,690	7.3%
Infrastructure	\$ 3,427,079	\$ 3,589,037	\$ 2,836,562	\$ 2,317,843	\$ 5,154,405	11.1%
Natural Resources	\$ 1,060,500	\$ 1,101,386	\$ 451,297	\$ 981,795	\$ 1,433,092	6.2%
Private Equity	\$ 4,937,582	\$ 4,839,179	\$ 4,222,538	\$ 3,600,353	\$ 7,822,891	15.5%
Real Estate	\$ 2,740,833	\$ 2,741,326	\$ 1,930,501	\$ 1,904,981	\$ 3,835,482	6.7%
Total	\$ 14,642,504	\$ 14,199,745	\$ 10,234,037	\$ 10,295,523	\$ 20,529,560	10.2%

Note: This Asset Class Summary table includes all private market investments: both fund investments and co-investments.

Co-Investment Summary	Commitment (A)	# of Co- Investments	Amount Contributed (B)	Total Distributions (C)	Current Market Value (D)	Total Value (C+D)	Interim Net IRR
Alternative Credit Co-Investments	\$ 260,353	35	\$ 257,290	\$ 91,693	\$ 208,716	\$ 300,409	9.5%
Infrastructure Co-Investments	\$ 217,762	11	\$ 215,308	\$ 254,113	\$ 129,012	\$ 383,125	14.4%
Natural Resources Co-Investments	\$ 32,500	2	\$ 32,662	\$ 37	\$ 49,868	\$ 49,906	11.1%
Private Equity Co-Investments	\$ 378,643	33	\$ 378,049	\$ 315,568	\$ 257,458	\$ 573,025	12.9%
Real Estate Co-Investments	\$ 66,646	5	\$ 58,775	\$ 7,504	\$ 41,498	\$ 49,003	-6.1%
Total	\$ 955,905	86	\$ 942,084	\$ 668,916	\$ 686,551	\$ 1,355,467	12.2%

Note: This table contains values for the co-investment portion of the private market portfolio.

MainePERS Private Market Investments Summary: 09/30/2023

Alternative Credit

Fund Name	Commitment (A)	Date of Commitment	Amount Contributed (B)	Total Distributions (C)	Current Market Value (D)	Total Value (C+D)	Interim Net IRR
Angelo Gordon Direct Lending Fund II	\$ 25,000	3/31/2020	\$ 23,749	\$ 22,351	\$ 11,314	\$ 33,665	18.5%
Angelo Gordon Direct Lending Fund III	\$ 100,000	7/20/2018	\$ 102,623	\$ 78,072	\$ 62,892	\$ 140,964	10.5%
Participation Agreement #1	\$ 7,500	10/11/2019	\$ 7,497	\$ 2,525	\$ 7,092	\$ 9,617	8.9%
Participation Agreement #2	\$ 5,000	10/11/2019	\$ 4,994	\$ 5,422	\$ -	\$ 5,422	8.8%
Participation Agreement #3	\$ 5,000	10/11/2019	\$ 5,000	\$ 5,700	\$ -	\$ 5,700	7.3%
Participation Agreement #4	\$ 10,000	10/18/2019	\$ 9,915	\$ 2,705	\$ 9,562	\$ 12,267	9.0%
Participation Agreement #5	\$ 5,000	12/6/2019	\$ 5,000	\$ 2,574	\$ 4,048	\$ 6,622	9.7%
Participation Agreement #6	\$ 10,000	12/6/2019	\$ 9,991	\$ 2,804	\$ 9,548	\$ 12,352	9.6%
Participation Agreement #7	\$ 5,000	12/11/2019	\$ 5,000	\$ 2,053	\$ 4,571	\$ 6,624	9.0%
Participation Agreement #8	\$ 5,000	8/13/2020	\$ 4,866	\$ 1,748	\$ 4,548	\$ 6,296	9.5%
Participation Agreement #9	\$ 7,500	4/9/2021	\$ 7,425	\$ 1,951	\$ 7,078	\$ 9,029	10.2%
Participation Agreement #10	\$ 5,000	4/20/2021	\$ 4,996	\$ 1,528	\$ 4,531	\$ 6,059	9.5%
Participation Agreement #11	\$ 5,000	5/5/2021	\$ 5,000	\$ 1,096	\$ 4,589	\$ 5,685	6.1%
Angelo Gordon Direct Lending Fund IV	\$ 100,000	1/24/2020	\$ 90,000	\$ 15,718	\$ 99,450	\$ 115,168	12.0%
Participation Agreement #1	\$ 5,000	10/23/2020	\$ 4,913	\$ 2,199	\$ 3,848	\$ 6,047	8.8%
Participation Agreement #2	\$ 12,500	8/17/2021	\$ 12,295	\$ 2,224	\$ 12,044	\$ 14,268	9.3%
Participation Agreement #3	\$ 7,500	10/5/2021	\$ 7,500	\$ 7,913	\$ -	\$ 7,913	NM
Participation Agreement #4	\$ 5,000	12/21/2021	\$ 4,925	\$ 901	\$ 4,866	\$ 5,767	NM
Participation Agreement #5	\$ 5,000	12/21/2021	\$ 4,925	\$ 1,260	\$ 4,469	\$ 5,729	NM
Participation Agreement #6	\$ 5,000	1/12/2022	\$ 4,925	\$ 898	\$ 4,861	\$ 5,759	NM
Participation Agreement #7	\$ 7,500	1/12/2022	\$ 7,378	\$ 1,342	\$ 7,274	\$ 8,617	NM
Participation Agreement #8	\$ 12,500	6/16/2022	\$ 12,391	\$ 1,818	\$ 12,220	\$ 14,037	NM
Angelo Gordon Direct Lending Fund IV Annex	\$ 50,000	11/18/2021	\$ 47,500	\$ 4,818	\$ 49,759	\$ 54,577	NM
Angelo Gordon Direct Lending Fund V	\$ 125,000	8/3/2022	\$ 53,125	\$ -	\$ 59,405	\$ 59,405	NM
Participation Agreement #1	\$ 7,500	9/1/2022	\$ 7,388	\$ 896	\$ 7,315	\$ 8,211	NM
Participation Agreement #2	\$ 12,500	10/7/2022	\$ 12,263	\$ 963	\$ 12,250	\$ 13,213	NM
Participation Agreement #3	\$ 10,000	10/19/2022	\$ 9,850	\$ 1,123	\$ 9,751	\$ 10,874	NM
Participation Agreement #4	\$ 10,000	10/27/2022	\$ 9,800	\$ 1,435	\$ 9,295	\$ 10,730	NM
Participation Agreement #5	\$ 10,000	2/27/2023	\$ 9,814	\$ 766	\$ 9,762	\$ 10,528	NM
Ares Capital Europe IV	\$ 122,000	4/30/2018	\$ 96,890	\$ 24,885	\$ 84,897	\$ 109,782	3.7%
Ares Capital Europe V	\$ 122,000	9/4/2020	\$ 88,922	\$ 6,744	\$ 89,579	\$ 96,323	5.6%
Ares Capital Europe VI	\$ 82,500	3/17/2023	\$ 0	\$ -	\$ 519	\$ 519	NM
Ares Senior Direct Lending Fund II	\$ 100,000	12/10/2021	\$ 56,230	\$ 7,706	\$ 57,494	\$ 65,200	NM
Ares Senior Direct Lending Fund III	\$ 100,000	7/28/2023	\$ -	\$ -	\$ -	\$ -	NM

MainePERS Private Market Investments Summary: 09/30/2023

Alternative Credit

Fund Name	Commitment (A)	Date of Commitment	Amount Contributed (B)	Total Distributions (C)	Current Market Value (D)	Total Value (C+D)	Interim Net IRR
Audax Senior Debt (MP), LLC	\$ 100,000	6/30/2017	\$ 100,000	\$ 75,700	\$ 56,403	\$ 132,103	5.1%
Brookfield Infrastructure Debt Fund III	\$ 100,000	7/15/2022	\$ 53,696	\$ 10,444	\$ 45,170	\$ 55,615	NM
Comvest Credit Partners VI	\$ 125,000	5/20/2022	\$ 68,750	\$ 12,741	\$ 61,579	\$ 74,320	NM
Deerpath Capital VI	\$ 75,000	9/30/2021	\$ 54,590	\$ 7,055	\$ 55,550	\$ 62,604	8.4%
Global Infrastructure Partners Spectrum	\$ 100,000	2/20/2019	\$ 73,223	\$ 29,601	\$ 50,578	\$ 80,179	6.8%
Mesa West Core Lending Fund	\$ 100,000	6/18/2013	\$ 127,612	\$ 64,415	\$ 113,170	\$ 177,585	5.4%
Owl Rock Capital Corporation	\$ 100,000	3/10/2017	\$ 116,571	\$ 53,149	\$ 106,664	\$ 159,813	7.9%
Participation Agreement #1	\$ 5,000	5/7/2018	\$ 4,851	\$ 5,499	\$ -	\$ 5,499	12.7%
Participation Agreement #2	\$ 6,185	7/31/2018	\$ 6,196	\$ 7,745	\$ -	\$ 7,745	9.9%
Participation Agreement #3	\$ 5,000	8/7/2018	\$ 4,938	\$ 5,634	\$ -	\$ 5,634	7.9%
Participation Agreement #4	\$ 5,000	8/20/2018	\$ 4,566	\$ 5,835	\$ -	\$ 5,835	8.1%
Participation Agreement #5	\$ 5,000	12/21/2018	\$ 4,988	\$ 2,141	\$ 4,453	\$ 6,594	7.5%
Participation Agreement #6	\$ 11,653	8/7/2020	\$ 12,181	\$ 3,868	\$ 10,594	\$ 14,461	9.9%
Participation Agreement #7	\$ 7,500	7/26/2021	\$ 6,558	\$ 1,419	\$ 6,484	\$ 7,903	9.8%
Participation Agreement #8	\$ 12,500	6/17/2022	\$ 12,778	\$ 2,046	\$ 12,043	\$ 14,090	NM
Participation Agreement #9	\$ 7,500	9/26/2022	\$ 7,388	\$ 898	\$ 7,295	\$ 8,193	NM
Owl Rock Capital Corporation III*	\$ 100,000	6/19/2020	\$ 118,400	\$ 22,255	\$ 121,972	\$ 144,227	10.1%
Pathlight Capital Fund II	\$ 75,000	4/22/2021	\$ 113,652	\$ 60,955	\$ 64,516	\$ 125,470	10.0%
Participation Agreement #1	\$ 7,500	4/1/2022	\$ 7,368	\$ 1,564	\$ 7,016	\$ 8,580	NM
Participation Agreement #2	\$ 7,500	4/1/2022	\$ 7,429	\$ 1,198	\$ 7,311	\$ 8,510	NM
Pathlight Capital Fund III	\$ 75,000	6/24/2022	\$ 76,862	\$ 25,931	\$ 55,558	\$ 81,490	NM
Solar Capital Private Corporate Lending Fund	\$ 50,000	6/26/2019	\$ 40,188	\$ 8,648	\$ 41,518	\$ 50,165	11.8%
Solar Capital Debt Fund	\$ 50,000	6/26/2019	\$ 25,000	\$ 3,098	\$ 26,493	\$ 29,591	13.0%
SLR Private Corporate Lending Fund II	\$ 125,000	12/23/2022	\$ -	\$ -	\$ -	\$ -	NM
Silver Point Specialty Credit II	\$ 50,000	1/31/2020	\$ 59,634	\$ 28,400	\$ 40,076	\$ 68,475	10.0%
Tennenbaum Direct Lending VIII	\$ 100,000	11/30/2017	\$ 100,883	\$ 86,361	\$ 37,799	\$ 124,160	6.3%

MainePERS Private Market Investments Summary: 09/30/2023

Infrastructure

Fund Name	Commitment		Amount	Total	Current	Total Value (C+D)	Interim Net IRR
	(A)	Date of Commitment	Contributed (B)	Distributions (C)	Market Value (D)		
Alinda Infrastructure Fund II	\$ 50,000	9/17/2009	\$ 68,297	\$ 74,099	\$ 265	\$ 74,365	1.9%
ArcLight Energy V	\$ 75,000	10/28/2011	\$ 76,031	\$ 103,624	\$ -	\$ 103,624	8.0%
Shore Co-Investment Holdings II	\$ 20,000	1/30/2014	\$ 17,709	\$ 19,737	\$ -	\$ 19,737	8.4%
ArcLight Energy VI	\$ 150,000	11/25/2014	\$ 159,687	\$ 134,744	\$ 51,448	\$ 186,191	3.6%
Great River Hydro Partners	\$ 12,000	6/17/2017	\$ 10,718	\$ 45,094	\$ -	\$ 45,094	39.5%
Brookfield Infrastructure Fund II	\$ 100,000	6/28/2013	\$ 117,448	\$ 113,934	\$ 88,594	\$ 202,528	10.0%
Brookfield Infrastructure Fund III	\$ 100,000	4/15/2016	\$ 110,706	\$ 59,689	\$ 108,410	\$ 168,099	12.2%
Co-Investment #1	\$ 20,000	3/31/2017	\$ 15,952	\$ 21,225	\$ 16,058	\$ 37,283	26.7%
Carlyle Global Infrastructure Opportunity Fund	\$ 100,000	5/1/2019	\$ 93,946	\$ 23,574	\$ 91,376	\$ 114,950	11.8%
Carlyle Infrastructure Partners	\$ 50,000	11/2/2007	\$ 57,366	\$ 64,289	\$ 345	\$ 64,635	2.5%
Carlyle Power Partners II	\$ 50,000	11/19/2015	\$ 64,349	\$ 41,978	\$ 50,914	\$ 92,892	10.6%
Cube Infrastructure	\$ 45,000	4/16/2010	\$ 60,063	\$ 96,665	\$ 422	\$ 97,087	8.0%
Cube Infrastructure II	\$ 90,000	9/11/2018	\$ 78,539	\$ 5,744	\$ 71,910	\$ 77,654	-0.3%
Cube Infrastructure III	\$ 90,000	8/16/2021	\$ 45,481	\$ -	\$ 46,529	\$ 46,529	2.0%
EQT Infrastructure III	\$ 68,000	12/3/2016	\$ 104,276	\$ 156,706	\$ 21,845	\$ 178,551	20.4%
EQT Infrastructure IV	\$ 100,000	12/17/2018	\$ 97,706	\$ 17,180	\$ 110,342	\$ 127,521	10.5%
EQT Infrastructure V	\$ 75,000	12/8/2020	\$ 62,693	\$ 8,532	\$ 62,074	\$ 70,606	10.2%
First Reserve Energy Infrastructure Fund	\$ 50,000	6/30/2010	\$ 59,778	\$ 52,235	\$ 3,739	\$ 55,974	-1.8%
First Reserve Energy Infrastructure Fund II	\$ 100,000	10/21/2013	\$ 128,288	\$ 128,229	\$ 27,384	\$ 155,614	11.8%
Global Infrastructure Partners Sonic	\$ 35,000	7/31/2020	\$ 32,792	\$ -	\$ 19,984	\$ 19,984	-15.3%
Global Infrastructure Partners	\$ 75,000	3/31/2008	\$ 101,173	\$ 205,062	\$ 234	\$ 205,296	17.2%
Global Infrastructure Partners II	\$ 75,000	12/3/2011	\$ 105,524	\$ 145,737	\$ 36,936	\$ 182,673	15.6%
Global Infrastructure Partners III	\$ 150,000	4/15/2016	\$ 184,977	\$ 107,052	\$ 153,706	\$ 260,758	9.8%
Co-Investment #1	\$ 29,000	2/28/2017	\$ 27,782	\$ 16,891	\$ 32,745	\$ 49,636	12.7%
Co-Investment #2	\$ 25,000	8/16/2018	\$ 27,071	\$ 3,392	\$ 21,877	\$ 25,269	-1.5%
Global Infrastructure Partners IV	\$ 150,000	12/21/2018	\$ 141,865	\$ 15,348	\$ 135,329	\$ 150,676	4.4%
IFM Global Infrastructure (US), L.P.	\$ 100,000	12/20/2012	\$ 144,550	\$ 208,040	\$ -	\$ 208,040	9.8%
KKR Diversified Core Infrastructure Fund	\$ 100,000	4/29/2022	\$ 101,009	\$ 1,009	\$ 103,468	\$ 104,477	NM
KKR Global Infrastructure Investors	\$ 75,000	9/29/2010	\$ 87,917	\$ 154,328	\$ 89	\$ 154,418	13.1%
KKR Global Infrastructure Investors II	\$ 150,000	10/24/2014	\$ 185,410	\$ 244,913	\$ 77,125	\$ 322,039	16.9%

(all dollar amounts in thousands)

MainePERS Private Market Investments Summary: 09/30/2023

Infrastructure

Fund Name	Commitment		Amount	Total	Current	Total Value (C+D)	Interim Net IRR
	(A)	Date of Commitment	Contributed (B)	Distributions (C)	Market Value (D)		
KKR Atlanta Co-Invest	\$ 24,000	9/26/2014	\$ 21,428	\$ 28,551	\$ -	\$ 28,551	5.7%
KKR Taurus Co-Invest II	\$ 25,000	8/15/2017	\$ 25,000	\$ 56,779	\$ 839	\$ 57,618	21.4%
KKR Byzantium Infrastructure Aggregator	\$ 15,000	10/17/2017	\$ 15,000	\$ 7,013	\$ 11,169	\$ 18,182	4.7%
KKR Global Infrastructure Investors III	\$ 100,000	3/29/2018	\$ 91,642	\$ 25,857	\$ 91,705	\$ 117,562	10.6%
Meridiam Infrastructure (SCA)	\$ 11,000	9/23/2015	\$ 21,938	\$ 11,716	\$ 25,330	\$ 37,046	8.2%
Meridiam Infrastructure (SCA) B Shares	\$ 1,000	9/23/2015	\$ 305	\$ 55	\$ 23,240	\$ 23,295	77.0%
Meridiam Infrastructure Europe II (SCA)	\$ 22,500	9/23/2015	\$ 27,639	\$ 17,109	\$ 34,885	\$ 51,994	11.3%
Meridiam Infrastructure Europe III SLP	\$ 95,000	4/27/2016	\$ 71,670	\$ 17,268	\$ 62,150	\$ 79,418	3.4%
Meridiam Sustainable Infrastructure Europe IV	\$ 90,000	4/16/2021	\$ 21,748	\$ 1,057	\$ 18,285	\$ 19,342	NM
Meridiam Infrastructure N.A. II	\$ 75,000	9/28/2012	\$ 88,232	\$ 39,091	\$ 161,525	\$ 200,616	15.7%
MINA II CIP*	\$ 175	6/30/2015	\$ 169	\$ 29	\$ 19,431	\$ 19,460	113.0%
Meridiam Infrastructure N.A. II*	\$ 20,000	6/30/2015	\$ 18,870	\$ 6,394	\$ 43,920	\$ 50,314	22.3%
Meridiam Infrastructure N.A. III	\$ 50,000	7/12/2017	\$ 32,309	\$ 1	\$ 38,056	\$ 38,057	10.2%
Stonepeak Infrastructure Partners II	\$ 140,000	11/12/2015	\$ 189,328	\$ 232,691	\$ 40,437	\$ 273,127	13.3%
Stonepeak Claremont Co-Invest	\$ 25,000	5/30/2017	\$ 25,000	\$ 51,959	\$ -	\$ 51,959	17.8%
Stonepeak Spear (Co-Invest) Holdings	\$ 25,000	1/8/2018	\$ 19,648	\$ 3,472	\$ 35,365	\$ 38,838	13.3%
Stonepeak Infrastructure Partners III	\$ 150,000	10/13/2017	\$ 164,779	\$ 57,735	\$ 186,079	\$ 243,814	14.5%
Stonepeak Guardian (Co-Invest) Holdings	\$ 10,000	4/27/2023	\$ 10,000	\$ 0	\$ 10,958	\$ 10,958	NM
Stonepeak Infrastructure Partners IV	\$ 125,000	5/8/2020	\$ 67,441	\$ 10,441	\$ 64,137	\$ 74,578	8.2%

(all dollar amounts in thousands)

MainePERS Private Market Investments Summary: 09/30/2023

Natural Resources

Fund Name	Commitment (A)	Date of Commitment	Amount Contributed (B)	Total Distributions (C)	Current Market Value (D)	Total Value (C+D)	Interim Net IRR
ACM Permanent Crops	\$ 35,000	10/24/2014	\$ 39,100	\$ 12,107	\$ 56,755	\$ 68,862	8.7%
ACM Permanent Crops II	\$ 35,000	5/12/2016	\$ 42,415	\$ 8,885	\$ 20,299	\$ 29,184	-10.2%
AMERRA Agri Fund III	\$ 50,000	2/11/2016	\$ 98,715	\$ 83,164	\$ 20,437	\$ 103,601	1.9%
Denham Mining Fund	\$ 35,000	6/29/2018	\$ 31,349	\$ 659	\$ 37,447	\$ 38,106	6.5%
Homestead Capital Farmland II	\$ 50,000	8/8/2016	\$ 55,737	\$ 11,016	\$ 57,389	\$ 68,405	5.2%
Homestead Capital Farmland III	\$ 30,000	10/26/2018	\$ 30,403	\$ 2,654	\$ 31,159	\$ 33,814	6.6%
Orion Mine Finance Fund II	\$ 50,000	5/25/2016	\$ 101,839	\$ 77,793	\$ 46,593	\$ 124,386	8.5%
Orion Mine Finance Co-Fund II	\$ 20,000	8/13/2018	\$ 20,125	\$ -	\$ 32,449	\$ 32,449	10.2%
Silver Creek Aggregate Reserves Fund	\$ 100,000	11/6/2018	\$ 15,385	\$ 2,763	\$ 17,399	\$ 20,163	NM
Sprott Private Resource Lending Fund III	\$ 30,000	8/31/2022	\$ 2,436	\$ 539	\$ 1,689	\$ 2,228	NM
Sprott Private Resource Streaming and Royalty Annex	\$ 40,000	5/17/2023	\$ 18,345	\$ 477	\$ 18,735	\$ 19,212	NM
Taurus Mining Fund	\$ 50,000	3/27/2015	\$ 41,459	\$ 46,409	\$ 3,632	\$ 50,041	7.4%
Taurus Mining Fund Annex	\$ 23,000	12/1/2016	\$ 18,375	\$ 23,435	\$ 853	\$ 24,288	17.7%
Taurus Mining Fund No. 2	\$ 75,000	4/18/2019	\$ 64,374	\$ 45,393	\$ 31,979	\$ 77,372	17.2%
Teays River Integrated Agriculture	\$ 200,000	7/1/2015	\$ 198,974	\$ 28,770	\$ 315,264	\$ 344,034	7.4%
Twin Creeks Timber	\$ 200,000	1/7/2016	\$ 199,803	\$ 95,629	\$ 128,768	\$ 224,398	2.9%
U.S. Farming Realty Trust III	\$ 100,000	7/7/2015	\$ 110,017	\$ 11,565	\$ 143,527	\$ 155,092	6.6%
Canally Coinvest Holdings	\$ 12,500	12/9/2019	\$ 12,537	\$ 37	\$ 17,420	\$ 17,457	14.8%

MainePERS Private Market Investments Summary: 09/30/2023

Private Equity

Fund Name	Commitment		Amount	Total	Current Market	Total Value	Interim Net
	(A)	Date of Commitment	Contributed (B)	Distributions (C)	Value (D)	(C+D)	IRR
ABRY Advanced Securities Fund II	\$ 20,000	5/4/2011	\$ 20,539	\$ 29,678	\$ 264	\$ 29,942	13.0%
ABRY Advanced Securities Fund III	\$ 30,000	4/30/2014	\$ 45,102	\$ 28,005	\$ 17,784	\$ 45,789	0.4%
ABRY Heritage Partners	\$ 10,000	5/31/2016	\$ 10,887	\$ 12,264	\$ 7,442	\$ 19,706	26.4%
ABRY Partners VII	\$ 10,000	4/29/2011	\$ 12,939	\$ 17,340	\$ 2,177	\$ 19,517	12.1%
ABRY Partners VIII	\$ 20,000	8/8/2014	\$ 23,864	\$ 29,732	\$ 3,610	\$ 33,342	9.9%
ABRY Senior Equity IV	\$ 10,000	12/7/2012	\$ 10,845	\$ 16,881	\$ 1,106	\$ 17,987	14.6%
ABRY Senior Equity V	\$ 12,050	1/19/2017	\$ 13,029	\$ 5,898	\$ 12,934	\$ 18,832	13.7%
Advent International GPE VII	\$ 30,000	6/29/2012	\$ 34,811	\$ 53,835	\$ 4,227	\$ 58,062	13.3%
Advent International GPE VIII	\$ 50,000	2/5/2016	\$ 57,147	\$ 55,750	\$ 55,322	\$ 111,072	18.1%
Advent International GPE IX	\$ 50,000	5/9/2019	\$ 46,753	\$ 4,998	\$ 59,731	\$ 64,729	16.0%
GPE IX TKE Co-Investment	\$ 24,000	3/30/2020	\$ 21,243	\$ -	\$ 27,142	\$ 27,142	8.0%
Advent International GPE X	\$ 45,000	4/28/2022	\$ 13,500	\$ -	\$ 12,533	\$ 12,533	NM
AI Co-Investment I-A	\$ 7,500	3/2/2023	\$ 7,443	\$ -	\$ -	\$ -	NM
Advent Latin America PE Fund VI	\$ 20,000	10/17/2014	\$ 19,516	\$ 12,350	\$ 22,287	\$ 34,637	15.3%
Affinity Asia Pacific Fund IV	\$ 60,000	2/28/2013	\$ 64,997	\$ 74,730	\$ 32,021	\$ 106,751	15.0%
Affinity Asia Pacific Fund V	\$ 40,000	12/11/2017	\$ 23,158	\$ 4,884	\$ 22,250	\$ 27,134	7.3%
Bain Capital Ventures 2021	\$ 25,000	10/28/2020	\$ 19,250	\$ 1	\$ 20,026	\$ 20,026	2.3%
Bain Capital Ventures 2022	\$ 25,000	6/10/2022	\$ 2,375	\$ 0	\$ 1,922	\$ 1,922	NM
Bain Capital Venture Coinvestment Fund III	\$ 15,000	4/1/2021	\$ 15,000	\$ 825	\$ 15,035	\$ 15,860	3.6%
Bain Capital Venture Coinvestment Fund IV	\$ 15,000	6/10/2022	\$ 450	\$ -	\$ 427	\$ 427	NM
Berkshire Fund VIII	\$ 15,000	7/20/2011	\$ 16,846	\$ 27,586	\$ 9,354	\$ 36,940	16.7%
Berkshire Fund IX	\$ 50,000	3/18/2016	\$ 56,849	\$ 36,889	\$ 55,700	\$ 92,589	16.0%
Blackstone Capital Partners VI	\$ 30,000	6/30/2010	\$ 38,018	\$ 53,961	\$ 10,063	\$ 64,024	12.4%
Blackstone Capital Partners VII	\$ 54,000	3/27/2015	\$ 61,598	\$ 41,319	\$ 52,839	\$ 94,158	13.0%
Carlyle Asia Partners III	\$ 15,000	12/31/2009	\$ 20,752	\$ 31,105	\$ 179	\$ 31,284	12.6%
Carlyle Asia Partners IV	\$ 60,000	6/3/2014	\$ 81,617	\$ 101,354	\$ 29,312	\$ 130,666	12.9%
Carlyle Asia Partners V	\$ 45,000	10/30/2017	\$ 40,050	\$ 10,769	\$ 34,637	\$ 45,406	7.7%
Centerbridge Capital Partners III	\$ 30,000	10/24/2014	\$ 47,767	\$ 45,744	\$ 29,209	\$ 74,953	17.6%
CB Blizzard Co-Invest	\$ 15,684	9/11/2019	\$ 15,684	\$ 10,053	\$ 2,527	\$ 12,581	-17.6%
Charterhouse Capital Partners VIII	\$ 13,500	1/6/2011	\$ 11,188	\$ 14,160	\$ -	\$ 14,160	7.9%
Charterhouse Capital Partners IX	\$ 4,500	1/6/2011	\$ 5,410	\$ 7,275	\$ 31	\$ 7,305	12.0%

(all dollar amounts in thousands)

MainePERS Private Market Investments Summary: 09/30/2023

Private Equity

Fund Name	Commitment		Amount	Total	Current Market	Total Value	Interim Net
	(A)	Date of Commitment	Contributed (B)	Distributions (C)	Value (D)	(C+D)	IRR
Charterhouse Capital Partners X	\$ 67,000	5/13/2015	\$ 59,406	\$ 76,351	\$ 30,130	\$ 106,480	20.0%
Charterhouse Acrostone	\$ 12,000	8/24/2018	\$ 13,254	\$ 21,268	\$ -	\$ 21,268	16.9%
Charterhouse Capital Partners XI	\$ 45,000	4/23/2021	\$ 18,245	\$ 1,329	\$ 18,481	\$ 19,810	NM
CVC Capital Partners VI	\$ 67,000	7/12/2013	\$ 101,240	\$ 122,151	\$ 54,851	\$ 177,002	16.3%
CVC Capital Partners VII	\$ 48,000	5/9/2017	\$ 73,161	\$ 43,350	\$ 65,829	\$ 109,180	21.1%
CVC Capital Partners VIII	\$ 44,000	6/11/2020	\$ 50,894	\$ 26,205	\$ 26,817	\$ 53,022	6.7%
CVC Capital Partners IX	\$ 44,000	6/29/2023	\$ -	\$ -	\$ -	\$ -	NM
EnCap Energy Capital VIII	\$ 30,000	1/31/2011	\$ 34,188	\$ 23,562	\$ 11,809	\$ 35,371	0.7%
EnCap Energy Capital Fund VIII Co-Investors	\$ 16,238	12/8/2011	\$ 16,506	\$ 5,997	\$ 6,501	\$ 12,497	-3.8%
EnCap Energy Capital Fund IX	\$ 30,000	12/19/2012	\$ 34,541	\$ 41,151	\$ 10,938	\$ 52,089	11.0%
EnCap Energy Capital Fund X	\$ 40,000	3/5/2015	\$ 42,225	\$ 55,847	\$ 24,498	\$ 80,344	15.8%
EnCap Energy Capital Fund XI	\$ 40,000	5/31/2017	\$ 40,630	\$ 21,939	\$ 42,792	\$ 64,731	21.1%
EnCap Flatrock Midstream Fund III	\$ 20,000	4/9/2014	\$ 25,255	\$ 22,642	\$ 11,971	\$ 34,613	10.2%
EnCap Flatrock Midstream Fund IV	\$ 22,000	11/17/2017	\$ 19,746	\$ 10,710	\$ 12,580	\$ 23,291	7.7%
General Catalyst X - Early Venture	\$ 19,565	3/26/2020	\$ 18,880	\$ -	\$ 32,443	\$ 32,443	23.6%
General Catalyst X - Endurance	\$ 22,826	3/26/2020	\$ 22,859	\$ -	\$ 21,601	\$ 21,601	-2.1%
General Catalyst X - Growth Venture	\$ 32,609	3/26/2020	\$ 32,120	\$ -	\$ 35,198	\$ 35,198	3.6%
General Catalyst XI - Creation	\$ 8,823	10/29/2021	\$ 4,169	\$ -	\$ 4,275	\$ 4,275	NM
General Catalyst XI - Endurance	\$ 29,412	10/29/2021	\$ 23,367	\$ -	\$ 22,520	\$ 22,520	NM
General Catalyst XI - Ignition	\$ 11,765	10/29/2021	\$ 7,723	\$ -	\$ 7,384	\$ 7,384	NM
GTCR Fund X*	\$ 30,000	1/28/2011	\$ 31,766	\$ 64,646	\$ -	\$ 64,646	21.4%
GTCR Fund XI	\$ 35,000	11/15/2013	\$ 34,961	\$ 76,701	\$ 35,411	\$ 112,112	32.7%
GTCR Fund XII	\$ 50,000	9/29/2017	\$ 51,713	\$ 31,746	\$ 57,242	\$ 88,988	24.0%
Co-Investment #1	\$ 5,238	4/26/2019	\$ 4,556	\$ -	\$ 9,649	\$ 9,649	18.6%
Co-Investment #2	\$ 5,997	11/1/2019	\$ 5,911	\$ 10,962	\$ 2,618	\$ 13,580	45.1%
GTCR XIII	\$ 50,000	10/27/2020	\$ 25,978	\$ 5,447	\$ 25,906	\$ 31,353	17.4%
GTCR XIV	\$ 50,000	12/16/2022	\$ -	\$ -	\$ -	\$ -	NM
H.I.G. Bayside Loan Fund II	\$ 25,000	5/28/2010	\$ 24,020	\$ 32,189	\$ 270	\$ 32,459	7.1%
H.I.G. Bayside Loan Ops Fund III (Europe)	\$ 30,000	7/27/2012	\$ 26,707	\$ 31,070	\$ 3,412	\$ 34,483	7.2%
H.I.G. Brazil & Latin America Partners	\$ 60,000	7/1/2015	\$ 69,040	\$ 26,649	\$ 73,744	\$ 100,394	12.2%
H.I.G. Capital Partners V	\$ 15,000	2/28/2013	\$ 21,070	\$ 31,337	\$ 9,358	\$ 40,694	23.1%

(all dollar amounts in thousands)

MainePERS Private Market Investments Summary: 09/30/2023

Private Equity

Fund Name	Commitment		Amount	Total	Current Market	Total Value	Interim Net
	(A)	Date of Commitment	Contributed (B)	Distributions (C)	Value (D)	(C+D)	IRR
H.I.G. Europe Capital Partners II	\$ 22,500	7/1/2013	\$ 25,240	\$ 20,667	\$ 14,907	\$ 35,574	11.1%
H.I.G. Growth Buyouts & Equity Fund II	\$ 17,500	6/30/2011	\$ 23,683	\$ 27,565	\$ 13,320	\$ 40,884	13.9%
H.I.G. Growth Buyouts & Equity Fund III	\$ 35,000	9/13/2018	\$ 16,492	\$ 2,134	\$ 15,163	\$ 17,297	NM
H.I.G Middle Market LBO Fund II	\$ 40,000	2/7/2014	\$ 48,874	\$ 68,526	\$ 21,462	\$ 89,988	26.4%
Co-Investment #1	\$ 9,000	10/12/2017	\$ 9,000	\$ -	\$ (32)	\$ (32)	-100.0%
Co-Investment #2*	\$ 686	6/19/2020	\$ 686	\$ -	\$ 925	\$ 925	10.3%
Co-Investment #3	\$ 1,000	6/1/2021	\$ 1,079	\$ -	\$ 11	\$ 11	-86.3%
H.I.G. Middle Market LBO Fund III	\$ 40,000	7/23/2019	\$ 34,813	\$ 2,021	\$ 40,691	\$ 42,712	15.1%
Hellman & Friedman Capital Partners VII	\$ 30,000	6/19/2009	\$ 44,355	\$ 105,844	\$ 7,039	\$ 112,884	24.7%
Hellman & Friedman Capital Partners VIII	\$ 45,000	9/24/2014	\$ 48,803	\$ 26,913	\$ 56,080	\$ 82,993	13.2%
Hellman & Friedman Capital Partners IX	\$ 45,000	9/28/2018	\$ 46,070	\$ 3,147	\$ 61,227	\$ 64,374	13.7%
Hellman & Friedman Capital Partners X	\$ 45,000	5/10/2021	\$ 32,383	\$ -	\$ 35,713	\$ 35,713	6.8%
Inflexion Buyout Fund IV	\$ 27,000	9/30/2014	\$ 34,338	\$ 40,916	\$ 19,281	\$ 60,197	15.1%
Inflexion Partnership Capital Fund I	\$ 17,000	9/30/2014	\$ 26,034	\$ 40,815	\$ 6,415	\$ 47,230	22.1%
Inflexion Supplemental Fund IV	\$ 10,000	5/31/2016	\$ 15,169	\$ 22,276	\$ 7,103	\$ 29,379	23.7%
Kelso Investment Associates VIII	\$ 3,000	1/6/2011	\$ 3,022	\$ 4,263	\$ 76	\$ 4,338	7.9%
Kelso Investment Associates IX	\$ 60,000	11/5/2014	\$ 70,283	\$ 87,690	\$ 33,992	\$ 121,682	19.6%
KIA IX (Hammer) Investor	\$ 25,000	8/12/2016	\$ 25,426	\$ 69,298	\$ 309	\$ 69,606	21.4%
Kelso Investment Associates X	\$ 45,000	3/16/2018	\$ 48,272	\$ 15,611	\$ 71,809	\$ 87,420	30.3%
Kelso Investment Associates XI	\$ 45,000	12/22/2021	\$ 10,476	\$ 961	\$ 12,426	\$ 13,386	NM
Kelso XI Heights Co-Investment	\$ 12,000	8/19/2022	\$ 10,013	\$ -	\$ 10,841	\$ 10,841	NM
KKR North American Fund XI	\$ 60,000	2/7/2012	\$ 100,517	\$ 166,162	\$ 21,794	\$ 187,956	19.2%
KKR North America Fund XI (Platinum)	\$ 8,003	2/26/2016	\$ 8,040	\$ 2,313	\$ 5,393	\$ 7,706	-0.8%
KKR Element Co-Invest	\$ 10,000	8/29/2016	\$ 10,050	\$ 24,030	\$ -	\$ 24,030	23.5%
KKR Americas XII	\$ 60,000	3/3/2016	\$ 63,524	\$ 39,251	\$ 72,512	\$ 111,763	19.8%
KKR Sigma Aggregator	\$ 15,000	6/22/2018	\$ 15,000	\$ -	\$ 23,753	\$ 23,753	9.1%
KKR Enterprise Co-Invest	\$ 15,000	10/11/2018	\$ 15,000	\$ -	\$ -	\$ -	-100.0%
KKR Enterprise Co-Invest AIV A	\$ 8,936	11/8/2019	\$ 8,936	\$ 7,243	\$ 1,017	\$ 8,261	-8.7%
KKR North America XIII	\$ 40,000	6/25/2021	\$ 17,771	\$ -	\$ 18,603	\$ 18,603	NM
KKR Special Situations Fund	\$ 60,000	12/19/2012	\$ 118,957	\$ 100,114	\$ 10,624	\$ 110,738	-2.5%
KKR Special Situations Fund II	\$ 60,000	12/19/2014	\$ 98,284	\$ 78,212	\$ 23,161	\$ 101,373	1.2%

MainePERS Private Market Investments Summary: 09/30/2023

Private Equity

Fund Name	Commitment		Amount	Total	Current Market	Total Value	Interim Net
	(A)	Date of Commitment	Contributed (B)	Distributions (C)	Value (D)	(C+D)	IRR
Long Ridge Equity Partners IV	\$ 15,000	6/26/2023	\$ -	\$ -	\$ -	\$ -	NM
Metwest Enhanced TALF Strategy Fund L. P.	\$ 75,000	7/31/2009	\$ 53,350	\$ 67,405	\$ -	\$ 67,405	10.2%
Oaktree Opportunities VIII	\$ 30,000	12/9/2009	\$ 30,000	\$ 43,920	\$ 88	\$ 44,008	9.1%
ONCAP IV	\$ 15,000	11/8/2016	\$ 15,962	\$ 5,321	\$ 18,911	\$ 24,232	13.7%
Onex Partners III	\$ 10,000	1/6/2011	\$ 11,202	\$ 17,038	\$ 1,787	\$ 18,824	13.1%
Onex Partners IV	\$ 60,000	11/22/2013	\$ 62,871	\$ 50,953	\$ 39,595	\$ 90,549	8.0%
Co-Investment #1	\$ 10,000	2/27/2017	\$ 10,471	\$ 1,235	\$ 5,573	\$ 6,808	-7.4%
Onex Partners V	\$ 45,000	7/11/2017	\$ 39,000	\$ 5,911	\$ 45,330	\$ 51,241	13.5%
Paine & Partners Capital Fund IV	\$ 60,000	12/18/2014	\$ 56,684	\$ 29,070	\$ 48,981	\$ 78,051	7.5%
Wawona Co-Investment Fund I	\$ 15,000	3/31/2017	\$ 15,023	\$ -	\$ 3	\$ 3	-86.0%
Lyons Magnus Co-Investment Fund I	\$ 15,000	11/8/2017	\$ 15,016	\$ -	\$ 25,164	\$ 25,164	9.2%
PSP Maverick Co-Invest	\$ 7,238	9/12/2019	\$ 7,264	\$ -	\$ 516	\$ 516	-48.2%
PSP AH&N Co-Investment Fund	\$ 19,724	11/27/2019	\$ 17,539	\$ -	\$ 32,418	\$ 32,418	18.4%
Paine Schwartz Food Chain Fund V	\$ 45,000	8/3/2018	\$ 46,537	\$ 23,888	\$ 39,404	\$ 63,292	21.3%
SNFL Co-Investment Fund	\$ 5,000	10/11/2019	\$ 5,024	\$ 5,524	\$ 4,453	\$ 9,977	19.5%
Rhone Partners V	\$ 56,000	3/12/2015	\$ 75,954	\$ 65,200	\$ 63,592	\$ 128,792	16.4%
Riverside Capital Appreciation Fund VI	\$ 60,000	7/3/2013	\$ 63,008	\$ 79,860	\$ 20,009	\$ 99,868	12.0%
RCAF VI CIV XXXII	\$ 12,399	10/21/2015	\$ 12,687	\$ 35,268	\$ -	\$ 35,268	19.9%
Riverside Micro-Cap Fund III	\$ 35,000	6/30/2014	\$ 51,608	\$ 194,767	\$ 40,653	\$ 235,420	36.1%
Riverside Micro-Cap Fund IV	\$ 60,000	10/23/2015	\$ 55,659	\$ 5,112	\$ 81,689	\$ 86,801	8.0%
Riverside Micro-Cap Fund IV-B	\$ 20,000	8/9/2019	\$ 24,292	\$ 5,583	\$ 37,395	\$ 42,978	23.5%
Riverside Micro-Cap Fund V	\$ 40,000	8/21/2018	\$ 33,628	\$ 2,513	\$ 48,665	\$ 51,178	16.8%
Riverside Micro-Cap Fund VI	\$ 45,000	8/26/2021	\$ 13,878	\$ 263	\$ 13,967	\$ 14,230	NM
Shoreview Capital Partners III	\$ 24,000	7/24/2013	\$ 25,657	\$ 28,779	\$ 24,865	\$ 53,644	18.0%
Shoreview Capital Partners IV	\$ 30,000	6/3/2019	\$ 17,031	\$ 5,989	\$ 18,483	\$ 24,472	39.0%
Sovereign Capital IV	\$ 46,500	7/7/2014	\$ 40,344	\$ 26,905	\$ 32,417	\$ 59,323	10.0%
Summit Partners Credit II	\$ 60,000	10/25/2013	\$ 90,831	\$ 87,991	\$ 17,753	\$ 105,744	5.7%
Summit Europe Growth Equity III	\$ 22,000	3/18/2020	\$ 18,184	\$ -	\$ 19,372	\$ 19,372	4.7%
Summit Europe Growth Equity IV	\$ 22,000	2/10/2023	\$ -	\$ -	\$ -	\$ -	NM
Summit Growth Equity VIII	\$ 25,000	5/27/2011	\$ 33,445	\$ 63,535	\$ 11,922	\$ 75,456	26.1%
Co-Investment #1*	\$ 16,000	6/3/2015	\$ 16,000	\$ 38,735	\$ 19,728	\$ 58,463	31.8%

(all dollar amounts in thousands)

MainePERS Private Market Investments Summary: 09/30/2023

Private Equity

Fund Name	Commitment		Amount	Total	Current Market	Total Value	Interim Net
	(A)	Date of Commitment	Contributed (B)	Distributions (C)	Value (D)	(C+D)	IRR
Summit Growth Equity IX	\$ 60,000	8/26/2015	\$ 83,969	\$ 91,405	\$ 80,841	\$ 172,246	29.0%
Co-Investment #1	\$ 15,000	11/29/2016	\$ 14,895	\$ 41,743	\$ -	\$ 41,743	159.6%
Summit Partners Co-Invest (Ironman)	\$ 15,530	4/20/2018	\$ 15,534	\$ -	\$ 15,508	\$ 15,508	0.0%
Summit Partners Co-Invest (Giants-B)	\$ 15,000	10/22/2019	\$ 15,000	\$ 41,780	\$ 5,448	\$ 47,228	80.8%
Summit Growth Equity X	\$ 60,000	2/26/2019	\$ 61,418	\$ 18,176	\$ 64,422	\$ 82,598	17.7%
Summit Partners Co-Invest (Lions)	\$ 7,534	10/14/2020	\$ 7,534	\$ 119	\$ 14,420	\$ 14,539	26.0%
Summit Partners Co-Invest (Indigo)	\$ 10,000	12/11/2020	\$ 11,436	\$ -	\$ 11,424	\$ 11,424	0.0%
Summit Growth Equity XI	\$ 45,000	10/1/2021	\$ 11,487	\$ -	\$ 12,406	\$ 12,406	NM
Summit Venture Capital III	\$ 13,150	5/27/2011	\$ 18,044	\$ 32,899	\$ 2,902	\$ 35,801	17.5%
Summit Venture Capital IV	\$ 40,000	8/26/2015	\$ 51,043	\$ 48,377	\$ 58,620	\$ 106,997	36.1%
Summit Venture Capital V	\$ 45,000	6/16/2020	\$ 26,101	\$ 2,771	\$ 23,660	\$ 26,431	0.9%
Summit Partners Co-Invest (CS)	\$ 13,753	10/22/2021	\$ 13,798	\$ -	\$ 11,709	\$ 11,709	NM
Technology Crossover Ventures VIII	\$ 60,000	5/8/2013	\$ 55,596	\$ 48,062	\$ 65,431	\$ 113,493	11.4%
Technology Crossover Ventures IX	\$ 60,000	2/19/2016	\$ 48,427	\$ 49,773	\$ 50,846	\$ 100,619	19.9%
TCV Sports	\$ 8,000	9/25/2018	\$ 8,000	\$ -	\$ 8,726	\$ 8,726	1.8%
Technology Crossover Ventures X	\$ 45,000	8/31/2018	\$ 36,448	\$ 10,890	\$ 58,754	\$ 69,644	22.0%
Technology Crossover Ventures XI	\$ 45,000	10/2/2020	\$ 27,647	\$ -	\$ 24,136	\$ 24,136	-8.3%
Technology Impact Fund	\$ 40,000	12/18/2017	\$ 37,554	\$ 23,745	\$ 89,536	\$ 113,281	45.0%
Technology Impact Fund II	\$ 40,000	4/13/2021	\$ 12,686	\$ 325	\$ 12,708	\$ 13,033	NM
Technology Impact Growth Fund	\$ 40,000	11/26/2018	\$ 49,485	\$ 26,676	\$ 29,786	\$ 56,462	6.3%
Technology Impact Growth Fund II	\$ 40,000	8/6/2021	\$ 15,968	\$ -	\$ 14,173	\$ 14,173	NM
TIGF II Direct Strategies LLC - Series 3	\$ 5,000	7/14/2023	\$ 5,000	\$ -	\$ 4,992	\$ 4,992	NM
Thoma Bravo Fund XI	\$ 50,000	5/1/2014	\$ 74,040	\$ 145,149	\$ 56,338	\$ 201,487	26.6%
Thoma Bravo Fund XII	\$ 60,000	4/27/2016	\$ 78,447	\$ 80,943	\$ 67,033	\$ 147,977	16.3%
Thoma Bravo Fund XIII	\$ 45,000	12/7/2018	\$ 59,671	\$ 31,856	\$ 74,544	\$ 106,400	28.6%
Thoma Bravo Special Opportunities Fund II	\$ 15,000	3/27/2015	\$ 18,113	\$ 21,091	\$ 16,223	\$ 37,313	16.1%
Thoma Bravo Discover Fund IV	\$ 45,000	7/1/2022	\$ 18,829	\$ -	\$ 20,228	\$ 20,228	NM
Tillridge Global Agribusiness Partners II	\$ 50,000	10/21/2016	\$ 28,819	\$ 2,900	\$ 23,895	\$ 26,795	-2.3%
Water Street Healthcare Partners III	\$ 25,000	7/25/2012	\$ 30,292	\$ 78,671	\$ 10,106	\$ 88,776	35.5%
Water Street Healthcare Partners IV	\$ 33,000	9/15/2017	\$ 35,377	\$ 10,624	\$ 47,237	\$ 57,860	19.1%
Water Street Healthcare Partners V	\$ 43,000	4/15/2022	\$ 5,719	\$ -	\$ 4,679	\$ 4,679	NM

(all dollar amounts in thousands)

MainePERS Private Market Investments Summary: 09/30/2023

Private Equity

Fund Name	Commitment		Amount	Total	Current Market		Interim Net IRR
	(A)	Date of Commitment	Contributed (B)	Distributions (C)	Value (D)	Total Value (C+D)	
Wayzata Opportunities Fund III	\$ 30,000	9/11/2012	\$ 14,718	\$ 11,686	\$ 3,176	\$ 14,862	0.2%
Wynnchurch Capital Partners IV	\$ 40,000	10/23/2014	\$ 38,351	\$ 44,971	\$ 56,904	\$ 101,875	26.8%
Wynnchurch Capital Partners V	\$ 40,000	1/15/2020	\$ 28,231	\$ 538	\$ 34,155	\$ 34,693	13.7%

MainePERS Private Market Investments Summary: 09/30/2023

Real Estate

Fund Name	Commitment (A)	Date of Commitment	Amount Contributed (B)	Total Distributions (C)	Current Market Value (D)	Total Value (C+D)	Interim Net IRR
Angelo Gordon Net Lease IV	\$ 50,000	2/17/2020	\$ 45,941	\$ 3,521	\$ 47,679	\$ 51,200	6.1%
Angelo Gordon Realty Fund XI	\$ 50,000	3/31/2022	\$ 7,500	\$ -	\$ 7,216	\$ 7,216	NM
Bain Capital Real Estate II	\$ 50,000	3/5/2021	\$ 27,080	\$ 2,365	\$ 27,366	\$ 29,731	8.1%
Blackrock Granite Property Fund	\$ 63,791	9/30/2006	\$ 68,771	\$ 53,312	\$ -	\$ 53,312	-4.9%
Blackstone Property Partners	\$ 350,000	6/29/2017	\$ 350,000	\$ 43,714	\$ 407,343	\$ 451,057	5.4%
Blackstone Real Estate Partners VII	\$ 75,000	2/26/2012	\$ 104,422	\$ 156,076	\$ 11,931	\$ 168,007	14.7%
Blackstone Real Estate Partners VIII	\$ 50,000	3/27/2015	\$ 63,972	\$ 65,315	\$ 36,984	\$ 102,299	15.1%
Blackstone Real Estate Partners IX	\$ 40,000	12/21/2018	\$ 44,994	\$ 16,201	\$ 46,648	\$ 62,849	20.4%
Barings Asia Real Estate II	\$ 50,000	7/31/2018	\$ 27,008	\$ 2,506	\$ 22,686	\$ 25,192	-3.1%
EQT Real Estate II	\$ 55,000	4/26/2019	\$ 32,356	\$ 5,268	\$ 29,615	\$ 34,883	4.2%
EQT Real Estate Rock Co-Investment	\$ 11,000	8/10/2020	\$ 9,281	\$ -	\$ 10,832	\$ 10,832	6.5%
H/2 Credit Partners, L.P.	\$ 75,000	6/21/2011	\$ 75,000	\$ 112,177	\$ -	\$ 112,177	5.9%
Harrison Street Core Property Fund, L.P.	\$ 75,000	4/30/2012	\$ 95,998	\$ 54,063	\$ 128,923	\$ 182,985	8.1%
HSRE-Coyote Maine PERS Core Co-Investment	\$ 20,000	12/4/2020	\$ 14,201	\$ 1,769	\$ 12,431	\$ 14,200	0.0%
High Street Real Estate Fund IV, L.P.	\$ 25,000	8/23/2013	\$ 24,717	\$ 34,157	\$ -	\$ 34,157	14.7%
High Street Real Estate Fund V	\$ 25,000	7/24/2015	\$ 24,925	\$ 36,176	\$ -	\$ 36,176	13.2%
High Street Real Estate Fund VI	\$ 25,000	3/22/2019	\$ 25,000	\$ 5,855	\$ 37,641	\$ 43,496	22.1%
HSREF VI Elgin Co-Invest	\$ 10,000	4/9/2021	\$ 10,000	\$ 1,575	\$ 13,748	\$ 15,323	20.4%
High Street Real Estate Fund VII	\$ 35,000	8/16/2021	\$ 35,000	\$ -	\$ 39,360	\$ 39,360	11.1%
High Street Real Estate VII Venture	\$ 15,000	3/17/2023	\$ 15,000	\$ -	\$ 14,880	\$ 14,880	NM
Hines US Property Partners	\$ 200,000	9/9/2021	\$ 114,643	\$ 12,421	\$ 99,343	\$ 111,764	-2.2%
Invesco Real Estate Asia IV	\$ 30,000	3/25/2020	\$ 23,831	\$ 16,983	\$ 8,876	\$ 25,858	10.4%
Invesco US Income Fund	\$ 195,000	7/17/2014	\$ 230,599	\$ 71,876	\$ 316,345	\$ 388,221	10.1%
IPI Data Center Partners I	\$ 30,000	12/15/2017	\$ 34,788	\$ 19,556	\$ 33,524	\$ 53,080	15.1%
IPI Data Center Partners II	\$ 25,000	12/20/2019	\$ 23,346	\$ 1,619	\$ 24,037	\$ 25,656	8.7%
JPMCB Strategic Property Fund	\$ 130,000	11/15/2005	\$ 186,941	\$ 297,519	\$ -	\$ 297,519	5.8%
KKR Real Estate Partners Europe I	\$ 50,000	12/2/2015	\$ 53,582	\$ 54,632	\$ 15,149	\$ 69,781	9.7%
KKR Real Estate Partners Europe II	\$ 25,000	12/23/2019	\$ 19,932	\$ 6,137	\$ 14,167	\$ 20,304	1.4%
KKR Real Estate Partners Americas I	\$ 50,000	12/20/2013	\$ 50,037	\$ 59,408	\$ 2,307	\$ 61,714	10.9%
KKR Real Estate Partners Americas II	\$ 50,000	6/2/2016	\$ 60,978	\$ 71,922	\$ 11,654	\$ 83,576	19.8%
Northbridge-Strategic Fund II	\$ 30,000	2/8/2019	\$ 30,000	\$ 4,591	\$ 45,317	\$ 49,908	12.2%
Prima Mortgage Investment Trust, LLC	\$ 75,000	7/29/2011	\$ 97,490	\$ 131,918	\$ -	\$ 131,918	3.8%
Principal Life Insurance Company U.S. Property	\$ 60,000	5/20/2005	\$ 60,000	\$ 125,410	\$ -	\$ 125,410	6.2%

(all dollar amounts in thousands)

MainePERS Private Market Investments Summary: 09/30/2023

Real Estate

Fund Name	Commitment (A)	Date of Commitment	Amount Contributed (B)	Total Distributions (C)	Current Market Value (D)	Total Value (C+D)	Interim Net IRR
PRISA	\$ 90,000	6/30/2005	\$ 139,622	\$ 222,450	\$ -	\$ 222,450	5.3%
Rubenstein Properties Fund III	\$ 30,000	10/23/2015	\$ 30,606	\$ 627	\$ 14,428	\$ 15,056	-14.3%
LCC Co-Investor B	\$ 15,000	10/18/2019	\$ 15,000	\$ -	\$ 4,487	\$ 4,487	-29.9%
Rubenstein Properties Fund IV	\$ 25,000	4/16/2019	\$ 8,232	\$ 2	\$ 2,639	\$ 2,640	NM
Prudential Senior Housing Fund V	\$ 50,000	3/17/2015	\$ 41,333	\$ 5,453	\$ 44,937	\$ 50,390	3.6%
Smart Markets Fund, L.P.	\$ 195,000	6/17/2013	\$ 224,993	\$ 72,135	\$ 300,452	\$ 372,586	8.6%
Stonelake Opportunity Partners VII	\$ 40,000	6/30/2022	\$ 0	\$ -	\$ (1,406)	\$ (1,406)	NM
Walton Street Real Estate Fund VII	\$ 50,000	5/9/2012	\$ 43,990	\$ 50,664	\$ 9,242	\$ 59,906	8.8%
Walton Street Real Estate Fund VIII	\$ 50,000	10/23/2015	\$ 42,789	\$ 35,597	\$ 22,594	\$ 58,191	9.4%
Co-Investment #1	\$ 10,000	9/27/2017	\$ 10,293	\$ 4,160	\$ -	\$ 4,160	-60.0%
Westbrook Real Estate Fund IX	\$ 15,000	6/30/2014	\$ 17,427	\$ 17,500	\$ 2,493	\$ 19,993	5.1%
Westbrook Real Estate Fund X	\$ 50,000	1/15/2015	\$ 48,746	\$ 42,649	\$ 15,233	\$ 57,882	7.5%
Westbrook Real Estate Fund XI	\$ 40,000	1/31/2019	\$ 30,960	\$ 11,223	\$ 24,011	\$ 35,234	16.1%

MainePERS Private Market Investments Summary: 09/30/2023

Notes: *As of 6/30/2023. NM = Not Meaningful. MainePERS only reports IRRs for funds with more than 24 months of history and for which Amount Contributed is greater than 50% of Commitments. "Date of Commitment" is not the date of first capital draw. The "IRR" presented uses interim estimates and may not be indicative of ultimate performance of partnership investments due to a number of factors including lags in valuation, maturity of fund, and differences in investment pace and strategy of various funds. Performance figures should not be used to compare returns among multiple funds or different limited partners. Private market investments are long-term investments which are expected to generate returns over the course of their entire life cycle of 10 or more years. Common industry practice dictates that any performance analysis on these funds while they are still in the early years of their investment cycle would not generate meaningful results. The Interim Net IRR figures presented in this table are based on cash flow information provided by the general partner. The above information was not prepared, reviewed, or approved by any of the partnerships, general partners, or their affiliates and may differ from those generated by the general partner or other limited partners due to differences in timing of investments, disposal of in-kind distributions, and accounting and valuation policies.

MAINEPERS

BOARD OF TRUSTEES INVESTMENTS MEMORANDUM

TO: BOARD MEMBERS
FROM: JAMES BENNETT, CHIEF INVESTMENT OFFICER
SUBJECT: PROXY VOTING REPORT
DATE: JANUARY 3, 2024

Board Policy 2.7 (Engagement) specifies that the System will vote its proxies in the best interests of its members as pension beneficiaries. The Policy directs the Investment Team to develop and maintain proxy voting guidelines, and to engage a proxy agent, currently Glass Lewis, for the purpose of voting its proxies. Further, the Investment Team will report on the System's proxy voting semi-annually to the Board of Trustees. A report summarizing MainePERS' proxy voting activity through the first half of fiscal year 2024 follows this memo.

POLICY REFERENCE

[Board Policy 2.1 – Investment Policy Statement](#)

[Board Policy 2.7 – Engagement](#)

[Board Policy 4.5 – Board/Staff Relations](#)

[Board Policy 4.6 – Communication and Support to the Board](#)

PROXY VOTING FYTD 2024

Public company annual meetings typically feature a number of items to be voted on by shareholders, such as Board of Director nominations, ratification of the company's auditor, and various proposals put forward by shareholders. The vast majority of public company shareholder meetings occur between April and mid-June of each year, which is referred to as proxy season.

During the first half of fiscal year 2024, there were 117 annual meetings and 1,218 proposals for public companies directly held in the System's U.S. Equity portfolio. Of these proposals, 1,178 were management proposals and 40 were shareholder proposals. MainePERS voted in favor of 85% of management proposals, and in favor of 40% of shareholder proposals. This voting pattern is consistent with the votes cast during fiscal year 2023, when MainePERS voted on over 10,000 management and shareholder proposals in aggregate.

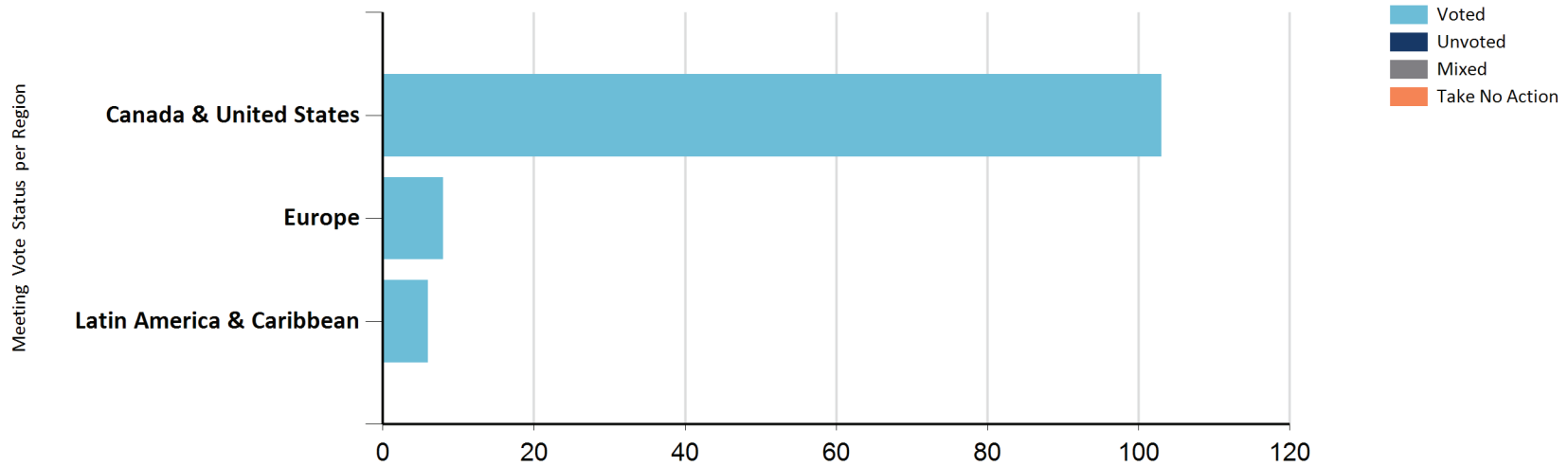
Glass Lewis has updated its Policy Guidelines in advance of the 2024 proxy season. The Investment Team has reviewed these guidelines with Glass Lewis and believes that the firm's approach to evaluating management and shareholder proposals remains consistent with the broad principles for the voting of System proxies. Specifically, Board Policy 2.7 (Engagement) states that MainePERS will vote its proxies in the best interests of its members as pension beneficiaries, which generally means encouraging good corporate stewardship and maintaining an appropriate balance of long and short-term goals.

Glass Lewis has always been focused on the oversight of material environmental, social, and governance risks at the board level. This includes climate-related issues, where Glass Lewis looks for clear and comprehensive disclosure regarding climate risks, including how these risks are being mitigated and overseen. For the 2023 proxy season, Glass Lewis began to recommend voting against management proposals in cases where companies do not have sufficiently comprehensive disclosures on climate risks and/or insufficient board-level oversight of climate-related issues, for emissions-intensive companies. This practice is being expanded in 2024 to encompass a broader range of companies in industries where such emissions-related risks are deemed financially material.

Meeting Statistics Report

From 7/1/2023 to 12/31/2023

Meetings by Region & Vote Status

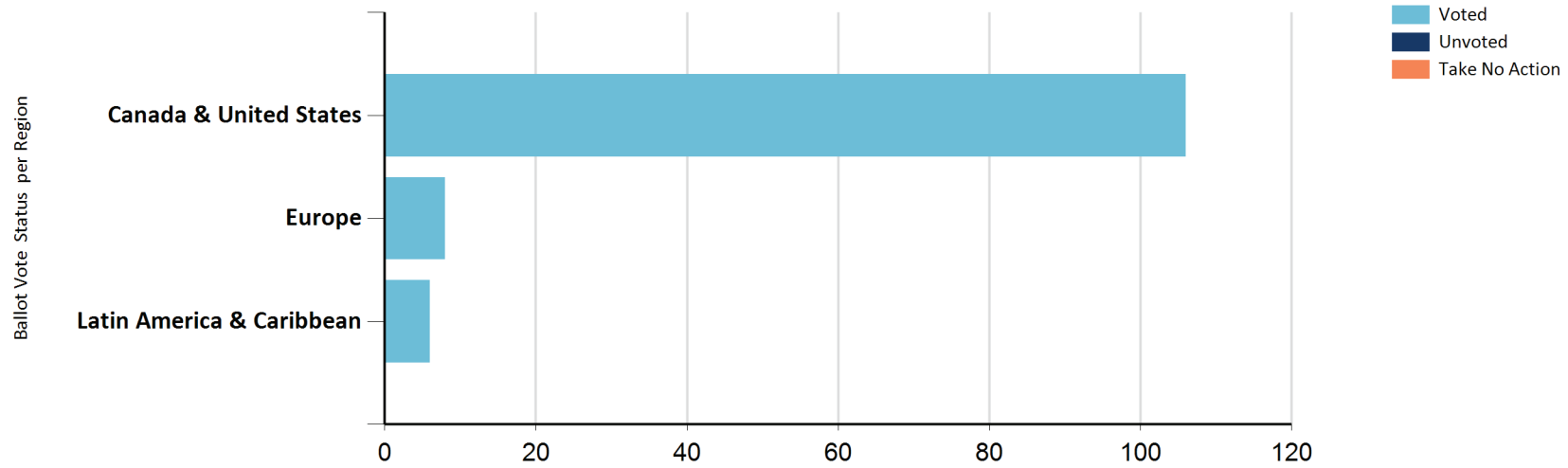


Region	Country Of Origin	Voted	Unvoted	Mixed	Take No Action	Total
Total for all Regions		117	0	0	0	117
Canada & United States		103	0	0	0	103
	United States	103	0	0	0	103
Europe		8	0	0	0	8
	Ireland	5	0	0	0	5
	Jersey	2	0	0	0	2
	Netherlands	1	0	0	0	1
Latin America & Caribbean		6	0	0	0	6
	Bermuda	2	0	0	0	2
	Cayman Islands	2	0	0	0	2
	Virgin Islands (British)	2	0	0	0	2

Ballot Statistics Report

From 7/1/2023 to 12/31/2023

Ballots by Region & Vote Status



Region	Country Of Origin	Voted	Unvoted	Take No Action	Total
Total for all Regions		120	0	0	120
Canada & United States		106	0	0	106
	United States	106	0	0	106
Europe		8	0	0	8
	Ireland	5	0	0	5
	Jersey	2	0	0	2
	Netherlands	1	0	0	1
Latin America & Caribbean		6	0	0	6
	Bermuda	2	0	0	2
	Cayman Islands	2	0	0	2
	Virgin Islands (British)	2	0	0	2

Proposal Statistics Report

From 7/1/2023 to 12/31/2023

	Mgmt Proposals	SHP Proposals	Total Proposals
For	1005	16	1021
Against	107	17	124
Abstain	1	7	8
1 Year	65	0	65
2 Years	0	0	0
3 Years	0	0	0
Mixed	0	0	0
Take No Action	0	0	0
Unvoted	0	0	0
Totals	1178	40	1218

	Mgmt Proposals	SHP Proposals	Total Proposals
With Management	1068	17	1085
Against Management	109	23	132
N/A	1	0	1
Mixed	0	0	0
Take No Action	0	0	0
Unvoted	0	0	0
Totals	1178	40	1218

Management Proposals – Votes Cast

For - 1005 Abstain - 1 1 Year - 65
Against - 107



Shareholder Proposals – Votes Cast

For - 16 Against - 17 Abstain - 7



Management Proposals – Votes versus Management

With Mgmt - 1068 N/A - 1
Against Mgmt - 109



Shareholder Proposals – Votes versus Management

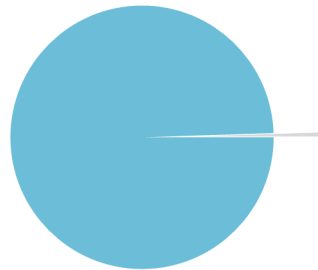
With Mgmt - 17 Against Mgmt - 23



	Mgmt Proposals	SHP Proposals	Total Proposals
With Policy	1172	26	1198
Against Policy	0	0	0
Manual	6	14	20
N/A	0	0	0
Mixed	0	0	0
Take No Action	0	0	0
Unvoted	0	0	0
Totals	1178	40	1218

Management Proposals - Votes versus Policy

With Policy 1172 Manual 6



Shareholder Proposals - Votes versus Policy

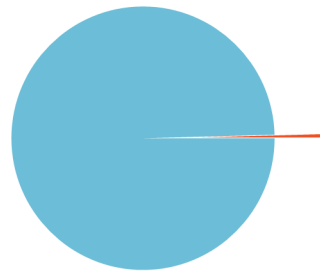
With Policy 26 Manual 14



	Mgmt Proposals	SHP Proposals	Total Proposals
With Glass Lewis	1173	29	1202
Against Glass Lewis	5	11	16
N/A	0	0	0
Mixed	0	0	0
Take No Action	0	0	0
Unvoted	0	0	0
Totals	1178	40	1218

Management Proposals - Votes versus Glass Lewis

With GL 1173 Against GL 5



Shareholder Proposals - Votes versus Glass Lewis

With GL 29 Against GL 11



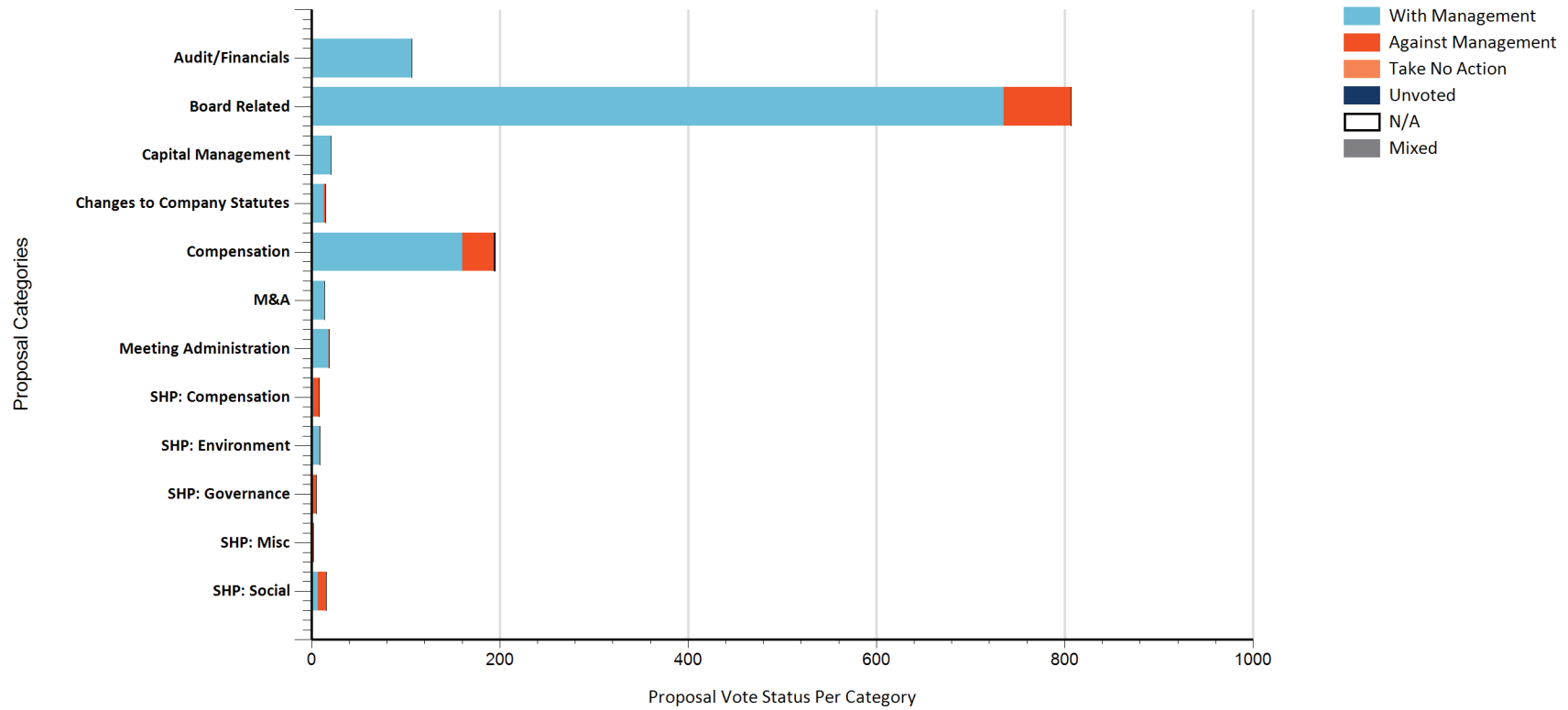
Proposal Category Report

From 7/1/2023 to 12/31/2023

Proposal Categories - All Votes

Proposal Category Type	For	Against	Abstain	Take No Action	Unvoted	Mixed	1 Year	2 Years	3 Years	Total
Totals	1021	124	8	0	0	0	65	0	0	1218
Audit/Financials	107	0	0	0	0	0	0	0	0	107
Board Related	735	72	0	0	0	0	0	0	0	807
Capital Management	21	0	0	0	0	0	0	0	0	21
Changes to Company Statutes	13	1	1	0	0	0	0	0	0	15
Compensation	97	33	0	0	0	0	65	0	0	195
M&A	14	0	0	0	0	0	0	0	0	14
Meeting Administration	18	1	0	0	0	0	0	0	0	19
SHP: Compensation	5	2	1	0	0	0	0	0	0	8
SHP: Environment	1	8	0	0	0	0	0	0	0	9
SHP: Governance	5	0	0	0	0	0	0	0	0	5
SHP: Misc	2	0	0	0	0	0	0	0	0	2
SHP: Social	3	7	6	0	0	0	0	0	0	16

Proposal Categories - Votes versus Management

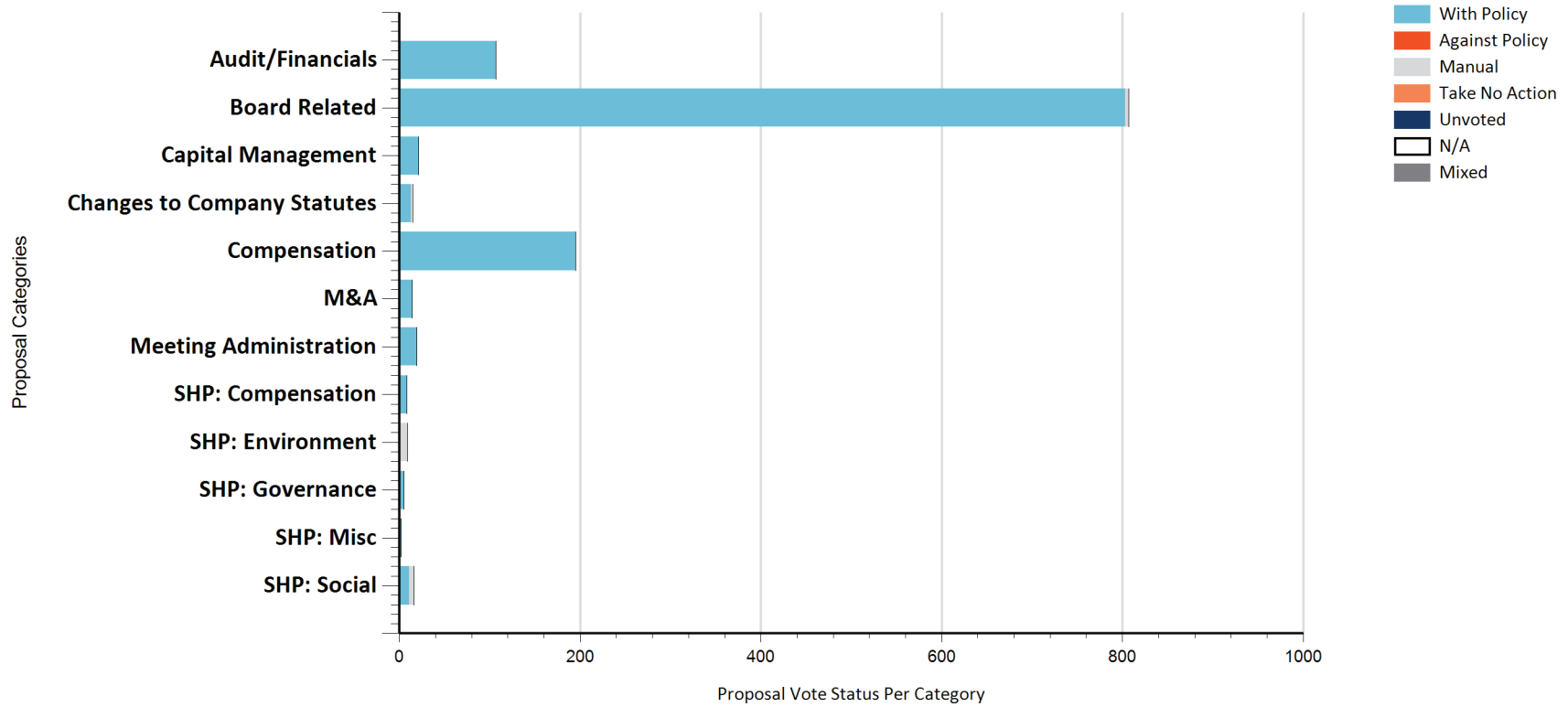


Proposal Categories - Votes versus Management

Proposal Category Type	With Management	Against Management	Take No Action	Unvoted	N/A	Mixed	Total
Totals	1085	132	0	0	1	0	1218
Audit/Financials	107	0	0	0	0	0	107
Board Related	735	72	0	0	0	0	807
Capital Management	21	0	0	0	0	0	21
Changes to Company Statutes	13	2	0	0	0	0	15

Proposal Category Type	With Management	Against Management	Take No Action	Unvoted	N/A	Mixed	Total
Compensation	160	34	0	0	1	0	195
M&A	14	0	0	0	0	0	14
Meeting Administration	18	1	0	0	0	0	19
SHP: Compensation	2	6	0	0	0	0	8
SHP: Environment	8	1	0	0	0	0	9
SHP: Governance	0	5	0	0	0	0	5
SHP: Misc	0	2	0	0	0	0	2
SHP: Social	7	9	0	0	0	0	16

Proposal Categories - Votes versus Policy

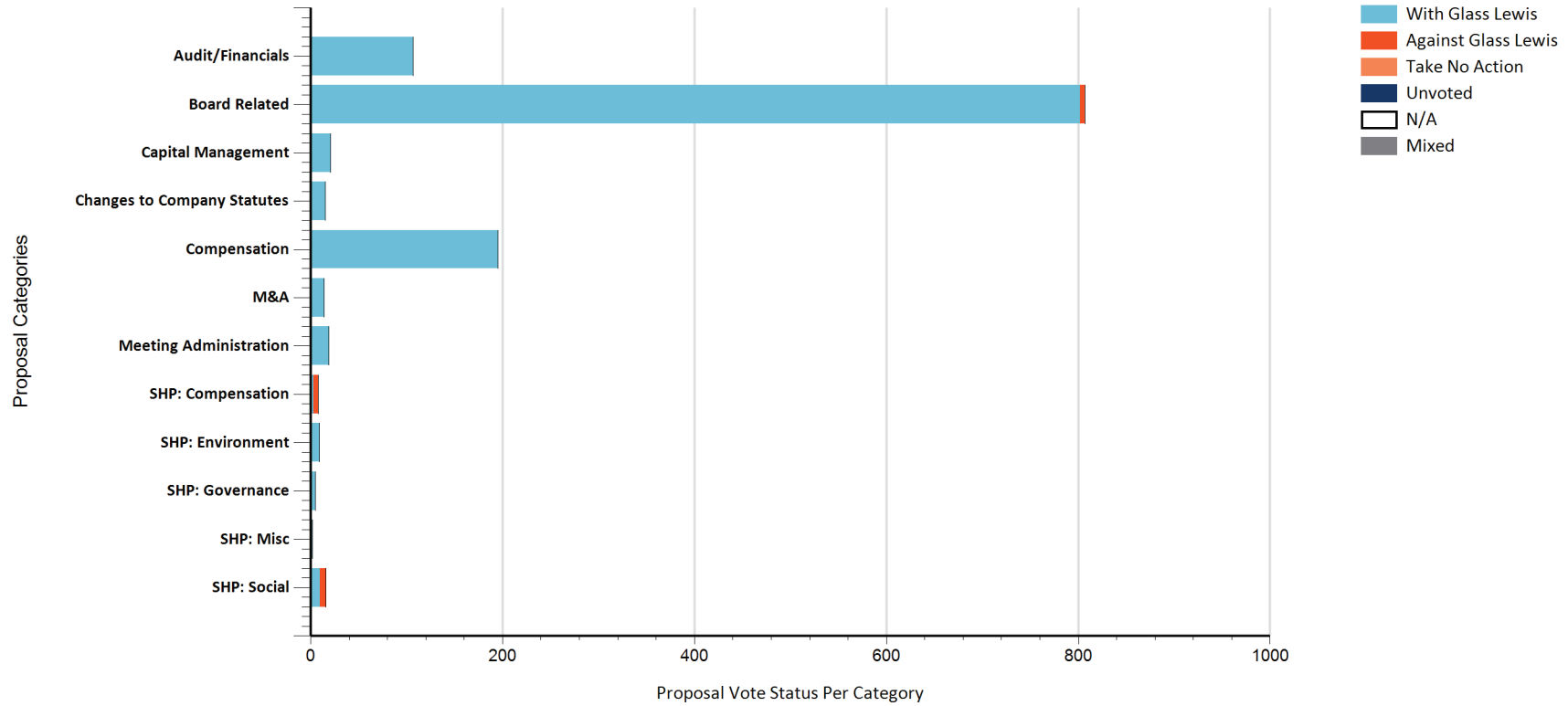


Proposal Categories - Votes versus Policy

Proposal Category Type	With Policy	Against Policy	Manual	Take No Action	Unvoted	N/A	Mixed	Total
Totals	1198	0	20	0	0	0	0	1218
Audit/Financials	107	0	0	0	0	0	0	107
Board Related	803	0	4	0	0	0	0	807
Capital Management	21	0	0	0	0	0	0	21
Changes to Company Statutes	13	0	2	0	0	0	0	15

Proposal Category Type	With Policy	Against Policy	Manual	Take No Action	Unvoted	N/A	Mixed	Total
Compensation	195	0	0	0	0	0	0	195
M&A	14	0	0	0	0	0	0	14
Meeting Administration	19	0	0	0	0	0	0	19
SHP: Compensation	8	0	0	0	0	0	0	8
SHP: Environment	0	0	9	0	0	0	0	9
SHP: Governance	5	0	0	0	0	0	0	5
SHP: Misc	2	0	0	0	0	0	0	2
SHP: Social	11	0	5	0	0	0	0	16

Proposal Categories - Votes versus Glass Lewis



Proposal Categories - Votes versus Glass Lewis

Proposal Category Type	With Glass Lewis	Against Glass Lewis	Take No Action	Unvoted	N/A	Mixed	Total
Totals	1202	16	0	0	0	0	1218
Audit/Financials	107	0	0	0	0	0	107
Board Related	802	5	0	0	0	0	807
Capital Management	21	0	0	0	0	0	21
Changes to Company Statutes	15	0	0	0	0	0	15

Proposal Category Type	With Glass Lewis	Against Glass Lewis	Take No Action	Unvoted	N/A	Mixed	Total
Compensation	195	0	0	0	0	0	195
M&A	14	0	0	0	0	0	14
Meeting Administration	19	0	0	0	0	0	19
SHP: Compensation	3	5	0	0	0	0	8
SHP: Environment	9	0	0	0	0	0	9
SHP: Governance	5	0	0	0	0	0	5
SHP: Misc	2	0	0	0	0	0	2
SHP: Social	10	6	0	0	0	0	16

Proposal Types – Votes Versus Management

Issue Code Category	Issue Code Description	With Management	Against Management	Take No Action	Unvoted	N/A	Mixed	Total
Total for all Categories		1085	132	0	0	1	0	1218
<i>Audit/Financials</i>		107	0	0	0	0	0	107
	Appointment of Auditor	2	0	0	0	0	0	2
	Appointment of Auditor and Authority to Set Fees	3	0	0	0	0	0	3
	Authority to Set Auditor's Fees	3	0	0	0	0	0	3
	Financial Statements	4	0	0	0	0	0	4
	Ratification of Auditor	95	0	0	0	0	0	95
<i>Board Related</i>		735	72	0	0	0	0	807
	Change in Board Size	1	0	0	0	0	0	1
	Director & Officer Liability/Indemnification	0	4	0	0	0	0	4
	Election of Directors	732	66	0	0	0	0	798
	Election of Directors (Slate)	0	2	0	0	0	0	2
	Ratification of Board Acts - Legal	1	0	0	0	0	0	1
	Ratification of Management Acts - Legal	1	0	0	0	0	0	1
<i>Capital Management</i>		21	0	0	0	0	0	21
	Amendment to Dual Class Stock	3	0	0	0	0	0	3
	Authority to Issue Shares w/ Preemptive Rights	4	0	0	0	0	0	4
	Authority to Issue Shares w/o Preemptive Rights	6	0	0	0	0	0	6

Issue Code Category	Issue Code Description	With Management	Against Management	Take No Action	Unvoted	N/A	Mixed	Total
	Authority to Repurchase Shares	5	0	0	0	0	0	5
	Elimination of Dual Class Stock	1	0	0	0	0	0	1
	Increase in Authorized Common Stock	1	0	0	0	0	0	1
	Issuance of Common Stock	1	0	0	0	0	0	1
<i>Changes to Company Statutes</i>		13	2	0	0	0	0	15
	Adoption of Majority Vote for Election of Directors	1	0	0	0	0	0	1
	Adoption of New Articles	1	0	0	0	0	0	1
	Amendment to Supermajority Requirement	1	0	0	0	0	0	1
	Amendments to Articles, Constitution, Bylaws	1	0	0	0	0	0	1
	Approval of Exclusive Forum Provisions	0	1	0	0	0	0	1
	Article Amendments - Allow for the Removal of Directors	2	0	0	0	0	0	2
	Change in State of Incorporation	1	0	0	0	0	0	1
	Elimination of Supermajority Requirement	2	0	0	0	0	0	2
	Misc. Article Amendments	1	0	0	0	0	0	1
	Repeal of Classified Board	1	0	0	0	0	0	1
	Restoration of Right to Call a Special Meeting	1	1	0	0	0	0	2
	Restoration of Written Consent	1	0	0	0	0	0	1
<i>Compensation</i>		160	34	0	0	1	0	195
	Adoption of Employee Stock Purchase Plan	1	0	0	0	0	0	1
	Adoption of Equity Compensation Plan	8	0	0	0	0	0	8

Issue Code Category	Issue Code Description	With Management	Against Management	Take No Action	Unvoted	N/A	Mixed	Total
	Advisory Vote on Executive Compensation	71	24	0	0	0	0	95
	Advisory Vote on Severance	4	4	0	0	0	0	8
	Amendment to Employee Stock Purchase Plan	3	2	0	0	0	0	5
	Amendment to Equity Compensation Plan	10	3	0	0	0	0	13
	Say When on Pay	63	1	0	0	1	0	65
M&A		14	0	0	0	0	0	14
	Merger/Acquisition	13	0	0	0	0	0	13
	Spin-off	1	0	0	0	0	0	1
Meeting Administration		18	1	0	0	0	0	19
	Right to Adjourn Meeting	18	0	0	0	0	0	18
	Transaction of Other Business	0	1	0	0	0	0	1
SHP: Compensation		2	6	0	0	0	0	8
	SHP Recoupment of Unearned Bonuses (Clawback)	1	0	0	0	0	0	1
	SHP Regarding Golden Parachutes	0	4	0	0	0	0	4
	SHP Regarding Race and/or Gender Pay Equity Report	0	2	0	0	0	0	2
	SHP Regarding Restricting Executive Compensation	1	0	0	0	0	0	1
SHP: Environment		8	1	0	0	0	0	9
	SHP Regarding Environmental Report	2	0	0	0	0	0	2
	SHP Regarding Report/Action on Climate Change	2	1	0	0	0	0	3
	SHP Regarding Reporting and Reducing Greenhouse Gas Emissions	4	0	0	0	0	0	4

Issue Code Category	Issue Code Description	With Management	Against Management	Take No Action	Unvoted	N/A	Mixed	Total
SHP: Governance		0	5	0	0	0	0	5
	SHP Regarding Independent Board Chairman/Separation of Chair and CEO	0	1	0	0	0	0	1
	SHP Regarding Misc. Board/Shareholder Rights Issue	0	1	0	0	0	0	1
	SHP Regarding Right to Call a Special Meeting	0	3	0	0	0	0	3
SHP: Misc		0	2	0	0	0	0	2
	SHP: Misc. Issues	0	2	0	0	0	0	2
SHP: Social		7	9	0	0	0	0	16
	SHP Regarding Animal Welfare	0	1	0	0	0	0	1
	SHP Regarding Military Contracts/Sales	0	1	0	0	0	0	1
	SHP Regarding Misc. Human Capital Management	3	0	0	0	0	0	3
	SHP Regarding Misc. Human/Political Rights Policies	1	0	0	0	0	0	1
	SHP Regarding Misc. Social Issue	0	5	0	0	0	0	5
	SHP Regarding Pregnancy/Abortion Issues	0	1	0	0	0	0	1
	SHP Regarding Racial Equity Audit	1	0	0	0	0	0	1
	SHP Regarding Reporting on Company's Compliance with International Human R	1	1	0	0	0	0	2
	SHP Regarding Reviewing Political Spending or Lobbying	1	0	0	0	0	0	1

Proposal Types – Votes Versus Policy

Issue Code Category	Issue Code Description	With Policy	Against Policy	Manual	Take No Action	Unvoted	N/A	Mixed	Total
Total for all Categories		1198	0	20	0	0	0	0	1218

Issue Code Category	Issue Code Description	With Policy	Against Policy	Manual	Take No Action	Unvoted	N/A	Mixed	Total
<i>Audit/Financials</i>		107	0	0	0	0	0	0	107
	Appointment of Auditor	2	0	0	0	0	0	0	2
	Appointment of Auditor and Authority to Set Fees	3	0	0	0	0	0	0	3
	Authority to Set Auditor's Fees	3	0	0	0	0	0	0	3
	Financial Statements	4	0	0	0	0	0	0	4
	Ratification of Auditor	95	0	0	0	0	0	0	95
<i>Board Related</i>		803	0	4	0	0	0	0	807
	Change in Board Size	1	0	0	0	0	0	0	1
	Director & Officer Liability/Indemnification	0	0	4	0	0	0	0	4
	Election of Directors	798	0	0	0	0	0	0	798
	Election of Directors (Slate)	2	0	0	0	0	0	0	2
	Ratification of Board Acts - Legal	1	0	0	0	0	0	0	1
	Ratification of Management Acts - Legal	1	0	0	0	0	0	0	1
<i>Capital Management</i>		21	0	0	0	0	0	0	21
	Amendment to Dual Class Stock	3	0	0	0	0	0	0	3
	Authority to Issue Shares w/ Preemptive Rights	4	0	0	0	0	0	0	4
	Authority to Issue Shares w/o Preemptive Rights	6	0	0	0	0	0	0	6
	Authority to Repurchase Shares	5	0	0	0	0	0	0	5
	Elimination of Dual Class Stock	1	0	0	0	0	0	0	1
	Increase in Authorized Common Stock	1	0	0	0	0	0	0	1

Issue Code Category	Issue Code Description	With Policy	Against Policy	Manual	Take No Action	Unvoted	N/A	Mixed	Total
	Issuance of Common Stock	1	0	0	0	0	0	0	1
Changes to Company Statutes		13	0	2	0	0	0	0	15
	Adoption of Majority Vote for Election of Directors	1	0	0	0	0	0	0	1
	Adoption of New Articles	1	0	0	0	0	0	0	1
	Amendment to Supermajority Requirement	1	0	0	0	0	0	0	1
	Amendments to Articles, Constitution, Bylaws	1	0	0	0	0	0	0	1
	Approval of Exclusive Forum Provisions	0	0	1	0	0	0	0	1
	Article Amendments - Allow for the Removal of Directors	2	0	0	0	0	0	0	2
	Change in State of Incorporation	0	0	1	0	0	0	0	1
	Elimination of Supermajority Requirement	2	0	0	0	0	0	0	2
	Misc. Article Amendments	1	0	0	0	0	0	0	1
	Repeal of Classified Board	1	0	0	0	0	0	0	1
	Restoration of Right to Call a Special Meeting	2	0	0	0	0	0	0	2
	Restoration of Written Consent	1	0	0	0	0	0	0	1
Compensation		195	0	0	0	0	0	0	195
	Adoption of Employee Stock Purchase Plan	1	0	0	0	0	0	0	1
	Adoption of Equity Compensation Plan	8	0	0	0	0	0	0	8
	Advisory Vote on Executive Compensation	95	0	0	0	0	0	0	95
	Advisory Vote on Severance	8	0	0	0	0	0	0	8
	Amendment to Employee Stock Purchase Plan	5	0	0	0	0	0	0	5

Issue Code Category	Issue Code Description	With Policy	Against Policy	Manual	Take No Action	Unvoted	N/A	Mixed	Total
	Amendment to Equity Compensation Plan	13	0	0	0	0	0	0	13
	Say When on Pay	65	0	0	0	0	0	0	65
M&A		14	0	0	0	0	0	0	14
	Merger/Acquisition	13	0	0	0	0	0	0	13
	Spin-off	1	0	0	0	0	0	0	1
Meeting Administration		19	0	0	0	0	0	0	19
	Right to Adjourn Meeting	18	0	0	0	0	0	0	18
	Transaction of Other Business	1	0	0	0	0	0	0	1
SHP: Compensation		8	0	0	0	0	0	0	8
	SHP Recoupment of Unearned Bonuses (Clawback)	1	0	0	0	0	0	0	1
	SHP Regarding Golden Parachutes	4	0	0	0	0	0	0	4
	SHP Regarding Race and/or Gender Pay Equity Report	2	0	0	0	0	0	0	2
	SHP Regarding Restricting Executive Compensation	1	0	0	0	0	0	0	1
SHP: Environment		0	0	9	0	0	0	0	9
	SHP Regarding Environmental Report	0	0	2	0	0	0	0	2
	SHP Regarding Report/Action on Climate Change	0	0	3	0	0	0	0	3
	SHP Regarding Reporting and Reducing Greenhouse Gas Emissions	0	0	4	0	0	0	0	4
SHP: Governance		5	0	0	0	0	0	0	5
	SHP Regarding Independent Board Chairman/Separation of Chair and CEO	1	0	0	0	0	0	0	1
	SHP Regarding Misc. Board/Shareholder Rights Issue	1	0	0	0	0	0	0	1

Issue Code Category	Issue Code Description	With Policy	Against Policy	Manual	Take No Action	Unvoted	N/A	Mixed	Total
	SHP Regarding Right to Call a Special Meeting	3	0	0	0	0	0	0	3
SHP: Misc		2	0	0	0	0	0	0	2
	SHP: Misc. Issues	2	0	0	0	0	0	0	2
SHP: Social		11	0	5	0	0	0	0	16
	SHP Regarding Animal Welfare	1	0	0	0	0	0	0	1
	SHP Regarding Military Contracts/Sales	1	0	0	0	0	0	0	1
	SHP Regarding Misc. Human Capital Management	0	0	3	0	0	0	0	3
	SHP Regarding Misc. Human/Political Rights Policies	1	0	0	0	0	0	0	1
	SHP Regarding Misc. Social Issue	5	0	0	0	0	0	0	5
	SHP Regarding Pregnancy/Abortion Issues	1	0	0	0	0	0	0	1
	SHP Regarding Racial Equity Audit	0	0	1	0	0	0	0	1
	SHP Regarding Reporting on Company's Compliance with International Human Ri	2	0	0	0	0	0	0	2
	SHP Regarding Reviewing Political Spending or Lobbying	0	0	1	0	0	0	0	1

Proposal Types – Votes Versus Glass Lewis

Issue Code Category	Issue Code Description	With Glass Lewis	Against Glass Lewis	Take No Action	Unvoted	N/A	Mixed	Total
Total for all Categories		1202	16	0	0	0	0	1218
Audit/Financials		107	0	0	0	0	0	107
	Appointment of Auditor	2	0	0	0	0	0	2

Issue Code Category	Issue Code Description	With Glass Lewis	Against Glass Lewis	Take No Action	Unvoted	N/A	Mixed	Total
	Adoption of Majority Vote for Election of Directors	1	0	0	0	0	0	1
	Adoption of New Articles	1	0	0	0	0	0	1
	Amendment to Supermajority Requirement	1	0	0	0	0	0	1
	Amendments to Articles, Constitution, Bylaws	1	0	0	0	0	0	1
	Approval of Exclusive Forum Provisions	1	0	0	0	0	0	1
	Article Amendments - Allow for the Removal of Directors	2	0	0	0	0	0	2
	Change in State of Incorporation	1	0	0	0	0	0	1
	Elimination of Supermajority Requirement	2	0	0	0	0	0	2
	Misc. Article Amendments	1	0	0	0	0	0	1
	Repeal of Classified Board	1	0	0	0	0	0	1
	Restoration of Right to Call a Special Meeting	2	0	0	0	0	0	2
	Restoration of Written Consent	1	0	0	0	0	0	1
Compensation		195	0	0	0	0	0	195
	Adoption of Employee Stock Purchase Plan	1	0	0	0	0	0	1
	Adoption of Equity Compensation Plan	8	0	0	0	0	0	8
	Advisory Vote on Executive Compensation	95	0	0	0	0	0	95
	Advisory Vote on Severance	8	0	0	0	0	0	8
	Amendment to Employee Stock Purchase Plan	5	0	0	0	0	0	5
	Amendment to Equity Compensation Plan	13	0	0	0	0	0	13
	Say When on Pay	65	0	0	0	0	0	65

Issue Code Category	Issue Code Description	With Glass Lewis	Against Glass Lewis	Take No Action	Unvoted	N/A	Mixed	Total
	SHP: Misc. Issues	2	0	0	0	0	0	2
<i>SHP: Social</i>		10	6	0	0	0	0	16
	SHP Regarding Animal Welfare	0	1	0	0	0	0	1
	SHP Regarding Military Contracts/Sales	1	0	0	0	0	0	1
	SHP Regarding Misc. Human Capital Management	3	0	0	0	0	0	3
	SHP Regarding Misc. Human/Political Rights Policies	1	0	0	0	0	0	1
	SHP Regarding Misc. Social Issue	1	4	0	0	0	0	5
	SHP Regarding Pregnancy/Abortion Issues	0	1	0	0	0	0	1
	SHP Regarding Racial Equity Audit	1	0	0	0	0	0	1
	SHP Regarding Reporting on Company's Compliance with International Human Ri	2	0	0	0	0	0	2
	SHP Regarding Reviewing Political Spending or Lobbying	1	0	0	0	0	0	1

MAINEPERS

BOARD OF TRUSTEES INVESTMENTS MEMORANDUM

TO: BOARD MEMBERS

FROM: JAMES BENNETT, CHIEF INVESTMENT OFFICER

SUBJECT: **LONG-TERM CAPITAL MARKETS ASSUMPTIONS & ASSET ALLOCATION REVIEW**

DATE: JANUARY 3, 2024

Board Policy 2.1 (Investment Policy Statement) calls for the CIO and Board consultant to review long-term capital market assumptions and the System's strategic asset allocation with Trustees on an annual basis. Cambridge Associates have prepared the following presentation, which will be used as a basis for discussion of these items.

POLICY REFERENCE

[Board Policy 2.1 – Investment Policy Statement](#)

[Board Policy 4.5 – Board/Staff Relations](#)

[Board Policy 4.6 – Communication and Support to the Board](#)

MAINEPERS

EROA & ASSET ALLOCATION ANALYTICS



CAMBRIDGE FIFTY
ASSOCIATES YEARS

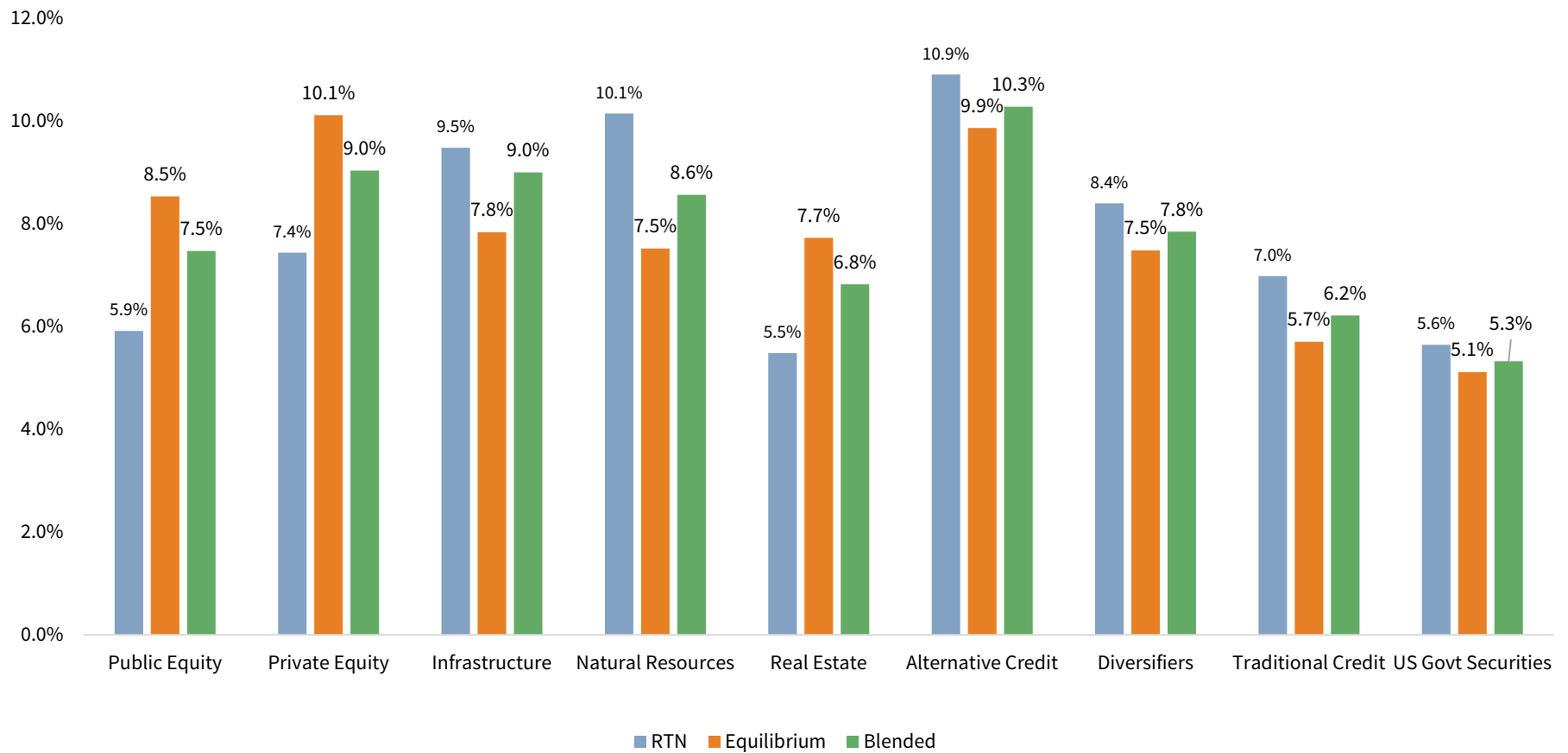
JANUARY 2024

Return-to-Normal, Long-Term Equilibrium and Blended Return Assumptions

- **The Return-to-Normal Framework** is a forecast that assumes current asset class valuations return to long-term averages over 10 years. This is in contrast to the Steady State framework, which assumes that current valuations remain stable over 10 years.
- **The Long-Term Equilibrium Framework** is a forecast that predicts returns based entirely on long-term fair value estimates. The framework is calculated nominally using a 2.5% inflation rate.
- **The Blended Framework** is a forecast that assumes current asset class valuations return to long-term averages over 10 years (Return-to-Normal framework) and remain stable after that (Long-Term Equilibrium Framework). In particular, for all asset classes, this approach explicitly models the current valuation of each asset class today, the “fair” or average valuation of each asset class historically, and the estimated return associated with reverting to “fair value” over a 10-year period, with fair value largely based on historical averages. Following the 10-year period, expected returns are based on long-term fair value estimates that typically range 15 years.
- **For the MainePERS EROA calculations, a Blended Framework was used**

CA Capital Market Assumptions

As of 10/31/2023



Note(s): Public Equities assumptions are a blend of Cambridge Associates' assumptions: 60% US Equity, 28% Developed ex US Equity, 12% Emerging Markets Equity. Infrastructure assumptions are a blend of Cambridge Associates' assumptions: 60% Oil & Gas, 20% Timber, and 20% Commodities. Diversifiers assumptions are a blend Cambridge Associates' assumptions: 70% Absolute Return and 30% cash plus 300bps of alpha. Alternative Credit assumptions is Cambridge Associates' High Yield assumption plus 300bps of alpha. US Government Securities are a blend of Cambridge Associates' assumptions: 50% US TIPS, 50% US Govt Bonds.

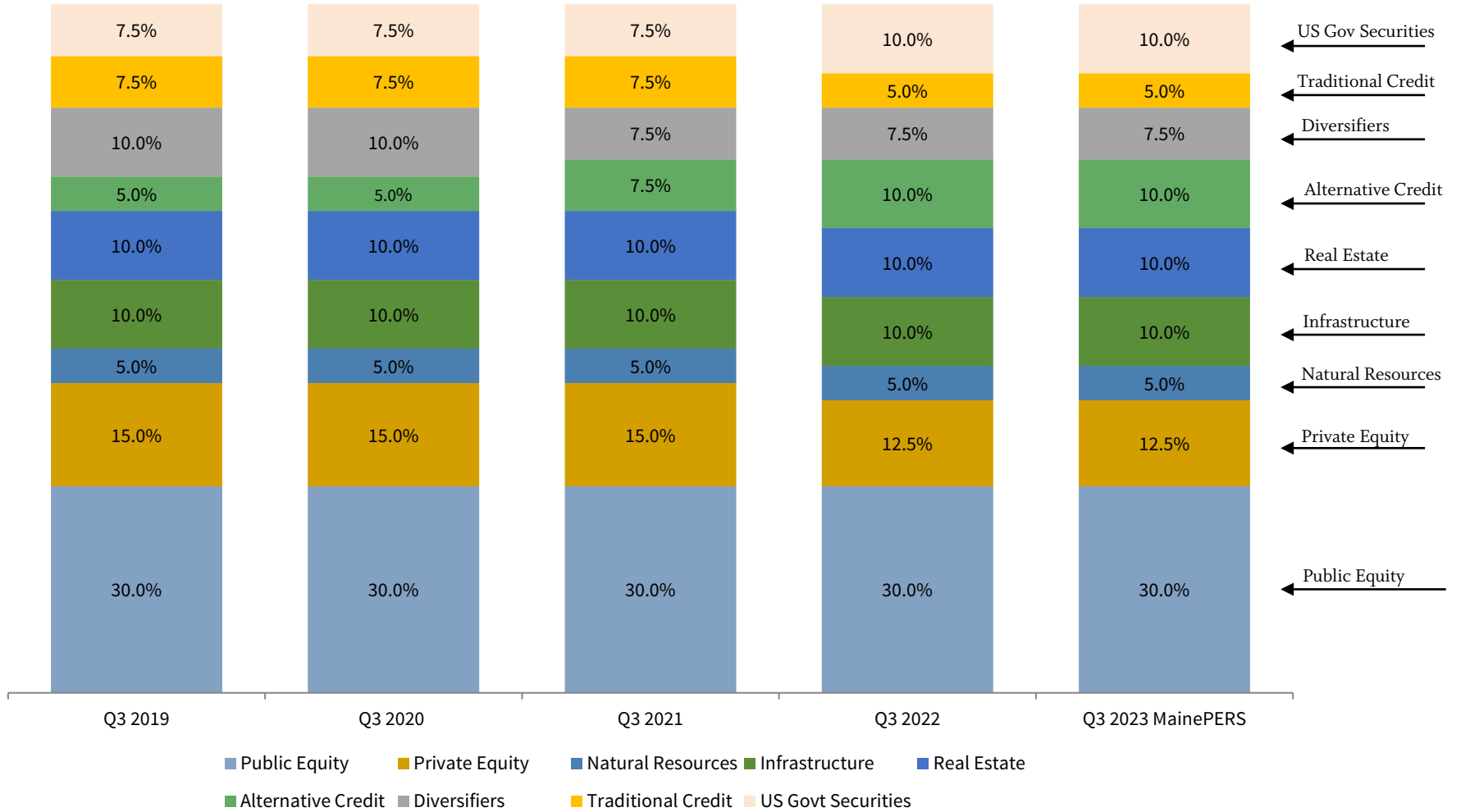
Return to Normal are Cambridge Associates' Intermediate capital markets assumptions. Long Term returns are Cambridge Associates' Equilibrium capital markets assumptions. Blended return assumes 10 years of RTN returns and 15 years of Long -Term Returns.

MainePERS Current Long Term Asset Allocation Targets as of 09/30/2023

Asset Class	Long-Term Target	Benchmark
	18.4%	Russell 3000 ¹
	11.6%	MSCI ACWI ex US ²
Public Equity	30.0%	Total Public Equity
Private Equity	12.5%	Russell 3000 + 3% per annum (1 qtr lag)
Risk Diversifiers	7.5%	0.3 Beta MSCI ACWI ³
Real Estate	10.0%	NCREIF Property (1 qtr lag)
Infrastructure	10.0%	Cambridge Associates Infrastructure Median (1 qtr lag)
Natural Resources	5.0%	Cambridge Associates Natural Resources Median (1 qtr lag)
Traditional Credit	5.0%	Barclays US Agg ex Treasury
Alternative Credit	10.0%	50% BAML US HY II + 50% S&P/LSTA US Leveraged Loan Index (1 qtr lag) ⁴
US Govt Treasuries	10.0%	Custom Fixed Income ⁵
Total	100.0%	

MainePERS Long Term Asset Allocation Targets

Q3 2019 – Q3 2023

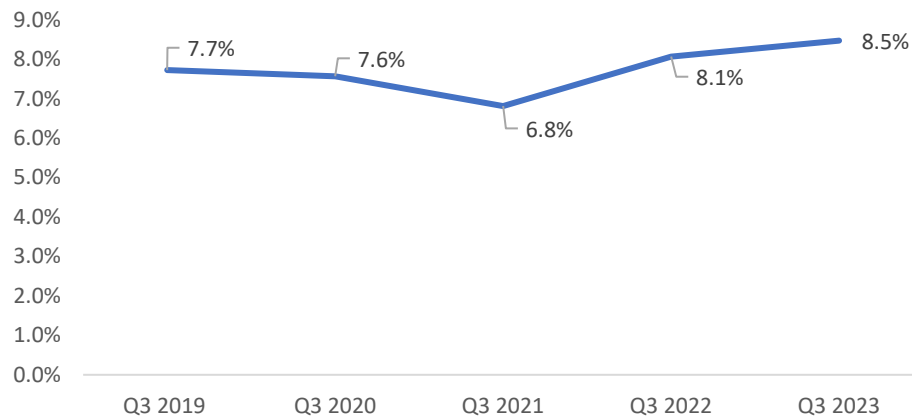


Expected Return on Assets (EROA) Calculations

Q3 2019 – Q3 2023

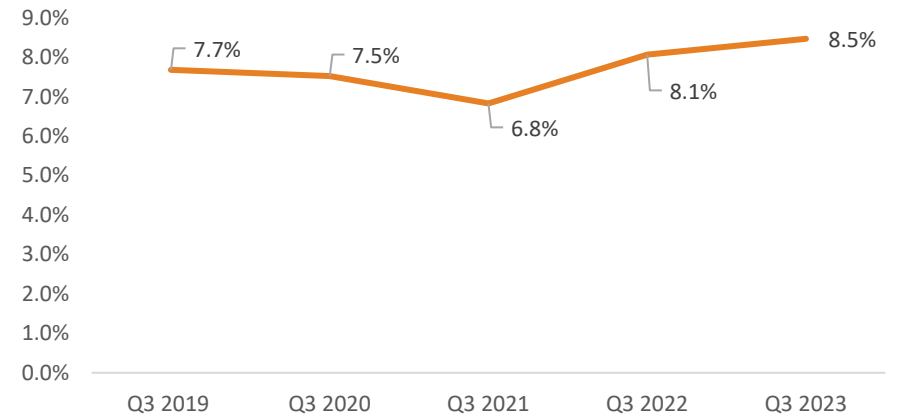
- **Current (2023) Asset Allocation:** Analysis uses current (2023) asset allocation for all time periods paired with assumptions from each time period to calculate EROA
- **Dynamic Asset Allocation:** Analysis uses asset allocation from each time period paired with assumptions from each time periods to calculate EROA

Current (2023) Asset Allocation



	Q3 2019	Q3 2020	Q3 2021	Q3 2022	Q3 2023
BLENDED RETURN	7.7%	7.6%	6.8%	8.1%	8.5%

Dynamic Asset Allocation



	Q3 2019	Q3 2020	Q3 2021	Q3 2022	Q3 2023
BLENDED RETURN	7.7%	7.5%	6.8%	8.1%	8.5%

MainePERS Total Plan Allocation vs. Investorforce Public Pension Plans >\$1b in AUM

As of 9/30/2023



	PUBLIC EQUITY	FIXED INCOME & ALTERNATIVE CREDIT	DIVERSIFIERS	PRIVATE EQUITY	HARD ASSETS	OTHER
MAINEPERS LT AA	30.0%	25.0%	7.5%	12.5%	25.0%	0.0%
MAINEPERS CURRENT AA	24.8%	21.1%	6.3%	19.5%	28.0%	0.2%
95TH PERCENTILE	69.5%	75.3%	14.5%	24.1%	24.4%	13.1%
75TH PERCENTILE	54.5%	35.3%	8.9%	18.5%	15.7%	4.0%
MEDIAN	48.1%	26.0%	5.3%	13.0%	10.6%	1.5%
25TH PERCENTILE	38.2%	20.4%	0.7%	9.9%	4.9%	0.8%
5TH PERCENTILE	14.0%	12.1%	0.0%	1.3%	1.0%	0.1%



Note(s): All data is as of 9/30/2023 and there were 56 Public Pension Plans with >\$1b in AUM, reporting asset allocations as of 9/30/2023. *Private Investments* includes Private Equity and Venture Capital, *Hard Assets* includes Real Estate and Commodities, and *Other* includes multi asset, balanced, global tactical asset allocations, and cash. Different funds may report allocations and classify investments inconsistently.

Disclaimer: While this is provided for informational purposes, the utility of this comparative information is limited. The investment allocation of any plan, including MainePERS, is developed based on a variety of factors unique to the plan, such as investment goals and philosophy, funding levels, risk tolerance and time horizon. Accordingly, this comparison, standing alone, does not indicate the appropriateness of any particular allocation.



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MAINEPERS

BOARD OF TRUSTEES INVESTMENTS MEMORANDUM

TO: BOARD MEMBERS
FROM: JAMES BENNETT, CHIEF INVESTMENT OFFICER
SUBJECT: CONTINUATION VEHICLES
DATE: JANUARY 3, 2024

The use of “continuation vehicles” by private market General Partners has become a more common occurrence over the last several years, especially within Private Equity. These funds involve an existing fund selling one or more portfolio assets to a new fund, typically in situations where the GP views the asset as an attractive investment, but where the asset’s investment horizon extends beyond the selling fund’s lifetime, or where the asset’s ongoing capital needs are unable to be met by the selling fund.

While MainePERS has not participated to-date in any continuation vehicles associated with our private market investments, the Investment Team continues to evaluate these opportunities as they arise. The material following this memo was prepared by Cliffwater, and will be used to provide Trustees with an introduction to the issues associated with these investments.

POLICY REFERENCE

[Board Policy 2.1 – Investment Policy Statement](#)

[Board Policy 4.5 – Board/Staff Relations](#)

[Board Policy 4.6 – Communication and Support to the Board](#)

Introduction to Continuation Vehicles

January 11, 2024



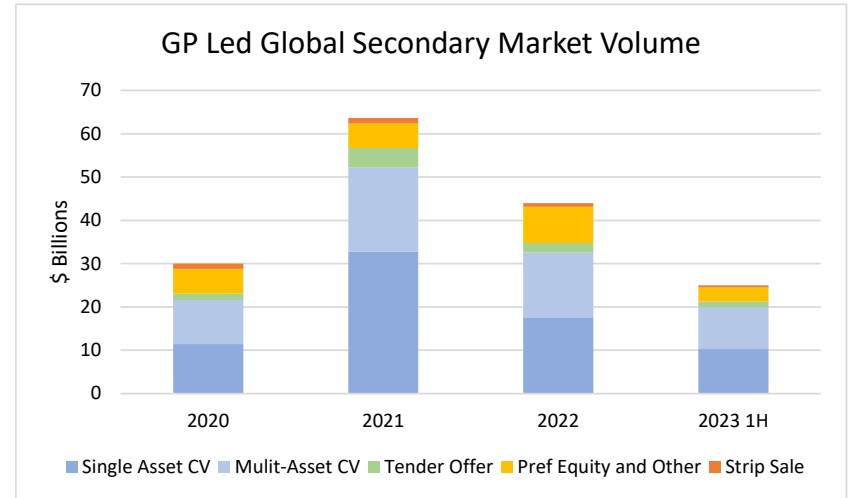
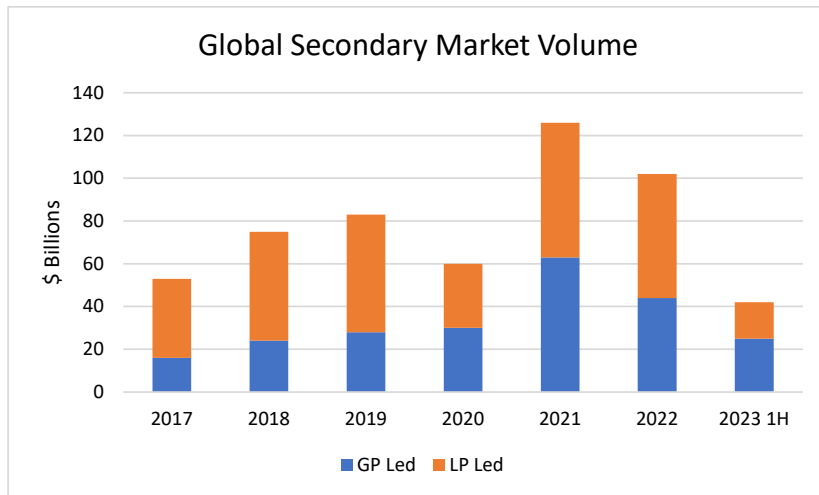
What are continuation vehicles?

- A vehicle (or fund) where a general partner transfers one or more portfolio companies such that they can continue to be managed by the same general partner outside of the fund that originated the investment
- Most common in private equity, but can be associated with any closed end, limited life fund

What are they used for? Why move assets into a new fund?

1. Allow continued management of an asset past the end of a fund's life
 - A fund may have one (or a few) assets left in the later years of its life, and the general partner believes there is still significant upside in these assets
 - Allows some investors to stay in the investment, while others can take liquidity and the fund can be wound down
2. Provide for additional capital for certain assets – a 'resetting' of capital committed that is available for this asset
 - There may be ample merger opportunities available for the portfolio company, and the current fund cannot supply that capital because
 - Investment period is over
 - Adding more capital would create too much concentration
 - A continuation vehicle can allow for more capital to be provided to these investments
3. Provide a partial realization and a reset of incentives to portfolio company management teams

A Material Part of the Secondary Market



-
- A general partner identifies a situation where they perceive a need for a continuation fund
 - May be a situation where a sale process is attempted, and no compelling offer is found
 - The general partner solicits offers from secondary private asset funds to ‘anchor’ the continuation vehicle. Often a broker is engaged to run this process
 - The winning bidder typically must show some flexibility in how much capital they can deploy to this continuation vehicle
 - Other secondary firms may join as part of a syndicate
 - Once the investor group (and price) is set, the general partner offers the current fund limited partners the opportunity to:
 - Take cash proceeds from their share of the investment that is sold to the continuation vehicle
 - Stay in the investment and become an investor in the continuation fund; or
 - Some combination of both
 - The general partner then manages that vehicle as a separate fund

One sees a variety of terms for continuation vehicles, some of which are dependent upon the use case for the vehicle

- Fees are lower than for a typical fund - some structures provide for no incremental fees for existing limited partners
- Participating investors usually need to make an additional capital commitment
- Current limited partners may have an ‘all or nothing’ choice regarding participating or may be able to roll half of their investment (or even choose some percentage)
- Current limited partners may be able to make an additional investment beyond their current net asset value (in addition to future capital commitment)
- In most cases, the general partners is reinvesting some or all of the incentive fee that would be realized upon the sale of the asset into the continuation vehicle

Risks

- Incorrect pricing

Mitigants:

- Best practices would be for the general partner to run a true sale process to try and sell the portfolio company to get a market-driven price
- A third-party fairness opinion is an alternative way to validate price, and LP or LP advisory committee approval is almost always required
- Adverse selection on assets – there may be a reason why those assets need more capital or haven't been sold

Mitigant:

- Significant new third-party capital is nearly always needed to launch a CV

Opportunities

- Ability to remain invested with assets that a GP knows well (and to select opportunities where the GP is reinvesting as well through rolling incentive fees)
- Lower fees
- Better control over pacing – most of the capital is typically put to work right away

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MAINEPERS

BOARD OF TRUSTEES INVESTMENTS MEMORANDUM

TO: BOARD MEMBERS
FROM: JAMES BENNETT, CHIEF INVESTMENT OFFICER
SUBJECT: RHIT, GLI, AND OPEB ASSET ALLOCATION UPDATE
DATE: JANUARY 3, 2024

Trustees approved changes to the Group Life Insurance (GLI), Retiree Health Insurance Post-Employment Benefits Investment Trust Fund (RHIT), and MainePERS Other Post-Employment Benefits Trust (OPEB) asset allocations during the final quarter of 2023, and the Investment Team began the process of rebalancing assets toward the updated allocation targets during December.

POLICY REFERENCE

[Board Policy 2.1 – Investment Policy Statement](#)

[Board Policy 2.1-A – GLI Investment Policy Statement](#)

[Board Policy 2.1-B – RHIT Investment Policy Statement](#)

[Board Policy 2.1-D – OPEB Trust Investment Policy Statement](#)

[Board Policy 4.5 – Board/Staff Relations](#)

[Board Policy 4.6 – Communication and Support to the Board](#)

GLI/RHIT/OPEB REBALANCING

The below table shows the current and previous policy allocations for GLI/RHIT/OPEB assets, as well as the actual portfolio allocations as of yearend. As shown in the table, Real Estate exposure has been removed from the portfolios, and assets shifted into Traditional Credit and US Government Securities. The Investment Team working with our investment manager (BlackRock) to open the additional accounts required to enable rebalancing to policy weights.

Asset Class	Current Policy Target Weight	Previous Target	12/31/23 Actual
Public Equity	70%	70%	71%
Traditional Credit	15%	16%	17%
US Government Securities	15%	9%	12%
Real Estate	0%	5%	0%

MAINEPERS

BOARD OF TRUSTEES MEMORANDUM

TO: BOARD MEMBERS

FROM: MICHAEL J. COLLERAN, CHIEF OPERATING OFFICER AND GENERAL COUNSEL

SUBJECT: RETIREE HEALTH INSURANCE POST-EMPLOYMENT BENEFITS INVESTMENT TRUST FUND, GLI, AND OPEB FUND

DATE: JANUARY 3, 2024

MainePERS maintains accounts at Blackrock for investing assets of the Retiree Health Insurance Post-Employment Benefits Investment Trust Fund (RHIT), Group Life Insurance (GLI), and MainePERS Other Post-Employment Benefits Trust (OPEB). In conjunction with implementing the new asset allocations in the investment policy statements for these funds, we need to execute new fee and guideline agreements with Blackrock and update our authorized signatories list.

POLICY REFERENCE

[Board Policy 4.5 – Board/Staff Relations](#)

[Board Policy 4.6 – Communications and Support to the Board](#)

[Board Policy 2.1-A – GLI Investment Policy Statement](#)

[Board Policy 2.1-B – RHIT Investment Policy Statement](#)

[Board Policy 2.1D – OPEB Trust Investment Policy Statement](#)

RECOMENDATION

That the Chief Executive Officer, Chief Investment Officer, and Chief Operating Officer and General Counsel are authorized signatories with respect to accounts at Blackrock Institutional Trust Company, N.A. for the Retiree Health Insurance Post-Employment Benefits Investment Trust Fund, Group Life Insurance, and the MainePERS Other Post-Employment Benefits Trust.

MAINEPERS

BOARD OF TRUSTEES MEMORANDUM

TO: BOARD MEMBERS
FROM: DR. REBECCA M. WYKE, CEO
SUBJECT: CEO REPORT
DATE: JANUARY 4, 2024

Member Portal Update

The Member Portal is a key strategic objective under the Strategic Plan *Goal IV: Cultivation of a Member-centric Organization*. Respondents to the 2023 Member Satisfaction Survey indicated significant support for a secure online portal with 88% of active and 68% of retired members saying they will use the member portal when available.

I am pleased to announce that over 5000 active and retired members have accessed their secure online member portal accounts since the phased launch of the portal began on October 2, 2023. By the end of January, the phased rollout will be complete. Additionally, over three hundred transactions and demographic updates have been made via the portal, the vast majority of which were to update demographic information (phone, address, email).

Beginning in February, following the completion of the phased rollout, information about and a link to the portal will appear on the home page of the MainePERS website.

Legislative Process

Kathy Morin, Director of Actuarial and Legislative Affairs, will present a mission moment on the legislative process. In particular, the presentation will focus on the development of fiscal impact statements for legislation impacting state sponsored plans as required by the Maine Constitution, state law, and Board policy. This education responds to a request made during the Board's self-evaluation process. Moving forward, updates to the Board on legislation will include the fiscal impact information as it becomes available. A copy of this presentation is included in the meeting materials.

Fiscal impact statements do not typically include the costs incurred by MainePERS for the implementation and ongoing administration of those changes to the state sponsored plans. These can be one-time and/or ongoing costs and are reflected in the Administrative Operations budgets approved annually by the Board. Such costs to administrative operations can include updates to the pension administration system, increased staffing, mailing and other costs.

Investment Team Activities

Mitchell Pierter, Senior Analyst Investments, will present a mission moment on his work at MainePERS, which includes private market investments, reporting, industry memberships and vendor monitoring. This is part of the presentation on Investment Team Activities that we were not able to deliver at the Board Meeting last November due to time constraints. This education responds to a request made during the Board's self-evaluation process.



MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

Legislative Process

January 11, 2024

Kathy Morin
Director of Actuarial and Legislative Affairs

Legislative Process - Topics

- Governance
 - Constitution
 - Laws
 - Board Policy
- MainePERS Role
- Costs
 - Why they exist
 - How they are calculated
- Future Reports

Legislative Process - Governance

- Maine Constitution – Article IX, Section 18-A
 - Section 18-A. Funding of retirement benefits under the Maine State Retirement System. Beginning with the fiscal year starting July 1, 1997, the normal cost of all retirement and ancillary benefits provided to participants under the Maine Public Employees Retirement System must be funded annually on an actuarially sound basis. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not exceeding 20 years.

Legislative Process - Governance

Maine Law – Duties of the board of trustees - 5 M.R.S. §17103(9)

9. Review of statutory amendments. The board shall review all amendments to this Part that are proposed to be enacted by the Legislature and shall report to the proper legislative committee or authority on the impact of each of those amendments on the retirement system.

A. The report shall state the impact of each amendment on all aspects of the retirement system, including the amendment's purposes, the resulting equitable or inequitable treatment of members, the funding of the costs of benefits, the amendment's consistency with other provisions of this Part and the value of the amendment to the retirement system.

B. When determined necessary by the retirement system or directed by the legislative committee or a member of that committee, the report on each amendment must include a separate evaluation by the actuary.

Legislative Process – Governance

- Board Policy 3.2 – Legislation

System Assisted Legislation

The Board of Trustees delegates responsibility to the Chief Executive Officer to assist the Legislature, Governor's Office, or units of state government in drafting retirement system legislation and associated fiscal notes.

Assistance in developing technically correct legislative language may be provided to stakeholders. Assistance may also be provided to stakeholders in developing high-level fiscal impacts of proposed legislation, but this assistance must be provided in a manner that does not incur excessive costs to the System.

The Chief Executive Officer shall keep the Board informed of any legislation developed with the System's assistance.

Legislative Process - Roles

For all proposed legislation, we:

- review for any potential impact to either the plan provisions or system administration
- reach out to bill sponsor(s) when appropriate
- reach out to other stakeholders when appropriate
- prepare testimony
- attend the public hearing on each proposed bill and present testimony when applicable
- attend the work session on each proposed bill and answer any questions for the legislative committee
- work with the Office of Fiscal and Program Review to compile data necessary for fiscal note determination
- work with the actuary to prepare the fiscal note for each bill when applicable

Legislative Process - Costs

Why are there costs?

- The annual valuation establishes plan funding requirements based on the plan provisions then in effect
- Benefit improvements for members and/or retirees increase the level of liabilities otherwise accounted for in the valuation
- Benefit reductions decrease the level of liabilities otherwise accounted for in the valuation
- The Constitution requires any increased costs to the State/Teacher plan to be paid when incurred, so no new unfunded liabilities can result from changes to plan provisions
- The Constitution requires the funding of ongoing normal costs to the State/Teacher plan

Legislative Process – Costs

How are the costs calculated?

- The actuary determines the fiscal impact for proposed legislation
- Costs are determined based on the specific group(s) of members impacted by the proposal
- Costs for benefit improvements may be in the form of an increased liability (i.e., UAL) and/or increased normal costs
 - Proposals that add value to service and/or benefits already earned have a UAL cost
 - Proposals that add value to service and/or benefits being earned on a go-forward basis have a normal cost
 - Proposals that add value to service and/or benefits already earned and service and/or benefits being earned on a go-forward basis have both a UAL and normal cost component
- Proposals that reduce benefits could result in reduced liabilities and/or normal costs

Legislative Process – Costs

Example:

L.D. 70 (as amended) – changes COLA Base to \$40,000

Impacts:

- Current retirees would receive COLA based on an increased base (change from current \$24,911.84 to \$40,000)
- Future retiree benefits would be based on a higher COLA Base (i.e., \$40k indexed)

Cost Impacts:

- UAL costs to revalue the benefits being paid to current retirees
- UAL costs to revalue projected benefits to be paid to future retirees for service/benefits earned to date
- Increased normal costs to pay for projected increased value of future benefits being earned by active members

Legislative Process – Future Reports

- 131st Second Regular Session began January 3, 2024
- Statutory adjournment is April 17, 2024
- We will continue to provide a monthly legislative update to the Board
- Future updates will include fiscal cost information, when those costs have been determined



MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

Investment Team Activities

January, 2024

Investment Team Activities

Senior Analyst

- Private Market Investment Activities
- Reporting Activities
- Industry Memberships & Vendor Monitoring
- Ad Hoc Duties

MAINEPERS

BOARD OF TRUSTEES RULEMAKING MEMORANDUM

TO: BOARD MEMBERS
FROM: MICHAEL J. COLLERAN, CHIEF OPERATING OFFICER AND
GENERAL COUNSEL
SUBJECT: RULEMAKING
DATE: JANUARY 3, 2024

The January meeting will include Board consideration of a proposed amendment to Rule Chapter 803 (PLD Consolidated Retirement Plan).

POLICY REFERENCE

[Board Policy 2.3 -- Rulemaking](#)

[Board Policy 4.5 – Board/Staff Relations](#)

[Board Policy 4.6 – Communications and Support to the Board](#)

PROPOSED AMENDED RULE CHAPTER 803

Rule 803 contains plan provisions for the PLD Consolidated Plan. The PLD Advisory Committee has recommended amending the rule to: (1) provide a one-time, non-cumulative cost-of-living payment in the amount of 0.5% of benefits to be paid to retirees who were eligible for a cost-of-living adjustment in September 2023; and (2) remove special plan 4N as a plan option effective February 1, 2024. Special Plan 4N provides a full benefit at age 55 with 25 years of service credit. The benefit is not subject to cost of living adjustments. There currently are no employers participating in special plan 4N. A copy of the proposed amended rule is attached along with its Basis Statement.

No members of the public commented on the proposed amendment during the public hearing at the December Board meeting, and no written comments were submitted prior to the December 26, 2023 deadline.

RECOMMENDATION

That the Board adopt amended Rule Chapter 803 and its Basis Statement.

PROPOSED AMENDMENT FOR ADOPTION JANUARY 2024

94-411 MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

Chapter 803: PARTICIPATING LOCAL DISTRICT CONSOLIDATED RETIREMENT PLAN

SUMMARY: This chapter establishes a consolidated retirement plan, as required by 5 M.R.S. §18801 *et seq.* for local districts that are participating local districts under 5 M.R.S., Chapter 425 before the date the plan is put into operation and for local districts that enter into agreements for the participation of their employees in the Maine Public Employees Retirement System after The Plan is put into operation.

NOTE: 5 M.R.S., Chapter 421, *General Provisions*, is applicable to all activities relating to the Maine Public Employees Retirement System, including the subject matter of this chapter of the rules of the Board of Trustees (“Board”). 5 M.R.S., Chapter 427, *Participating Local Districts Consolidated Plan*, is the statute from which this chapter of the rules of the Board derives its authority and is applicable to all activity based upon this chapter.

SECTION 1. DEFINITIONS

1. **Local District.** "Local district" means:
 - A. Any county, municipality, quasi-municipal corporation or incorporated instrumentality of the State or of one or more of its political subdivisions;
 - B. Any incorporated association of employees of the State or employees of any of the entities set out in paragraph A;
 - C. Any incorporated association of any of the entities set out in paragraph A;
 - D. Any entity eligible to become a participating local district before January 1, 1976;
 - E. Any entity participating in the Retirement System before January 1, 1976; or
 - F. Any educational institution in the State teaching courses equivalent to or higher than secondary institutions.
 - G. Any public charter school, as authorized by Title 20-A, chapter 112.
2. **“Consumer Price Index”** means:
 - A. The Consumer Price Index for All Urban Consumers, CPI-U, as compiled by the Bureau of Labor Statistics, United States Department of Labor; or
 - B. If the index described in paragraph A is revised or superseded, the Board must employ the Consumer Price Index compiled by the Bureau of Labor Statistics, United States Department of Labor that the Board finds to be most reflective of changes in the purchasing power of the dollar for the broadest population of consumers, including retired consumers.

3. **"Current Employer"** means the employer who is the member's employer at the time the member becomes a member under The Plan.
4. **"Member"** means any employee included in the membership of The Plan.
5. **"Normal Retirement Age"** means the specified age, the years of service requirement or any combination of age and years of service requirements at which a member becomes eligible for an unreduced retirement benefit.
6. **"Participant"** means any employee included in the defined contribution plan under this chapter.
7. **"Participating Local District"** means a local district which has approved the participation of its employees in the Retirement System under 5 M.R.S. §18201 or §18804.
8. **"The Plan"** means the defined benefit plan under the consolidated retirement plan for local districts established by 5 M.R.S., Chapter 427 (§18801 *et seq.*) and this chapter.
9. **Other Terms.** All other terms used in this chapter, unless the context otherwise indicates, shall have the same definitions as in 5 M.R.S. §17001.

SECTION 2. LOCAL DISTRICT PARTICIPATION

1. **Participating Local District Election.** Before July 1, 1996, the executive body or legislative body of each local district that is a participating local district under 5 M.R.S., Chapter 425 (§18201 *et seq.*) must, by resolution or order, elect one of the following options. Failure to make an election will have the same effect as electing paragraph B.
 - A. **To Join The Plan.** A participating local district may elect to participate in The Plan in accordance with the requirements of 5 M.R.S. §18804. Upon receipt of the certified copy of the resolution or order and record of the vote, the Executive Director shall prepare an agreement, to be signed by the authorized representative of the district and the Executive Director, specifying the parts of The Plan applicable to the district and the duties and rights of the district and the Retirement System. The resolution or order shall include:
 - (1) Approval of the participation in The Plan;
 - (2) The regular service retirement benefit plan and, if applicable, the special service retirement benefit plan elected from those provided by this chapter for the district's employees; and
 - (3) The name or title of the person authorized to sign the agreement on behalf of the local district.
 - B. **To Be Transferred to The Plan.** A participating local district may elect to have its participation in the Retirement System transferred to The Plan without electing the retirement benefit plan or plans for the district's employees.

- (1) The Retirement System will transfer the district's employees to the plan or plans with the benefit level or levels closest to the district's current plan or plans.
 - (2) The resolution or order shall include the same information as that required under paragraph A, except that it shall state that the Retirement System is to determine the retirement benefit plan or plan that apply to the district's employees.
 - (3) The agreement as prepared by the Executive Director shall be as provided in paragraph A.
- C. **To Withdraw from the Maine Public Employees Retirement System.** Subject to 5 M.R.S. §18203, a participating local district may withdraw from participation in the Retirement System. The effect of withdrawal on the district's employees is governed by 5 M.R.S. §18254.
2. **Local District May Enter into Agreement for The Plan.** Any local district that is not a participating local district before July 1, 1993, may enter into an agreement for participation of its employees in the Retirement System only under The Plan and in the manner provided by 5 M.R.S. §18804, sub-§1 or 2. Upon receipt of the certified copy of the resolution or order and record of the vote, the Executive Director shall prepare an agreement specifying the parts of The Plan applicable to the district and the duties and rights of the district and the Retirement System. The resolution or order shall include:
- A. Approval of the participation in The Plan;
 - B. The regular service retirement benefit plan and, if applicable, the special service retirement benefit plan elected from those provided by this chapter for the district's employees;
 - C. A list of classes, and a list by name and social security number, of any employees who are excluded from membership based upon their being provided for by local pension provisions;
 - D. Any limitations on the granting of service credits to employees for service before the beginning date of the participation of its employees in The Plan; and
 - E. The name or title of the person authorized to sign the agreement on behalf of the local district.
3. **Effective Date; Date of Operation; Date of Participation**
- A. **Effective Date.** July 1, 1993, is the effective date of The Plan. Participating local districts and other local districts may enter into an agreement to participate in The Plan on and after that date.
 - B. **Date the Plan Goes into Operation.** The Plan will be put into operation as of July 1 immediately following the date when:

- (1) The number of local districts that have entered into agreements for participation in The Plan with an election of regular service retirement benefits for their employees exceeds 3% of the districts which as of that date are participating in the Retirement System in regular service retirement benefit plans;
 - (2) The number of local districts that have entered into agreements for participation in The Plan with an election of special service retirement benefits for their employees exceeds 3% of the districts which as of that date are participating in the Retirement System special service retirement benefit plans; and
 - (3) In each instance the total number of members employed by districts that have entered agreements exceeds 5% of the total of all participating local district members in each category as of that date.
- C. **Date of Participation.** The date of participation in The Plan for a participating local district is the first day of the month that most immediately follows the date on which the agreement for participation is signed by the Executive Director and the authorized representative of the participating local district or such later date stated in the agreement or amendment, unless The Plan is not then in operation, in which case, the date of participation is the date on which The Plan goes into operation.
4. **Full Withdrawal from The Plan.** A participating local district may fully withdraw from participation in The Plan by filing with the Board of Trustees a duly certified copy of the withdrawal vote of the body entitled to approve participation under 5 M.R.S. §18804, sub-§1 or 2. The withdrawal date is the later of the last day of the month following the month in which the certified notice is received by the Board or the last day of a later month specified in the notice. The effect of withdrawal on the district's employees is governed by 5 M.R.S. §18254, sub-§1 through 4.
1. A participating local district that withdraws from participation in The Plan must continue to make payments as required under Section 5, subsection 2.
 2. Additionally, the withdrawing participating local district must make a withdrawal liability payment determined as follows:
 - (1) The System's actuary will calculate the pooled unfunded actuarial liability of The Plan as of the most recent valuation date that precedes the withdrawal date. The actuary will allocate a portion of the pooled unfunded actuarial liability to the withdrawing participating local district on the basis of the proportion of the withdrawing participating local district's total covered payroll to the total covered payroll of The Plan as of the valuation date.
 - (2) Unless otherwise agreed under subparagraph 3, the actuary will subtract from the withdrawing participating local district's portion calculated under subparagraph 1 the present value, as of the withdrawal date, of pooled unfunded actuarial liability payments the participating local district has made since the valuation and pooled unfunded actuarial liability payments the participating local district is expected to pay through the payment of employer contributions after withdrawal on those employees who remain active members. The difference is the withdrawal liability payment amount.

- (3) As an alternative to subparagraph 2, the Executive Director and the withdrawing participating local district may agree that the withdrawal liability payment amount is the withdrawing participating local district's portion as calculated under subparagraph 1, reduced only by the present value, as of the withdrawal date, of any pooled unfunded actuarial liability payments the participating local district has made since the valuation. In that case, the withdrawing participating local district's obligations under paragraph A do not include payments under Section 5, subsection 2, paragraph C.
 - (4) The withdrawing participating local district may pay this withdrawal liability amount in a lump sum or amortize it over a period of up to 30 years at the actuarial assumed rate of return used in the most recent valuation that precedes the withdrawal date.
3. The withdrawing participating local district remains a participating local district subject to this rule until it has no remaining active members and all of its liabilities for inactive vested members, retired members and beneficiaries of retired members have been satisfied according to the requirements of federal and state law, and rules and policies governing satisfaction of liabilities.
- 4-1. **Partial Withdrawal from The Plan.** For purposes of this subsection, a partial withdrawal occurs when a participating local district elects a change under subsection 7 that excludes a category of employees from membership who would have been eligible for membership absent the change. In the case of a partial withdrawal, the participating local district must make a withdrawal liability payment calculated and paid in the same manner as set forth in subsection 4, paragraph B, except that the portion of The Plan's pooled unfunded actuarial liability that will be allocated to the partially-withdrawing participating local district will be based on the proportion of the district's covered payroll for that category of employees to the total covered payroll of The Plan as of the valuation date.
5. **Resumption of Participation after Withdrawal.** A participating local district that has withdrawn from The Plan under subsection 1, paragraph C or subsection 4 may resume participation in The Plan by taking the actions required by subsection 2.
 - A. A participating local district which has resumed participation and which thereafter again withdraws may not subsequently again resume participation before 3 years from the date of its immediately prior withdrawal.
 - B. A local district may resume participation only under the consolidated plan. The retirement benefit plan adopted by the local district on resumption is applicable to all current and future employees who are members if the plan results in a higher level of benefits for the district's employees. The plan adopted on resumption is applicable only to new employees if the plan results in a lower level of benefits for the district's employees or results in a change from a plan with cost of living adjustments to a plan without cost of living adjustments.
 - C. **Effect on employees.** Except as set forth below in this paragraph C, employees of a local district which resumes participation in the Retirement System are eligible for membership in the System on the same basis as employees of a local district upon initial participation.

- (1) Employees who did not withdraw from membership when the local district withdrew from participation in the System may continue membership on the same basis as before the resumption of participation and are entitled to any additional benefit provisions selected and any increase in the level of benefits provided under The Plan.
 - (2) Employees for whom membership was compulsory who withdrew from membership when the local district withdrew from participation in the System must resume membership in the System if membership with the local district remains compulsory upon the resumption of participation by the local district.
 - (a) These employees may receive service credits for previous membership service upon repayment of withdrawn accumulated contributions and applicable interest.
 - (b) These employees may not purchase service credits for periods of employment between withdrawal from membership and resumption of participation by the local district.
 - (3) Employees for whom membership was not compulsory and who elected not to become or remain a member may not be a member as an employee of that local district unless the employee is electing to rejoin The Plan and:
 - (a) The employee is covered by a plan provided by the employer under section 5 M.R.S. §18252-B with an employee contribution rate that is not lower than the employee contribution rate for the applicable plan under The Plan; and
 - (b) Employee contributions after rejoining The Plan qualify for treatment as pick-up contributions for federal tax purposes and the person's membership otherwise complies with the United States Internal Revenue Code as applicable to governmental qualified defined benefit plans.
 - (4) The participating local district may allow current employees who began service with the district after the district withdrew from participation to purchase service credits for service rendered from the time of hire to the resumption of participation. The purchase of such service credits is governed by 5 M.R.S. §18253, sub-§2, paragraphs A and B.
 - (5) If the district grants prior service credits, those service credits shall be based only upon the employee's employment with the district before the district's initial date of participation.
6. **Disbanded or Dissolved Districts.** The effect of the disbanding or dissolution of a district that participates in The Plan on the membership and benefits of its employees is governed by 5 M.R.S. §18255 and §18408.
7. **Change of Service Retirement Benefit Plan or Plans.** After beginning participation in The Plan, a participating local district may elect to change the service retirement benefit plan or plans which apply to the district's employees by following the same process set forth in Section 2 for participation in The Plan. The change is applicable to all current and future

employees who are members, if the change results in a higher level of benefits for the district's employees. The change is applicable to new employees only, if the change results in a lower level of benefits for the district's employees or results in a change from a plan with cost of living adjustments to a plan without cost of living adjustments.

The Executive Director shall prepare either a new agreement or an amendment to the district's agreement which will be signed by the authorized representative of the district and the Executive Director. The effective date of the change is the first day of the month that most immediately follows the date the new agreement or amendment to the agreement is signed by the authorized representative of the district and the Executive Director or such later date stated in the agreement or amendment.

SECTION 3. MEMBERSHIP

1. **Compulsory Membership.** Membership is compulsory for all employees who are in the service of a participating local district on the date when participation of the employees of that district in The Plan begins and who are members of the System on that date and for all employees entering the service of that district after that date, except as provided under subsection 2 and 3. A local district that is not a participating local district before July 1, 1993, shall designate in its resolution or order approving participation any class of employees otherwise provided for by local pension provisions who are excluded from membership in The Plan as provided under 5 M.R.S. §18804, sub-§3.
2. **Optional Membership.** Optional membership under The Plan for employees of participating local districts is governed as follows:
 - A. **Member When Participation of Employees Begins.** Membership is optional for employees in the service of a local district on the date when the participation in the Retirement System of the employees of the local district first begins, whether under 5 M.R.S., Chapters 425 or 427.
 - B. **Elected or Appointed Officials.** Membership is optional for elected officials and officials appointed for a fixed term.
 - C. **Trustees of Water, Sanitary and Sewer Districts.** Membership of trustees of water, sanitary and sewer districts is subject to the following:
 - (1) **Water districts.** Membership of trustees of a water district is governed by 35-A M.R.S., §6410, subsection 8;
 - (2) **Sanitary districts.** Membership of trustees of a sanitary district is governed by 38 M.R.S. §1104.
 - (3) **Sewer districts.** Membership of trustees of a sewer district is governed by 38 M.R.S. §1036.
 - D. **Employees Covered by Social Security.** Membership is optional for an employee of a participating local district who is covered under the *United States Social Security Act*. Except as provided by paragraph H, optional membership for those employees is subject to 5 M.R.S. §18252.

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- E. **Employees Not Covered by Social Security.** Membership is optional for any employee of a participating local district that does not provide Social Security coverage provided that the district offers an alternative plan that meets the requirements of 5 M.R.S. §18252-B, and provided that the employee participates in the alternative plan. Optional membership for those employees is subject to 5 M.R.S. §18252-A as amended by PL 2021, c. 90.
 - F. **Chief Administrative Officer.** Membership is optional for a chief administrative officer of a participating local district, whether appointed for a fixed term or whether appointed with tenure.
 - G. **Employees Not Subject to Municipal Public Employees Labor Relations Law.** Membership is optional for those employees who are not subject to the municipal public employees labor relations laws contained in 26 M.R.S., Chapter 9-A.
 - H. Membership for employees of a participating local district that provides a plan under 5 M.R.S. §18252-B is governed by 5 M.R.S. §18252-A as amended by PL 2021, c. 90.
 - I. The provisions of 5 M.R.S. §18252-C apply only to employees of participating local districts who specifically adopt them in their participation agreement.
- 3. **Part-Time, Seasonal or Temporary Employees.** Membership of part-time, seasonal and temporary employees, as defined by Chapter 802 (94-411 CMR 802) of the rules of the Board is determined by the election made by each participating local district under Section 2.
 - 4. **Cessation of Membership.** A member ceases to be a member of the Retirement System if the member:
 - A. **Withdrawal.** Withdraws accumulated contributions;
 - B. **Beneficiary.** Becomes a beneficiary as a result of the member's own retirement; or
 - C. **Death.** Dies.
 - 5. **Service in the Armed Forces.** The membership of the following members under The Plan is considered to have continued during the period of the member's service in the Armed Forces of the United States:
 - A. Any member entering a class of service in the Armed Forces of the United States approved by resolution of the Board, if the member does not withdraw accumulated contributions;
 - B. Any member who enlists in or is inducted or drafted into the service of the Armed Forces of the United States; and
 - C. Any member who enlists in or is inducted or drafted into the service of the Armed Forces of the United States while the *United States Selective Service Act of 1948*, Public Law 759, or any of its amendments or extensions is in effect.

SECTION 4. PORTABILITY OF SERVICE CREDITS; ELIGIBILITY TO RETIRE, COMPUTATION OF BENEFIT

1. **Two or More Employers under The Plan.** A member's benefits are based upon all creditable service with all participating employers while a member under The Plan, and creditable service with the member's employer on the date the member began participation under The Plan. When a member under The Plan terminates employment and is subsequently reemployed by another employer whose employees participate in The Plan, the member is not considered to be reemployed by a new employer. If the member is reemployed by the subsequent employer as of the first work day following termination of employment with the previous employer, for the purpose of determining eligibility for benefits, the member is considered to have continuous membership and creditable service.
2. **Previous Employer Not under The Plan; Subsequent Employer under The Plan.** When a member either terminates employment with an employer that has withdrawn from the System, or terminates employment with another employer under the System whose employees are not covered by The Plan, and is employed by a subsequent employer whose employees are members under The Plan, the member's creditable service with the previous employer is used in determining eligibility to retire under the subsequent employer's regular service retirement benefit plan under Section 7. Benefits for service with the previous employer are based upon creditable service and earnable compensation with the previous employer and the provisions of 5 M.R.S., Part 20 in effect with respect to the previous employer at the date of termination of service by the member. A county or municipal law enforcement officer or a municipal firefighter who is eligible under 5 M.R.S. §18253, sub-§1, paragraph E, and who elects to make the contribution necessary under Section 5, subsection 1, paragraph K may include all or part of the creditable service earned with a previous employer with service earned with the new employer both for the purpose of qualification for a service retirement benefit and for the benefit computation.
3. **Previous Employer under The Plan; Subsequent Employer Not under The Plan.** Membership, creditable service and benefits of a member under The Plan who terminates employment and is reemployed as a state employee or teacher are governed by 5 M.R.S. §17656, sub-§1. Until July 1, 1996, membership, creditable service and benefits of a member under The Plan who terminates employment and is reemployed by a participating local district whose employees do not participate in The Plan are governed by 5 M.R.S. §18253, sub-§1. As required by Section 2, paragraph 1, as of July 1, 1996, each local district that is a participating local district must have either entered into an agreement to participate in The Plan or have withdrawn from participation in the Retirement System.
4. **Service under Two or More Special Service Retirement Benefit Plans; Eligibility to Retire.** If a member accrues service credits under more than one special service retirement benefit plan in The Plan, whether with the same employer or more than one employer, credit from service under other special plans toward meeting the retirement eligibility requirements of the special plan from which the member retires is transferred based upon the percentage of the eligibility requirements for the previous plan or plans which were met while under the previous plan or plans. For example, a member who accrues 10 years of creditable service under Special Service Retirement Benefit Plan 1 (1/2 of AFC after 20 years) would have completed 50% of the eligibility requirement under that plan and upon transferring to employment under Special Service Retirement Benefit Plan 2 (1/2 of AFC after 25 years) would be entitled to 50% of the eligibility requirements for that plan; i.e., 12.5 years. The member's benefit would be calculated at 2.5% of AFC for each year under Plan 1 and at 2% for each year under Plan 2.

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5. **Service under Two or More Service Retirement Benefit Plans – One Regular and One Special; Eligibility to Retire**
- A. **Regular Service before Special Service.** If a member under The Plan accrues service credits under a regular service retirement plan before accruing service credits under a special service retirement benefit plan, whether with the same employer or more than one employer,
- (1) the member may retire at any time after the member qualifies for a special service retirement benefit under Section 8. The regular plan service credits may be used toward qualifying to retire under a special service retirement benefit as provided in Section 8. The regular plan service credits used towards qualification for a special service retirement benefit are considered to be special plan service credits for the purpose of computation of the special service retirement benefit as provided in Section 8. If the application of the provisions of Section 4, subsection 6 would result in a greater service retirement benefit, then the benefit will be computed under that section.
 - (2) A member who does not qualify to retire under a special service retirement plan may retire under a regular service retirement plan at any time after the member qualifies under Section 7. The service retirement benefit for all service is computed as provided in Section 7.
- B. **Special Service before Regular Service.** If a member under The Plan accrues service credits under a special service retirement benefit plan before accruing service credits under a regular service retirement benefit plan, whether with the same employer or more than one employer,
- (1) before qualifying to retire under a special service retirement plan, the member may retire at any time after completing 25 years total service or reaching normal retirement age with at least one year of service. The service retirement benefit for all service is computed as provided in Section 7.
 - (2) after qualifying to retire under a special service retirement plan, the member may retire at any time. The portion of the benefit that is based upon service credits under a regular service retirement benefit plan is subject to early retirement reduction if retirement is before normal retirement age. The portion of any benefit paid to a member that is based upon service credits under Special Service Retirement Benefit Plan 4 is also subject to early retirement reduction, if retirement is before age 55.
6. **Service under Two or More Service Retirement Benefit Plans; Computation of Benefits.** When a member has creditable service under two or more service retirement benefit plans, the appropriate benefit formula is applied to each period of service as provided by Section 7, “Regular Service Retirement Benefits Plans” and Section 8, “Special Service Retirement Benefit Plans”. All benefits based upon creditable service under The Plan are based upon one calculation of average final compensation.

SECTION 5. CONTRIBUTIONS**1. Member contributions**

- A. **Active Member.** Each member under The Plan shall contribute to the Retirement System or have pick-up contributions made by the employer at a rate provided by Sections 7, 8, and 9. The contribution rate for a member is the rate assigned to the retirement benefit plan under which the member is accruing service credits.
- B. **Former Members; Service under The Plan.** Any former member who, after having terminated service while a member under The Plan and having withdrawn accumulated contributions, again becomes a member under The Plan may repay the withdrawn contributions to the Members' Contribution Fund under the following conditions:
- (1) **Time.** The repayment must be made before the date any retirement benefit becomes effective for the member.
 - (2) **Manner of Repayment.** The repayment must be made to the Retirement System consistent with Chapter 406 (94-411 CMR 406) of the rules of the Board.
 - (3) **Amount of Repayment.** The amount of repayment must be equal to the withdrawn accumulated contributions plus interest on the amount of those accumulated contributions, beginning on the date of withdrawal to the date the repayment or repayments are made, at a rate to be set by the Board not to exceed regular interest by 5 or more percentage points.
 - (4) **Credit under The Plan.** Except as provided in paragraph C, only withdrawn contributions relating to creditable service under The Plan may be repaid for service credit under The Plan.
- C. **Service Not under The Plan**
- (1) **Withdrawn Contributions**
 - (a) Any member who had service while not a member under The Plan and having withdrawn contributions relating to that service may repay the withdrawn contributions to the Members Contribution Fund under the conditions specified in paragraph B, subparagraphs 1 to 3. Creditable service related to these repaid contributions is used in determining eligibility to retire under the applicable regular service retirement benefit plan under Section 7. Benefits for that service are calculated based on that service and on earnable compensation related to that service in accordance with applicable provisions of 5 M.R.S., Part 20 in effect with respect to the previous employer's regular service retirement plan immediately before that employer's employees became members under The Plan. The additional liability relating to the service credits granted under this division becomes part of the previous employer's unpooled unfunded actuarial liability as provided in subsection 2, paragraph A, subparagraph 2.
 - (b) Any member who had service while not a member under The Plan and having withdrawn contributions relating to that service may

repay the withdrawn contributions to the Members Contribution Fund under the conditions specified in paragraph B, subparagraphs 1 to 3. Creditable service related to these repaid contributions is used in determining that a member is qualified to retire and in the computation of retirement benefit under the applicable service retirement benefit plan under Section 7 or Section 8. Unless the service was with the same employer that is the member's employer at the time the contributions are repaid, the contributions provided for under this subparagraph may be repaid only after the participating local district that is the member's employer at the time the contributions are repaid agrees to assume the additional liability incurred as part of the district's unpooled unfunded actuarial liability as provided in subsection 2, paragraph A, subparagraph 2.

(2) **Non-member Service**

- (a) Subject to the personnel rules or policies of the member's employer at the time of the service; provided the member has continued to be employed by that employer; and subject to 5 M.R.S. §18305-B, a member who had service as an employee of a participating local district for which contributions were not made may receive service credit for that service upon paying the appropriate contributions to the Members Contribution Fund under the conditions specified in paragraph B, subparagraphs 2 and 3. Creditable service related to these contributions is used in determining that a member is qualified to retire and in the computation of retirement benefit under the applicable service retirement benefit plan under Section 7 or Section 8. The additional liability relating to the service credits granted under this division becomes part of the district's unpooled unfunded actuarial liability as provided in subsection 2, paragraph A, subparagraph 2.
- (b) Subject to 5 M.R.S. §18305-B, a member who had service as an employee of any participating local district for which contributions were not made may receive service credit for that service upon paying the appropriate contributions to the Members Contribution Fund under the conditions specified in paragraph B, subparagraphs 2 and 3. Creditable service related to these contributions is used in determining that a member is qualified to retire and in the computation of retirement benefit under the applicable service retirement benefit plan under Section 7 or Section 8. The contributions provided for under this subparagraph may be made only after the participating local district that is the member's employer at the time the contributions are made and the service credits are granted agrees to assume the additional liability incurred as part of the district's unpooled unfunded actuarial liability as provided in subsection 2, paragraph A, subparagraph 2.

D. **Optional Members with non-member service.** The purchase of service credit for a member for whom membership is optional under Section 3, subsection 2 who had service as an employee of a participating local district for which contributions were not made is governed by 5 M.R.S. §18305-B, provided that the member has

continued to be employed by the same employer as that during which no contributions were paid.

- E. **Former Member; Withdrawal by Employees Not Covered by Social Security.** In addition to paragraphs B and C, the repayment of contributions that were withdrawn by a member who is an employee of a participating local district that is not covered under a Social Security Section 218 agreement but that has a plan that meets the requirements of 5 M.R.S. §18252-B is subject to the provisions of 5 M.R.S. §18252-A as amended by PL 2021, c. 90.
- F. **Service in the Armed Forces before Becoming a Member.** A member who qualifies under Section 6, subsection 4, paragraph B, sub-paragraphs 1 through 4, shall contribute to the Retirement System for the period of service in the Armed Forces under the following terms and conditions:
- (1) Contributions are calculated at the percentage rate required of active members during the period of time covered by the service in the Armed Forces applied to the member's earnable compensation during the first year as an employee subsequent to service in the Armed Forces under the following terms and conditions:
 - (a) The payment may not be made until the member has accumulated at least 15 years of creditable service and must be made before the date any retirement benefit becomes effective for the member;
 - (b) If 2 or more percentage rates were in effect during the period of service in the Armed Forces, the highest percentage rate is used;
 - (c) The minimum rate is 5%; and
 - (d) Interest at a rate set by the board not to exceed regular interest by 2 or more percentage points is paid on the unpaid balance beginning January 1, 1976, or the date of attaining 15 years of creditable service, if later, to the date payment is made.
 - (2) **Manner of Repayment.** The repayment must be made to the Retirement System consistent with Chapter 406 (94-411 CMR 406) of the rules of the Board.
- G. **Service in the Armed Forces after Becoming a Member.** For members who qualify to have their membership in the Retirement System continued under Section 3, subsection 5 because of service in the Armed Forces of the United States, the participating local district shall contribute to the Members' Contribution Fund the same amount that the member would have been required to contribute if the member had been serving the district during the period of service in the Armed Forces in the same capacity in which the member was serving at the time the member joined the Armed Forces. Any member whose contributions to the Members' Contribution Fund are paid by the district under this subsection, who withdraws or ceases to be a member of the Retirement System, may not withdraw any of the contributions made by the district under this subsection. Upon receiving written certification and substantiation from the member's employer that a member has met the requirements of Section 3, subsection 5 and Section 6, subsection 4, paragraph A, the System shall calculate the member contributions applicable to the period of service in the Armed

Forces. The participating local district by which the member is employed is responsible for those contributions and will be billed by the System.

- H. **Out-of-state Service.** A member who qualifies under Section 6, subsection 5, must make contributions into the Members' Contribution Fund for the years of out-of-state service under the following terms and conditions:
- (1) Contributions are calculated on the same basis as the member would have made contributions had the service been in the State;
 - (a) The payment may not be made until the member has accumulated at least 20 years of creditable service in the Retirement System and must be made before the date any retirement benefit becomes effective for the member; and
 - (b) Interest at a rate, to be set by the Board, not to exceed regular interest by 5 or more percentage points is paid on the unpaid balance. Interest shall be computed from the end of the year when those contributions would have been made, if the service had been in the State, to the date of payment.
 - (2) **Manner of Payment.** The payment must be made to the Retirement System consistent with Chapter 406 (94-411 CMR 406) of the rules of the Board.
- I. **Refund of Contributions.** Refunds of contributions to members under The Plan are subject to 5 M.R.S. §§ 18306-A and 18307-A.
- J. **Teachers in Private, Parochial and Other Schools.** A member who qualifies under Section 6, subsection 8, must make contributions into the Members' Contribution Fund for the years of private, parochial or other school service under the following terms and conditions:
- (1) Contributions are calculated on the same basis as the member would have made contributions had the service been as a state employee or teacher in the State. The member's earnings for the years of private or parochial teaching must be assumed to have been the same as the average salary for teachers in the State as determined by the Department of Education for each of the years when the private or parochial school teaching took place.
 - (a) The payment may not be made until the member has accumulated at least 20 years of creditable service in the Retirement system as a member of the participating local district and must be made before the date any retirement benefit becomes effective for the member;
 - (b) Interest at a rate, to be set by the Board, not to exceed regular interest by 5 or more percentage points is paid on the unpaid balance. Interest shall be computed from the end of the year when those contributions would have been made, if the service had been as a state employee or teacher in the State, to the date of payment.
 - (2) **Manner of Payment.** The payment must be made to the Retirement System consistent with Chapter 406 (94-411 CMR 406) of the rules of the Board.

- K. **Portability of Service.** A member who elects under 5 M.R.S. §18253, sub-§1, paragraph E to include all or part of the creditable service and earnable compensation from a prior plan with service earned under The Plan may do so under the following terms and conditions:
- (1) Before any retirement benefit becomes effective for that member, the member must pay into the Members' Contribution Fund an amount that, together with regular interest on that amount, is the actuarial equivalent, at the effective date of the retirement benefit, of the portion of the retirement benefit based on the inclusion of the prior plan creditable service and earnable compensation with service earned under The Plan.
 - (2) **Manner of Payment.** The payment must be made to the Retirement System consistent with Chapter 406 (94-411 CMR 406) of the rules of the Board.
- L. **Back contributions for certain days off without pay.** A member who elects under 5 M.R.S. §18305-C to include compensation that would have been paid for days off without pay in order to include those earnings in the calculation of the member's average final compensation as provided in 5 M.R.S. §17001, sub-§4, paragraph A, may do so under the following terms and conditions:
- (1) **Election.** If the retirement system determines at the time a member retires that the member's benefit would be increased as a result of the inclusion of compensation that would have been paid for days off without pay, the retirement system shall advise the member of that result and shall allow the member to elect to have that compensation included in the calculation of the member's benefit and to make payments as set forth in subsection 2.
 - (2) **Payment.** The amount that a member who makes the election permitted in subsection 1 must pay is the amount equal to the employee contribution that member would have made on compensation that would have been paid to that member on the days off without pay, plus interest at the same rate as that required for repayment of withdrawn contributions pursuant to section 18304. If the member elects to make the payment, the retirement system shall withhold the required amount from the member's first retirement benefit check.
 - (3) **Benefit calculation.** If a member fails to make the election within 31 days of the notification provided under subsection 1, the retirement system shall calculate the member's retirement benefit without inclusion of the compensation that would have been paid for the days off without pay.
- M. **Law enforcement service before becoming a member.** A member who qualifies under Section 6, subsection 10 must make contributions into the Members' Contribution Fund for the period of law enforcement service under the following terms and conditions:
- (1) Before any retirement benefit becomes effective for that member, the member must pay into the Members' Contribution Fund an amount that, together with regular interest on that amount, is the actuarial equivalent, at the effective date of the retirement benefit, of the portion of the retirement benefit based on the inclusion of the prior law enforcement service credit with service earned under The Plan.

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- (2) **Manner of Payment.** The payment must be made to the Retirement System consistent with Chapter 406 (94-411 CMR 406) of the rules of the Board.
2. **Employer Contributions.** Contributions by participating local districts whose employees are members under The Plan are subject to 5 M.R.S. §18303, except that contributions and pickup contributions are to be calculated according to Sections 7, 8, and 9, and the following:
- A. **Unpooled Unfunded Actuarial Liability Contribution.** Each participating local district with employees who are members under The Plan shall make a contribution known as the "Unpooled Unfunded Actuarial Liability Contribution" based upon:
- (1) its Initial Unpooled Unfunded Actuarial Liability, which is the excess of projected liabilities allocated to future benefit payments to current recipients of benefits and to current members as of the date its employees begin participation under The Plan over the sum of the participating local district's assets on hand as of that date and its future employer and member normal contributions. The rate for this portion of Unpooled Unfunded Actuarial Liability Contribution shall be determined by a valuation made by the System's actuary for each participating local district with employees who are members under The Plan; and
 - (2) any adjustments to the Initial Unpooled Unfunded Actuarial Liability attributable to that district separately. The rate for this portion of the Unpooled Unfunded Actuarial Liability Contribution shall be added to or subtracted from the rate determined under a.
 - (3) if the calculation required by (1) or (2) above results in a credit balance, the balance may, at the discretion of the participating local district, be applied as an offset against the monthly contribution required in an amount no greater than the total amount of the monthly contribution against which the offset is applied.
- B. **Normal Contribution.** Each participating local district with employees who are members under The Plan, along with those members pursuant to Sections 7, 8, and 9, shall make a contribution known as a "Normal Contribution" based upon the portion of projected liabilities attributable to service of all members under the several benefit plans under The Plan for the year following the valuation. The rate of this contribution shall be determined annually by a valuation made by the System's actuary based upon the membership data relating to all members under each benefit plan under The Plan and in accordance with Sections 7, 8, and 9.
- C. **Pooled Unfunded Actuarial Liability Contribution.** Each participating local district with employees who are members under The Plan, along with those members pursuant to Sections 7, 8, and 9, shall make a contribution known as the "Pooled Unfunded Actuarial Liability Contribution" based upon the Pooled Unfunded Actuarial Liability. This liability is equal to the present value of all projected benefits for current and future members, including employer contributions related to military service credit under The Plan, less the present value of future member and employer normal contributions, the assets of The Plan and the present value of all Unpooled Unfunded Actuarial Liability contributions. This rate of this contribution shall be determined annually in accordance with Sections 7, 8, and 9.

- D. **Disability Benefit Contribution.** Each participating local district with employees who are members under The Plan shall make a contribution known as a "disability benefit contribution" based upon the expected value of future disability benefits to be paid to those employees, and to employees who are participants in the defined contribution 401(a) plan under this chapter but who are not members under The Plan, as a result of disablements occurring during the year following the valuation date. The rate of this contribution shall be determined annually by a valuation made by the System's actuary based upon the membership data relating to all members under each benefit plan under The Plan and participants in the defined contribution 401(a) plan under this chapter who are not members under The Plan.
- E. **Death Benefit Contribution.** Each participating local district with employees who are members under The Plan shall make a contribution known as a "death benefit contribution" based upon the expected value of future death benefits to be paid to beneficiaries of those employees and to beneficiaries of employees who are participants in the defined contribution plan under this chapter as a result of deaths occurring during the year following the valuation date. The rate of this contribution shall be determined annually by a valuation made by the System's actuary based upon the membership data relating to all members under each benefit plan under The Plan and participants in the defined contribution plan under this chapter.

SECTION 6. CREDITABLE SERVICE

1. **Determination of Service Credits.** The determination of service credits for members under The Plan is subject to Chapter 401 (94-411 CMR 401) of the rules of the Board.
2. **Prior Service; Service Before Effective Date of District's Participation.** Service credit for service as an employee of a local district before the beginning date of the participation of the employees of a participating local district in the Retirement System shall be granted upon certification by the district, subject to limitations in the district's agreement as provided by Section 2, subsection 2, paragraph D and statutes and rules in effect at the time the service was rendered.
3. **Former Member**
 - A. **Member who Terminated Service.** Upon complete payment of the withdrawn contributions under Section 5, subsection 1, paragraph B, a member shall be granted service credit for the period of time for which the contributions have been repaid. Upon making partial payment of the withdrawn contributions under Section 5, the member shall be granted service credit on a pro rata basis in accordance with rules adopted by the Board.
 - B. **Service Not under The Plan.** Upon complete payment of the contributions under Section 5, subsection 1, paragraph C, a member shall be granted service credit for the period of time for which the contributions have been paid. Upon making partial payment of the contributions under Section 5, the member shall be granted service credit on a pro rata basis in accordance with rules adopted by the Board.
 - C. **Contributions Withdrawn by Employees Not Covered by Social Security.** The granting of creditable service upon repayment of contributions, under section 5, subsection 1, paragraph E, that were withdrawn by a member who is an employee of a participating local district that is not covered under a Social Security Section 218

agreement but that has a plan that meets the requirements of 5 M.R.S. §18252-B is subject to the provisions of 5 M.R.S. §18252-A as amended by PL 2021, c. 90.

4. **Service in the Armed Forces.** Service credit for service in the Armed Forces of the United States is governed as follows:
 - A. **Service after Becoming a Member.** A member is entitled to service credit for the period of time during which the member's membership is continued under Section 3, subsection 5 under the following terms and conditions. Except as provided in subparagraph 3, service credit under this subsection is limited to 5 years.
 - (1) A member's separation from service in the Armed Forces of the United States must be under conditions other than dishonorable.
 - (2) A member is not entitled to service credit for military leave if the member's return to membership service is delayed beyond 90 days after separation from the service in the Armed Forces, unless the delay is caused by an illness or disability incurred in the service in the Armed Forces.
 - (3) A member may not receive service credit for military leave beyond the end of the period of first enlistment or induction or beyond 5 years from the date of original call to active duty in the Armed Forces, whichever is less, unless:
 - (a) The member's return to active duty in the Armed Forces or the extension of the period of service beyond 5 years is required by some mandatory provision; and
 - (b) The member presents proof of the return to or extension of service satisfactory to the Board.
 - B. **Service before Becoming a Member.** A member who served as a full-time active duty member of the Armed Forces of the United States before becoming a member of the Retirement System is entitled to service credit for the period of time the member served in the Armed Forces, under the following terms and conditions. Service credit under this subsection is limited to 4 years.
 - (1) Except as provided in paragraph 6, on the date of retirement, the member must have at least 15 years of creditable service.
 - (2) The member must have separated from the Armed Forces under conditions other than dishonorable.
 - (3) Except as provided in subparagraph 4, the member must have begun membership before January 1, 1976.
 - (4) Except as provided in paragraph 6, a member who served in the Armed Forces during any federally recognized period of conflict, as defined in 5 M.R.S. §18360(2)(E), is entitled to service credit under this paragraph.
 - (5) Upon complete payment of the back contributions under Section 5, subsection 1, paragraph F, the member shall be granted service credit for the period of time for which the contributions have been made. Upon making partial payment of the back contributions under Section 5, the member shall

be granted service credit on a pro rata basis in accordance with rules adopted by the board.

- (6) **Alternative.** A member who fails to meet one or more of the terms and conditions required under paragraphs 1, 3 and 4 may purchase service credit as provided in this paragraph. The member must have at least 5 years of creditable service and, before any retirement benefit becomes effective for that member, must pay into the Members' Contribution Fund, an amount that, together with regular interest on that amount, is the actuarial equivalent, at the effective date of the retirement benefit, of the portion of the retirement benefit based on the additional creditable service. Any member who purchases service credit under this paragraph who subsequently, without inclusion of the purchased service credit and prior to retirement, meets the terms and conditions of paragraphs 1, 2 and 4 is entitled to purchase the service credit under Section 5, subsection 1, paragraph F and to receive a refund of the amount paid under this paragraph that exceeds the cost to purchase the service under Section 5.
5. **Out-of-state Service.** For members who began membership before January 1, 1976, additional service credit shall be allowed for out-of-state service, subject to the following conditions.
- A. **20 Years of Creditable Service.** The member must have creditable service in the Retirement System of at least 20 years in the aggregate;
- B. **Last 10 Years in Maine; 10 Year Limit.** The member's last 10 years of creditable service before the date of retirement must be in the State and no more than 10 years of service credit may be allowed for out-of-state service; and
- C. **Payment of Contributions.** Upon complete payment of the back contributions under Section 5, subsection 1, paragraph H, subparagraph 2, the member shall be granted service credit for the period of time for which the contributions have been made. Upon making partial payment of the back contributions under Section 5, subsection 1, paragraph H, subparagraph 2, the member shall be granted service credit on a pro rata basis in accordance with rules adopted by the board.
- D. **Alternative.** If service credit for out-of-state service is not allowed under paragraph A and B, service credit for out-of-state service shall be allowed if the member, before any retirement benefit becomes effective for that member, pays into the Members' Contribution Fund, an amount that, together with regular interest on that amount, is the actuarial equivalent, at the effective date of the retirement benefit, of the portion of the retirement benefit based on the additional creditable service. Payments must be made consistent with Chapter 406 (94-411 CMR 406) of the rules of the Board.
- (1) Additional amounts paid under this subsection shall become a part of the member's accumulated contributions.
- (2) If any retirement benefit becomes effective before the completion of the payment under this subsection, the member is entitled to service credit for that portion of the additional creditable service that the total amount of payments actually made, plus regular interest on those payments to the date the retirement benefit becomes effective, bears to the actuarial

equivalent of the total portion of the retirement benefit based on the additional creditable service.

- E. **Service Credit not to be Used in Another State.** Any application for a retirement benefit for which out-of-state service credit is to be granted must be accompanied by a certified statement from the appropriate retirement system that the out-of-state service credit granted has not been or will not be used to obtain benefits in another state.
6. **Disability Retirement Service Credit.** A recipient of a disability retirement benefit shall receive service credit for the purpose of determining benefits under The Plan for the period of time following termination of service during which disability retirement benefits are being received under 5 M.R.S. Chapter 425, subchapter V, article 3-A.
7. **Unused Sick Leave or Vacation Leave**
- A. **Earnable Compensation.** A member's earnable compensation does not include payment for unused accumulated or accrued sick leave, unused vacation time, or a combination of both, or any other payment that is not compensation for actual services rendered or that is not paid at the time the actual services are rendered, except that for a member with at least 20 years of creditable service under The Plan at the effective date of the member's retirement, and for a recipient of a disability retirement benefit, earnable compensation includes payment for unused accumulated or accrued sick leave, unused vacation time, or a combination of both, up to a maximum of 30 days, if paid upon the member's last termination before the member applies for retirement benefits.
- B. **Service Credit.** A member may not receive service credit for unused accumulated or accrued sick leave, unused vacation leave, or a combination of both, for which a member is credited on termination of service, but for which the member does not receive payment, except under the following conditions.
- (1) Leave, up to a lifetime maximum of 90 days, qualifies for service credit for a member with at least 20 years of creditable service under The Plan, before the application of this sub-paragraph, at the effective date of the member's retirement.
 - (2) Leave, up to a lifetime maximum of 90 days, qualifies for service credit for a recipient of a disability retirement benefit, at the effective date of the member's disability retirement.
 - (3) Leave, including leave beyond 90 days, may qualify for service credit, up to the maximum number of days of leave, set by personnel rules or by contract, that a person is allowed to accumulate, if, the member, before any retirement benefit becomes effective for the member, pays into the Members' Contribution Fund, a single payment which is the actuarial equivalent, at the effective date of the member's retirement benefit, of the portion of the member's retirement benefit based on the additional creditable service beyond 90 days.
8. **Teachers in Private, Parochial and Other Schools.** A member who taught in a parochial school or in a public or private academy may purchase up to 10 years of service credit for that service under the following conditions.

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- A. The member must have taught in a school approved by the Department of Education or the education department of another state while holding an appropriate teaching certificate;
- B. **20 Years of Creditable Service.** The member must have 20 years of creditable service as a member of the participating local district;
- C. **Membership before January 1, 1976.** The member must have begun membership before January 1, 1976;
- D. **Last 10 Years in Participating Local District.** The member's last 10 years of creditable service before the date of retirement must be as a member of the participating local district; and
- E. **Payment of Contributions.** Upon complete payment of the back contributions under Section 5, subsection 1, paragraph K, subparagraph 2, the member shall be granted service credit for the period of time for which the contributions have been made. Upon making partial payment of the back contributions under Section 5, subsection 1, paragraph K, subparagraph 2, the member shall be granted service credit on a pro rata basis in accordance with rules adopted by the board.
- F. **Alternative.** If service credit for private, parochial or other school service is not allowed under paragraphs B and C, additional service credit is allowed for any member who meets the requirements of paragraphs A and D, if the member, before any retirement benefit becomes effective for that member, pays into the Members' Contribution Fund an amount that, together with regular interest on that amount, is the actuarial equivalent, at the effective date of the retirement benefit, of the portion of the retirement benefit based on the additional creditable service. Payments must be made consistent with Chapter 406 (94-411 CMR 406) of the rules of the Board.
- (1) Additional amounts paid under this subsection shall become a part of the member's accumulated contributions.
 - (2) If any retirement benefit becomes effective before the completion of the payment under this subsection, the member is entitled to service credit for that portion of the additional creditable service that the total amount of payments actually made, plus regular interest on those payments to the date the retirement benefit becomes effective, bears to the actuarial equivalent of the total portion of the retirement benefit based on the additional creditable service.
9. **Other Schools and Programs.** A member who terminates service in the State and teaches under the Volunteers in Service to America Program, the Fulbright Exchange Program or the Peace Corps, foreign or domestic, or teaches children of United States Foreign Corps personnel outside the continental limits of the United States is entitled to service credit for that service under the following conditions.
- A. **2 Year Limit.** The service credit may not exceed 2 years.
- B. **Return to Active Service.** The member must return to active service as a member of the retirement system within one year of the completion of the teaching outside of the State described in this section.

- C. **Payment of Contributions.** The member, before any retirement benefit becomes effective for that member, must pay into the Members' Contribution Fund an amount that, together with regular interest on that amount, is the actuarial equivalent, at the effective date of the retirement benefit, of the portion of the retirement benefit based on the additional creditable service. Payments must be made consistent with Chapter 406 (94-411 CMR 406) of the rules of the Board.
10. **Law enforcement service before becoming a member.** A member who served as a full-time law enforcement officer with a federal, state, county or local law enforcement agency before becoming a member, and who did not decline membership under section 3, subsection 2, during the period of prior law enforcement service, is entitled under this subsection to purchase service credit for the period of time that the member served as a law enforcement officer under the following conditions:
- A. **15 years of creditable service.** The member must have at least 15 years of creditable service at the time of retirement.
- B. **4 year limit.** Service credit purchased under this subsection is limited to 4 years.
- C. **Service credit not to be used for other benefits.** The member must provide a certified statement from the appropriate retirement system that the service credit to be granted has not been and will not be used to obtain other retirement benefits.
- D. **Payment of contributions.** The member must complete payment of contributions as required by Section 5, subsection 1, paragraph M.
- (1) Additional amounts paid under this subsection shall become a part of the member's accumulated contributions.
- (2) If any retirement benefit becomes effective before the completion of the payment under this subsection, the member is entitled to service credit for that portion of the additional creditable service that the total amount of payments actually made, plus regular interest on those payments to the date the retirement benefit becomes effective, bears to the actuarial equivalent of the total portion of the retirement benefit based on the additional creditable service.

SECTION 7. REGULAR SERVICE RETIREMENT BENEFIT PLANS

Payment of benefits to members under The Plan is subject to the provisions of 5 M.R.S. §§ 18403 – 18405-A, 18409 - 18413.

1. **Regular Benefit Plan AC.** Regular Benefit Plan AC may be elected by any participating local district or local district.
- A. **Contribution Rate.** Subject to Section 15, subsection 1, and the rate caps under Section 9, employer and employee contributions shall be set annually by the Board based on the recommendations of the System's actuary in accordance with the following:
- (1) The Plan's unfunded actuarial liability as of June 30, 2018, shall be paid in an actuarially sound manner and allocated between the employer and

employee in a ratio approved by the Board based on the recommendation of the Participating Local District Advisory Committee;

- (2) Any Plan unfunded actuarial liability created beginning July 1, 2018, shall be paid through employer and employee contributions allocated 58% to the employer and 42% to the employee;
- (3) The normal cost shall be paid through employer and employee contributions allocated 58% to the employer and 42% to the employee.; and
- (4) Rates shall reflect any differences in actuarial assumptions and experience and shall be based on whether the member is subject to paragraphs B or B-1.

B. Qualification for Benefit Prior to July 1, 2014. A member of The Plan prior to July 1, 2014 qualifies for a service retirement benefit under this paragraph when one of the following occurs:

- (1) The member is in service when reaching 60 years of age, or is in service after reaching 60 years of age, and has been in service for a minimum of one-year immediately before retirement or except as provided in sub-paragraph 4 has at least 10 years of creditable service, which may include creditable service as a member of the Legislative Retirement Program under 3 M.R.S. §701, sub-§8;
- (2) The member is not in service when reaching 60 years of age, and except as provided in sub-paragraph 4 has at least 10 years of creditable service, which may include creditable service as a member of the Legislative Retirement Program under 3 M.R.S. §701, sub-§8; or
- (3) The member has completed 25 or more years of creditable service, which may include, for the purpose of meeting eligibility requirements, creditable service as a member of the Legislative Retirement Program under 3 M.R.S. §701, sub-§8.
- (4) The member has at least 5 years of creditable service, which, for the purpose of determining completion of the 5-year requirement, may include creditable service as a member of the Legislative Retirement Program, and:
 - (a) Was in service on October 1, 1999;
 - (b) Had left prior to October 1, 1999 with or without withdrawing contributions and on or after October 1, 1999 returned to service; or
 - (c) Was first in service on or after October 1, 1999.

B-1. Qualification for Benefit after July 1, 2014. A member who was not covered by The Plan prior to July 1, 2014 qualifies for a service retirement benefit under this paragraph when one of the following occurs:

- (1) The member is in service when reaching 65 years of age, or is in service after reaching 65 years of age, and has been in service for a minimum of one year immediately before retirement or has at least 5 years of creditable

service, which may include creditable service as a member of the Legislative Retirement Program under 3 M.R.S. §701, sub-§8;

- (2) The member is not in service when reaching 65 years of age and has at least 5 years of creditable service, which may include creditable service as a member of the Legislative Retirement Program under 3 M.R.S. §701, sub-§8; or
- (3) The member has completed 25 or more years of creditable service, which may include, for the purpose of meeting eligibility requirements, creditable service as a member of the Legislative Retirement Program under 3 M.R.S. §701, sub-§8.

C. Computation of Benefit - Retirement at Normal Retirement Age or Later.

Subject to the requirements of Section 4, subsection 6, the total amount of the service retirement benefit for a member qualified under paragraph B, subparagraphs 1, 2 or 4 or under paragraph B-1, equals:

- (1) $1/50$ of the member's average final compensation multiplied by the number of years of creditable service under The Plan; and
- (2) If the member had creditable service, with the member's current employer before that employer's employees were under The Plan, the benefit for that creditable service is calculated on the basis of:
 - (a) $1/50$ of the member's average final compensation multiplied by the number of years of creditable service, if, before being under The Plan, the service retirement benefit for that employer's employees was based upon the $1/50$ formula;
 - (b) $1/60$ of the member's average final compensation multiplied by the number of years of creditable service, if, before being under The Plan, the service retirement benefit for that employer's employees was based upon the $1/60$ formula;
 - (c) $1/70$ of the member's average final compensation multiplied by the number of years of creditable service, if, before being under The Plan, the service retirement benefit for that employer's employees was based upon the $1/70$ formula;
- (3) If the member had creditable service with an employer other than the member's current employer before becoming a member under The Plan for which the member's current employer has not accepted liability, and for which the member has not made the election under 5 M.R.S. §18253, sub-§1, paragraph E, the benefit for that creditable service is calculated on the basis of creditable service and earnable compensation with the previous employer and in accordance with the previous employer's regular service retirement plan immediately before the previous employer's employees became members under The Plan or the previous employer withdrew from the System. If the previous employer has neither begun participation in The Plan nor withdrawn from the System, the benefit is calculated on the basis of the previous employer's plan at the time of the member's retirement.

- (4) If the member has prior service credit, the benefit for that service is calculated on the basis of the applicable formula of paragraph C (2) above, as adopted by the district for prior service credit.

D. **Computation of Benefit - Retirement before Normal Retirement Age - With Creditable Service of 25 Years or More.** Subject to the requirements of Section 4, subsections 5 and 6, the amount of the service retirement benefit for a member who retires prior to normal retirement age shall be computed as follows:

- (1) The amount of the service retirement benefit for a member qualified under paragraph B, subparagraph 3, who has 20 or more years of creditable service under The Plan as of July 1, 2019, shall be computed in accordance with paragraph C, except that:
- (a) The amount arrived at under paragraph C shall be reduced by applying to that amount the percentage that a life annuity due at age 60 bears to the life annuity due at the age of retirement.
- (b) For the purpose of making the computation under division a, the Board-approved tables of annuities in effect at the date of the member's retirement shall be used.
- (2) The amount of the service retirement benefit for a member qualified under paragraph B-1, subparagraph 3, who, pursuant to Title 5, Section 18253, has 20 or more years of creditable service under The Plan as of July 1, 2019, shall be computed in accordance with paragraph C, except that the benefit is reduced by 6% for each year that the member's age precedes 65 years of age.
- (3) The amount of the service retirement benefit for all other members shall be computed in accordance with paragraph C, except that the amount arrived at under paragraph C shall be reduced to reflect the full actuarial impact of the early retirement. At the election of the member, any cost of living adjustments pursuant to Section 9 shall not be applied until the member has reached age 60, for a member to whom paragraph B applies, or age 65, for a member to whom paragraph B-1 applies, and the actuarial impact shall reflect this election.

E. **Cost of Living Adjustments.** Subject to paragraph D, subparagraph 2, all benefits based upon creditable service under this service retirement benefit plan are subject to cost of living adjustments as provided by Section 9. Benefits based upon creditable service earned before a member was under The Plan will be subject to cost of living adjustments only if the employer's plan provided for cost of living adjustments.

2. **Regular Benefit Plan AN.** Regular Benefit Plan AN may be elected by any participating local district or local district.

This benefit plan is the same as Regular Benefit Plan AC, except that there is no provision for cost of living adjustments.

3. **Regular Benefit Plan BC.** Regular Benefit Plan BC may be elected by any participating local district or local district which covers its employees under the Federal Social Security program under a Section 218 Agreement. Any current employee who was a member under a plan which provided benefits under the 1/50 or 1/60 formula with a cost of living adjustment may elect to

be under Regular Benefit Plan A and any current employee who was under a plan which provided benefits under the 1/50 or 1/60 or 1/70 formula without cost of living adjustments may elect to be under Regular Benefit Plan AN. Regular Benefit Plans AC and AN require that members make contributions at the rate as set forth in subsections 1 and 2. For the purposes of this subsection, "current employee" means a person whose employment with a participating local district began prior to the date on which participation in The Plan for that district's employees begins and who is a member as an employee of that district on that date.

- A. **Contribution Rate.** Employer and employee contribution rates are set in the same manner and subject to the same requirements as Regular Benefit Plan AC.
- B. **Qualification for Benefit.** The requirements for a member to qualify for a service retirement benefit under this paragraph are exactly the same as under Regular Benefit Plan AC - subsection 1, paragraphs B and B-1.
- C. **Computation of Benefit - Retirement at Normal Retirement Age or Later.** Subject to the requirements of Section 4, subsection 6, the total amount of the service retirement benefit for a member qualified as specified in subsection 1, paragraph B, subparagraph 1, 2 or 4 or under subsection 1, paragraph B-1 equals:
- (1) 1/100 of the member's average final compensation multiplied by the number of years of membership service under The Plan; and
 - (2) If the member had creditable service, with the member's current employer before that employer's employees were under The Plan, the benefit for that creditable service is calculated on the basis of:
 - (a) 1/50 of the member's average final compensation multiplied by the number of years of creditable service, if, before being under The Plan, the service retirement benefit for that employer's employees was based upon the 1/50 formula;
 - (b) 1/60 of the member's average final compensation multiplied by the number of years of creditable service, if, before being under The Plan, the service retirement benefit for that employer's employees was based upon the 1/60 formula;
 - (c) 1/70 of the member's average final compensation multiplied by the number of years of creditable service, if, before being under The Plan, the service retirement benefit for that employer's employees was based upon the 1/70 formula;
 - (3) If the member had creditable service with an employer other than the member's current employer before becoming a member under The Plan for which the member's current employer has not accepted liability, and for which the member has not made the election under 5 M.R.S. §18253, sub-§1, paragraph E, the benefit for that creditable service is calculated on the basis of creditable service and earnable compensation with the previous employer and in accordance with the previous employer's regular service retirement plan immediately before the previous employer's employees became members under The Plan or the previous employer withdrew from the System. If the previous employer has neither begun participation in The

Plan nor withdrawn from the System, the benefit is calculated on the basis of the previous employer's plan at the time of the member's retirement.

- (4) If the member has prior service credit, the benefit for that service is calculated on the basis of the applicable formula of paragraph C (2) above, as adopted by the district for prior service credit.

D. **Computation of Benefit - Retirement before Normal Retirement Age - With Creditable Service of 25 Years or More.** Subject to the requirements of Section 4, subsections 5 and 6, the amount of the service retirement benefit for a member who retires prior to normal retirement age shall be computed as follows:

- (1) The amount of the service retirement benefit for a member qualified as specified in subsection 1, paragraph B, subparagraph 3, who has 20 or more years of creditable service under The Plan as of July 1, 2019, shall be computed in accordance with paragraph C, except that:
 - (a) The amount arrived at under paragraph C shall be reduced by applying to that amount the percentage that a life annuity due at age 60 bears to the life annuity due at the age of retirement.
 - (b) For the purpose of making the computation under subparagraph 1, the board-approved tables of annuities in effect at the date of the member's retirement shall be used.
- (2) The amount of the service retirement benefit for a member qualified under subsection 1, paragraph B-1, subparagraph 3, who, pursuant to Title 5, Section 18253, has 20 or more years of creditable service under The Plan as of July 1, 2019, shall be computed in accordance with subsection 1, paragraph C, except that the benefit is reduced by 6% for each year that the member's age precedes 65 years of age.
- (3) The amount of the service retirement benefit for all other members shall be computed in accordance with paragraph C, except that the amount arrived at under Paragraph C shall be reduced to reflect the full actuarial impact of the early retirement. At the election of the member, any cost of living adjustments pursuant to Section 9 shall not be applied until the member has reached age 60, for a member to whom subsection 1, paragraph B applies, or age 65, for a member to whom subsection 1, paragraph B-1 applies, and the actuarial impact shall reflect this election.

E. **Cost of Living Adjustments.** Subject to paragraph D, subparagraph 2, all benefits based upon creditable service under this service retirement benefit plan are subject to cost of living adjustments as provided by Section 9. Benefits based upon creditable service earned before a member was under The Plan will be subject to cost of living adjustments only if the employer's plan provided for cost of living adjustments.

4. **Minimum Benefit.** Any member under The Plan who has 10 or more years of creditable service at retirement is entitled to a minimum service retirement benefit of \$100 per month.

SECTION 8. SPECIAL SERVICE RETIREMENT BENEFIT PLANS

Payment of benefits to members under The Plan is subject to the provisions of 5 M.R.S. §§ 18403 – 18405-A, 18409-18413. If, upon electing to participate in The Plan, a participating local district elects a special benefit plan other than the special benefit plan that a member is then covered under, the member may elect to continue under the special benefit plan under which the member is then covered. The member's election must be made as of the date on which the district's participation in The Plan begins and may not be changed thereafter. Members having membership service under special plans prior to July 1, 1977, are entitled to the alternative benefit computation based on that service in accordance with the applicable provision of 5 M.R.S. §18453. A member who does not qualify to retire under a special service retirement plan may retire under a regular service retirement plan at any time after the member qualifies under Section 7. The service retirement benefit for all service is computed as provided in Section 7.

1. **Special Benefit Plan 1C.** Special Benefit Plan 1C may be elected by any participating local district or local district for police officers, firefighters, sheriffs, full-time deputy sheriffs, county corrections employees who are employed at a county jail and whose duties include contact with prisoners or juvenile detainees, and emergency medical services persons as defined in Title 32 M.R.S. §83, sub-§12, including but not limited to first responders, emergency medical technicians, advanced emergency medical technicians and paramedics.
 - A. **Contribution Rate.** Subject to Section 15, subsection 1, and to the rate caps under Section 9, employer and employee contributions shall be set annually by the Board based on the recommendations of the System's actuary in accordance with the following:
 - (1) The Plan's unfunded actuarial liability as of June 30, 2018, shall be paid in an actuarially sound manner and allocated between the employer and employee in a ratio approved by the Board based on the recommendation of the Participating Local District Advisory Committee;
 - (2) Any Plan unfunded actuarial liability created beginning July 1, 2018, shall be paid through employer and employee contributions allocated 58% to the employer and 42% to the employee; and
 - (3) The normal cost shall be paid through employer and employee contributions allocated 58% to the employer and 42% to the employee.
 - B. **Qualification for Benefit**
 - (1) A member qualifies for a service retirement benefit under this subsection when the member has completed 20 years of creditable service as an employee in one or more of the types of employment specified in this subsection and specified by the district as covered under this plan. If the member had creditable service under a special plan with the member's current employer before that employer's employees became members under The Plan, that creditable service is counted when determining the member's qualification for this benefit;
 - (2) A member who has accrued service credits under a regular service retirement plan before accruing service under this plan, and for whom the regular plan service credits are considered service under The Plan as provided by Section 4, subsection 1, may use those service credits toward

qualifying to retire under this plan at the rate of one year of special plan service credit for each two years of regular plan service credit; and

- (3) Except for employees who are entitled, under the current employer's plan in effect before the employer's employees become members under The Plan, to use military service credits to qualify for service retirement benefits, service credits for service in the Armed Forces before becoming a member, under Section 6, subsection 4, paragraph B, apply only to additional retirement benefits under this plan and the service credits do not apply to service requirements to qualify for retirement benefits.
- (4) Service credits for law enforcement service before becoming a member, under Section 6, subsection 10, apply only to additional retirement benefits under this plan and the service credits do not apply to service requirements to qualify for retirement benefits.

C. **Computation of Benefit.** Subject to the requirements of Section 4, subsections 5 and 6, the total amount of the service retirement benefit for a member qualified under paragraph B, equals 1/2 of the member's average final compensation and, subject to the limitations of subsection J, an additional 2% of the member's average final compensation for each year of creditable service not included in determining qualification under paragraph B.

- (1) If the member had creditable service under a special plan, with the member's current employer, before that employer's employees became members under The Plan, that creditable service is used when calculating the benefit under this paragraph.
- (2) If the member had creditable service with an employer other than the member's current employer before becoming a member under The Plan for which the member's current employer has not accepted liability, and for which the member has not made the election under 5 M.R.S. §18253, sub-§1, paragraph E, the benefit for that creditable service is calculated on the basis of creditable service and earnable compensation with the previous employer and in accordance with the previous employer's regular service retirement plan immediately before the previous employer's employees became members under The Plan or the previous employer withdrew from the System. If the previous employer has neither begun participation in The Plan nor withdrawn from the System, the benefit is calculated on the basis of the previous employer's plan at the time of the member's retirement.

D. **Cost of Living Adjustments.** All benefits based upon creditable service under this service retirement benefit plan are subject to cost of living adjustments as provided by Section 9. Benefits based upon creditable service earned before a member was under The Plan will be subject to cost of living adjustments only if the employer's plan provided for cost of living adjustments.

2. **Special Benefit Plan 1N.** Special Benefit Plan 1N may be elected by any participating local district or local district.

This benefit plan is identical to Special Benefit Plan 1C, except that there is no provision for cost of living adjustments.

3. **Special Benefit Plan 2C.** Special Benefit Plan 2C may be elected by any participating local district or local district for police officers, firefighters, sheriffs, full-time deputy sheriffs, county corrections employees who are employed at a county jail and whose duties include contact with prisoners or juvenile detainees, emergency medical services persons as defined in Title 32 M.R.S. §83, sub-§12, including but not limited to first responders, emergency medical technicians, advanced emergency medical technicians and paramedics, and dispatchers as defined in 5 M.R.S. §18313, sub-§1. A district may also elect this plan for all of its employees.
- A. **Contribution Rate.** Subject to Section 15, subsection 1, and to the rate caps under Section 9, employer and employee contributions shall be set annually by the Board based on the recommendations of the System's actuary in accordance with the following:
- (1) The Plan's unfunded actuarial liability as of June 30, 2018, shall be paid in an actuarially sound manner and allocated between the employer and employee in a ratio approved by the Board based on the recommendation of the Participating Local District Advisory Committee;
 - (2) Any Plan unfunded actuarial liability created beginning July 1, 2018, shall be paid through employer and employee contributions allocated 58% to the employer and 42% to the employee; and
 - (3) The normal cost shall be paid through employer and employee contributions allocated 58% to the employer and 42% to the employee.
- B. **Qualification for Benefit**
- (1) A member qualifies for a service retirement benefit under this subsection when the member has completed 25 years of creditable service as an employee in one or more of the types of employment specified in this subsection and specified by the district as covered under this plan. If the member had creditable service under a special plan with the member's current employer before that employer's employees became members under The Plan, that creditable service is counted when determining the member's qualification for this benefit; and
 - (2) A member who has accrued service credits under a regular service retirement plan before accruing service under this plan, and for whom the regular plan service credits are considered service under The Plan as provided by Section 4, subsection 1, may use those service credits toward qualifying to retire under this plan at the rate of two years of special plan service credit for each three years of regular plan service credit.
- C. **Computation of Benefit.** Subject to the requirements of Section 4, subsections 5 and 6, the total amount of the service retirement benefit for a member qualified under paragraph 2, equals 1/2 of the member's average final compensation and, subject to the limitations of subsection J, an additional 2% of the member's average final compensation for each year of creditable service not included in determining qualification under paragraph B.
- (1) If the member had creditable service under a special plan, with the member's current employer, before that employer's employees became members under

The Plan, that creditable service is used when calculating the benefit under this paragraph.

- (2) If the member had creditable service with an employer other than the member's current employer before becoming a member under The Plan for which the member's current employer has not accepted liability, and for which the member has not made the election under 5 M.R.S. §18253, sub-§1, paragraph E, the benefit for that creditable service is calculated on the basis of creditable service and earnable compensation with the previous employer and in accordance with the previous employer's regular service retirement plan immediately before the previous employer's employees became members under The Plan or the previous employer withdrew from the System. If the previous employer has neither begun participation in The Plan nor withdrawn from the System, the benefit is calculated on the basis of the previous employer's plan at the time of the member's retirement.

D. **Cost of Living Adjustments.** All benefits based upon creditable service under this service retirement benefit plan are subject to cost of living adjustments as provided by Section 9. Benefits based upon creditable service earned before a member was under The Plan will be subject to cost of living adjustments only if the employer's plan provided for cost of living adjustments.

4. **Special Benefit Plan 2N.** Special Benefit Plan 2N may be elected by any participating local district or local district.

This benefit plan is identical to Special Benefit Plan 2C, except that there is no provision for cost of living adjustments.

5. **Special Benefit Plan 3C.** Special Benefit Plan 3C may be elected by any participating local district or local district for police officers, firefighters, sheriffs, full-time deputy sheriffs, county corrections employees who are employed at a county jail and whose duties include contact with prisoners or juvenile detainees, emergency medical services persons as defined in Title 32 M.R.S. §83, sub-§12, including but not limited to first responders, emergency medical technicians, advanced emergency medical technicians and paramedics, and dispatchers as defined in 5 M.R.S. §18313, sub-§1.

A. **Contribution Rate.** The contribution rate for members under Special Benefit Plan 3C is as set out below until the completion of 25 years of creditable service under this special benefit plan, after which the members contribute at the same rate of earnable compensation as paid by members who contribute under Regular Plan AC as set forth in Section 7, subsection 1, paragraph A. Subject to Section 15, subsection 1, and to the rate caps under Section 9, employer and employee contributions shall be set annually by the Board based on the recommendations of the System's actuary in accordance with the following:

- (1) The Plan's unfunded actuarial liability as of June 30, 2018, shall be paid in an actuarially sound manner and allocated between the employer and employee in a ratio approved by the Board based on the recommendation of the Participating Local District Advisory Committee;
- (2) Any Plan unfunded actuarial liability created beginning July 1, 2018, shall be paid through employer and employee contributions allocated 58% to the employer and 42% to the employee; and

- (3) The normal cost shall be paid through employer and employee contributions allocated 58% to the employer and 42% to the employee.

B. Qualification for Benefit

- (1) A member qualifies for a service retirement benefit under this subsection when the member has completed 25 years of creditable service as an employee in one or more of the types of employment specified in this subsection and specified by the district as covered under this plan. If the member had creditable service under a special plan with the member's current employer before that employer's employees became members under The Plan, that creditable service is counted when determining the member's qualification for this benefit; and
- (2) A member who has accrued service credits under a regular service retirement plan before accruing service under this plan, and for whom the regular plan service credits are considered service under The Plan as provided by Section 4, subsection 1, may use those service credits toward qualifying to retire under this plan at the rate of two years of special plan service credit for each three years of regular plan service credit.

C. Computation of Benefit. Subject to the requirements of Section 4, subsections 5 and 6, the total amount of the service retirement benefit for a member qualified under paragraph 2, equals 2/3 of the member's average final compensation and, subject to the limitations of subsection J, an additional 2% of the member's average final compensation for each year of creditable service not included in determining qualification under paragraph B.

- (1) If the member had creditable service under a special plan, with the member's current employer, before that employer's employees became members under The Plan, that creditable service is used when calculating the benefit under this paragraph.
- (2) If the member had creditable service with an employer other than the member's current employer before becoming a member under The Plan for which the member's current employer has not accepted liability, and for which the member has not made the election under 5 M.R.S. §18253, sub-§1, paragraph E, the benefit for that creditable service is calculated on the basis of creditable service and earnable compensation with the previous employer and in accordance with the previous employer's regular service retirement plan immediately before the previous employer's employees became members under The Plan or the previous employer withdrew from the System. If the previous employer has neither begun participation in The Plan nor withdrawn from the System, the benefit is calculated on the basis of the previous employer's plan at the time of the member's retirement.

D. Cost of Living Adjustments. All benefits based upon creditable service under this service retirement benefit plan are subject to cost of living adjustments as provided by Section 9. Benefits based upon creditable service earned before a member was under The Plan will be subject to cost of living adjustments only if the employer's plan provided for cost of living adjustments.

6. **Special Benefit Plan 3N.** Special Benefit Plan 3N may be elected by any participating local district or local district.

This benefit plan is identical to Special Benefit Plan 3C, except that there is no provision for cost of living adjustments.

7. **Special Benefit Plan 4C.** Special Benefit Plan 4C may be elected by any participating local district or local district for police officers, firefighters, sheriffs, full-time deputy sheriffs, county corrections employees who are employed at a county jail and whose duties include contact with prisoners or juvenile detainees, emergency medical services persons as defined in Title 32 M.R.S. §83, sub-§12, including but not limited to first responders, emergency medical technicians, advanced emergency medical technicians and paramedics, and dispatchers as defined in 5 M.R.S. §18313, sub-§1.

- A. **Contribution Rate.** The contribution rate for members under Special Benefit Plan 4C is as set out below until the completion of 25 years of creditable service under this special benefit plan, after which the members contribute at the same rate of earnable compensation as paid by members who contribute under Regular Plan AC as set forth in Section 7, subsection 1, paragraph A. Subject to Section 15, subsection 1, and to the rate caps under Section 9, employer and employee contributions shall be set annually by the Board based on the recommendations of the System's actuary in accordance with the following:

- (1) The Plan's unfunded actuarial liability as of June 30, 2018, shall be paid in an actuarially sound manner and allocated between the employer and employee in a ratio approved by the Board based on the recommendation of the Participating Local District Advisory Committee;
- (2) Any Plan unfunded actuarial liability created beginning July 1, 2018, shall be paid through employer and employee contributions allocated 58% to the employer and 42% to the employee; and
- (3) The normal cost shall be paid through employer and employee contributions allocated 58% to the employer and 42% to the employee.

- B. **Qualification for Benefit**

- (1) A member qualifies for a service retirement benefit under this subsection when the member has completed 25 years of creditable service as an employee in one or more of the types of employment specified in this subsection and specified by the district as covered under this plan. If the member had creditable service under a special plan with the member's current employer before that employer's employees became members under The Plan, that creditable service is counted when determining the member's qualification for this benefit; and
- (2) A member who has accrued service credits under a regular service retirement plan before accruing service under this plan, and for whom the regular plan service credits are considered service under The Plan as provided by Section 4, subsection 1, may use those service credits toward qualifying to retire under this plan at the rate of two years of special plan service credit for each three years of regular plan service credit.

- C. **Computation of Benefit.** Subject to the requirements of Section 4, subsections 5 and 6, the total amount of the service retirement benefit for a member qualified under paragraph B, equals:
- (1) If the member retires after reaching age 55, $1/50$ of the member's average final compensation multiplied by the number of years of creditable service;
 - (2) If the member retires before reaching age 55, $1/50$ of the member's average final compensation multiplied by the number of years of creditable service reduced as follows:
 - (a) For a member who was covered by The Plan prior to July 1, 2014, who has 20 or more years of creditable service under The Plan as of July 1, 2019, the benefit is reduced by applying to that amount the percentage that a life annuity due at age 55 bears to the life annuity due at the age of retirement.
 - (b) For a member who was not covered by The Plan prior to July 1, 2014, but who, pursuant to Title 5, Section 18253, has 20 or more years of creditable service under The Plan as of July 1, 2019, the benefit is reduced by 6% for each year that the member's age precedes 55 years of age.
 - (c) For all other members, the benefit is reduced to reflect the full actuarial impact of the early retirement. At the election of the member, any cost of living adjustments pursuant to Section 9 shall not be applied until the member has reached age 55, and the actuarial impact shall reflect this election.
 - (3) If the member had creditable service under a special plan, with the member's current employer, before that employer's employees became members under The Plan, that creditable service is used when calculating the benefit under this paragraph.
 - (4) If the member had creditable service with an employer other than the member's current employer before becoming a member under The Plan for which the member's current employer has not accepted liability, and for which the member has not made the election under 5 M.R.S. §18253, sub-§1, paragraph E, the benefit for that creditable service is calculated on the basis of creditable service and earnable compensation with the previous employer and in accordance with the previous employer's regular service retirement plan immediately before the previous employer's employees became members under The Plan or the previous employer withdrew from the System. If the previous employer has neither begun participation in The Plan nor withdrawn from the System, the benefit is calculated on the basis of the previous employer's plan at the time of the member's retirement.
- D. **Cost of Living Adjustments.** Subject to paragraph C, subparagraph 2, all benefits based upon creditable service under this service retirement benefit plan are subject to cost of living adjustments as provided by Section 9. Benefits based upon creditable service earned before a member was under The Plan will be subject to cost of living adjustments only if the employer's plan provided for cost of living adjustments.

8. **Special Benefit Plan 4N.** Special Benefit Plan 4N may be elected by any participating local district or local district prior to February 1, 2024.

This benefit plan is identical to Special Benefit Plan 4C, except that there is no provision for cost of living adjustments.

9. **Transfer from Special Plan Position to Non-Special Plan Position Due to Disability.**

A member who has not completed the service requirements for retirement under a special service retirement benefit plan, upon becoming disabled as defined in section 18521, and upon becoming reemployed in a position not under a special service retirement benefit plan shall upon retirement receive retirement benefits as follows:

- A. The part of the member's service retirement based upon membership service before becoming disabled shall be computed according to the formula for computing benefits under the member's previous special plan.
- B. The part of the member's service retirement based upon membership service after becoming reemployed in a position not under a special plan shall be computed according to the formula for computing benefits under the member's previous special plan.
- C. If the member is found to be no longer disabled, as defined in section 18521, the member may:
 - (1) Return to a position in the member's previous special plan; or
 - (2) Remain in the position which is not under a special plan and have the part of the member's service retirement benefit based upon post-disability service computed in accordance with the applicable regular service retirement benefit plan under Section 7.
- D. The executive director may require that a member subject to this subsection submit records and undergo medical examinations or tests to determine the member's disability for purposes of paragraph C.
 - (1) If the member refuses to submit records or undergo the examination or tests under this paragraph, the member's retirement benefit shall be based upon the applicable regular service retirement benefit plan under Section 7 until the member withdraws the refusal.
 - (2) If the member's refusal under subparagraph 1 continues for one year, all the member's rights to any further benefit under this subsection shall cease.

10. **Additional 2% Benefit.** The additional 2% of average final compensation benefit provided to members under the special service retirement plans in this section is applicable only to service credits earned with relation to service rendered after a member becomes a member under The Plan. A member is also entitled to this benefit for service rendered before becoming a member under The Plan to the extent that the member was entitled to the benefit under the member's current employer's retirement plan that was in effect immediately before the employer's employees became members under The Plan.

SECTION 9. COST OF LIVING ADJUSTMENTS; CONTRIBUTION CAPS

1. **Cost of Living Adjustments.** Subject to subsections 2, 3, ~~and 4~~ and 5, the cost-of-living adjustment shall be determined as follows.
 - A. Except as provided in subsections 2, 3 and 4, whenever there is a percentage increase in the Consumer Price Index from July 1 of the previous year to June 30 of the current year, the Board shall automatically make an equal percentage increase in retirement benefits, beginning in September, up to a maximum annual increase of 2.5%.
 - B. If there is a percentage decrease in the Consumer Price Index from July 1st to June 30th, the Board shall set the percentage change at 0% for that September. The adjustment for the following year must be set based on the actuarially compounded Consumer Price Index for both years in a cost-neutral manner. If the Consumer Price Index in the subsequent year or years is not sufficient to allow for the adjustment to be cost-neutral for the 2 years, then the adjustment needed for cost-neutrality must continue to be applied to following years until such time as the cost-neutrality requirement is met.
 - C. The Board shall determine the costs of the adjustments under this Section and shall include those costs in the annual valuation.
 - D. Cost-of-living adjustments under this Section shall be applied to the retirement benefits of retirees as follows:
 - (1) For retirees who retire prior to September 1, 2019, a cost-of-living adjustment is applied if the retiree has been retired for at least 12 months before the date that the adjustment becomes payable.
 - (2) For retirees who retire on or after September 1, 2019, a cost-of-living adjustment is applied if the retiree has been retired for at least 24 months before the date that the adjustment becomes payable. Beneficiaries of deceased retirees shall be eligible for the cost-of-living adjustment at the same time the deceased retiree would have become eligible.
2. **Contribution Caps.** The employer and employee contribution rates, as calculated in the aggregate across all benefit plans in The Plan, are capped at 12.5% and 9%, respectively. If the rates calculated by the System's actuary would exceed the caps for a particular year, the following shall occur:
 - A. The aggregated employer and employee rates will be reduced to the cap amounts, and the Board will set individual benefit plan rates based on the System's actuary's recommendation for allocating the reductions.
 - B. The cost of living adjustment calculated under subsection 1 shall be reduced to maintain cost-neutrality, but not below zero. If the reduction otherwise would have been below zero, then an adjustment will be applied to contribution rates, up to the caps set forth in this subsection, and the cost of living adjustment, but not below zero, in following years until such time as cost-neutrality is achieved.
3. Notwithstanding subsection 1, paragraph A, the cost-of-living adjustment for the period from September 1, 2021 through August 31, 2022 shall be 3.5%.

4. Notwithstanding subsection 1, paragraph A, the cost-of-living adjustment for the period from September 1, 2022 through August 31, 2023 shall be 3.5%.
- 4.5. In addition to the cost-of-living adjustment under subsection 1, paragraph A, a one-time noncumulative cost-of-living adjustment payment equal to 0.5% of retirement benefits will be paid to those eligible for a cost-of-living adjustment for the period from September 1, 2023 through August 31, 2024.

SECTION 10. DISABILITY BENEFITS

1. **Members of The Plan.** Disability retirement benefits for members under The Plan are subject to 5 M.R.S., Chapter 425, subchapter V, *Benefits*, Article 3-A, *Disability Retirement Benefits After September 30, 1989*, except section 18534.
2. **Election Regarding Age-limit or No-age-limit Disability.** The election made by each member under PL 1991, c. 887 whether to be covered under age-limit or no-age-limit disability remains in effect after a member's participation in The Plan begins. Depending upon a member's election, the member is covered under the age-limit or no-age-limit version of the disability plan specified in this Section.
3. **Current Recipients of Disability Benefits.** After having begun to participate in The Plan, a participating local district which before participating in The Plan did not have as part of its plan 5 M.R.S., Chapter 425, subchapter V, *Benefits*, Article 3-A, *Disability Retirement Benefits After September 30, 1989*, may elect to adopt 5 M.R.S. §18534, thereby allowing its former employees who are recipients of disability retirement benefits under prior law the option of being governed by disability retirement provisions applicable to members under The Plan. Any former employee of a district which adopts §18534 who is a recipient of a disability retirement benefit under 5 M.R.S., Article 3, as in effect immediately before October 1, 1989, or under section 1122 of the former retirement system law, as in effect immediately before July 1, 1977, may elect to be governed by 5 M.R.S., Chapter 425, subchapter V, *Benefits*, Article 3-A, by making written application to the executive director within 6 months after adoption of this provision by the participating local district. If the disability retirement benefit recipient makes the election, Article 3-A shall apply from the date of the recipient's original eligibility for disability retirement, but any increase in benefits may only be granted from the date of election by the recipient. The district's adoption and the recipient's election are irrevocable. The additional liability resulting from the adoption of this provision will be included in the district's Additional Unpooled Unfunded Actuarial Liability.

SECTION 11. ORDINARY DEATH BENEFITS

Ordinary death benefits for members under The Plan are subject to 5 M.R.S., Chapter 425, subchapter V, *Benefits*, Article 4, *Ordinary Death Benefits*.

SECTION 12. ACCIDENTAL DEATH BENEFITS

1. **Definitions.** As used in this section, unless the context otherwise indicates, the following terms have the following meanings.
 - A. **Professional firefighter.** “Professional firefighter” means an employee of a municipal fire department who is a member of the Participating Local District

Retirement Program or who is a participating member under chapter 425 and who aids in the extinguishment of fires, whether or not the employee has other administrative duties.

B. **Qualifying member.** “Qualifying member” means:

- (1) A member who dies as a result of an injury arising out of and in the course of employment as an employee;
- (2) After October 31, 2004, an active member who is a professional firefighter who dies as a result of an injury or disease as described in Title 39-A, section 328 if the injury or disease that causes the death is the result of a condition that develops within 30 days of the active member’s participating in firefighting or training or a drill that involves firefighting. If the professional firefighter dies after 30 days but within 6 months of participating in firefighting or training or a drill that involves firefighting, there is a rebuttable presumption that the death is the result of an injury arising out of and in the course of employment as a professional firefighter; or
- (3) A former member receiving a disability retirement benefit who dies as a result of an injury arising out of and in the course of employment as an employee.

2. **Qualification for Benefit.** The beneficiary of a qualifying member shall receive a benefit in accordance with section 18603.

3. **Computation of Benefit.** Benefits under this section are determined as follows:

- A. **Surviving spouse; no dependent children.** If the qualifying member is survived by a spouse and no dependent child, the surviving spouse shall be paid 2/3 of the average final compensation of the qualifying member.
- B. **Surviving spouse having care of dependent children.** If the qualifying member is survived by a spouse who has the care of the dependent child or dependent children of the qualifying member, the surviving spouse shall be paid an annual sum equal to the average final compensation of the qualifying member.
- C. **Surviving spouse not having care of dependent children.** If the qualifying member is survived by a spouse who does not have the care of the dependent child or dependent children of the qualifying member, the surviving spouse shall share with the dependent child or dependent children an annual sum equal to the average final compensation of the qualifying member, the benefit to be divided equally among the surviving spouse and the dependent child or dependent children.
- D. **No surviving spouse.** If no spouse survives the qualifying member, the dependent child or dependent children shall be paid an annual sum equal to the average final compensation of the qualifying member.

4. **Method of Payment.** All benefits paid under this section shall be paid in equal monthly installments beginning the first month after the death of the qualifying member.

5. **Adjustment of Benefits.** Benefits under this section are subject to the following adjustments:

- A. **Cessation of eligibility.** When a person sharing benefits under section 18603 ceases to be eligible to receive benefits, the subsequent benefits of the remaining beneficiaries shall be recalculated as if the remaining beneficiaries had been the only beneficiaries to survive the qualifying member.
 - B. **Workers' compensation or similar law.** The amount payable under this section must be reduced by any amount received by the surviving spouse and dependent child or dependent children under former Title 39, the *Workers' Compensation Act* or Title 39-A, Part 1, the *Maine Workers' Compensation Act of 1992*, or a similar law.
 - (1) Lump-sum settlements of benefits that would reduce the accidental death benefits under this subsection must be prorated on a monthly basis in an equitable manner prescribed by the board.
 - (2) The prorated lump-sum settlement amounts must reduce the accidental death benefits payable monthly under this section.
 - C. **Cost-of-living adjustments.** Benefits under this section are subject to adjustment as provided in section 9.
6. **Termination of Benefits.** The benefits under this section shall be paid to:
- A. **Surviving spouse.** The surviving spouse until the spouse dies; and
 - B. **Dependent children.** The dependent child or dependent children until they die or until they no longer meet the definition of "dependent child" under section 17001, subsection 12.

SECTION 13. DEFINED CONTRIBUTION/DEFERRED COMPENSATION PLANS

1. **Defined Contribution/Deferred Compensation Plans.** A participating local district may provide for the participation of its employees in a defined contribution and/or deferred compensation plan or plans for which the System is The Plan Sponsor. To provide for its employees' participation, the participating local district employer must comply with the procedure for adoption set out in paragraph 6.
2. **District is Employer.** For all purposes related to such a plan or plans, the participating local district is the employer of its employees who participate in the plan or plans.
3. **Federal Law Requirements.** The plan or plans for which the System is Plan Sponsor must meet all applicable federal law requirements.
4. **Terms and Requirements of Plan.** The rights, obligations, conditions and terms of each plan or plans for which the System is Plan Sponsor are those provided in the relevant Plan Document, as revised or amended from time to time.
5. **Plan under 5 MRSA Section 18252-B.** Adoption of a plan or plans under this section does not by itself satisfy the requirements of 5 M.R.S. §18252-B. A participating local district that intends a plan or plans that it adopts under this section to comply with 5 M.R.S. §18252-B must also meet that section's requirements.

6. Procedure for Adoption

- A. **Adoption Agreement.** A participating local district that acts to adopt a plan or plans under this section must complete the relevant Adoption Agreement or Agreements in a form provided or authorized by the System. An Adoption Agreement constitutes documentation of the participating local district's decision to adopt the plan to which the Agreement applies and signifies its understanding and acceptance of the provisions of the plan as set out in The Plan Document.
- B. **401(a) Plan: Contribution Rates.** In the case of a plan established in accordance with the requirements of Section 401(a) of the United States Internal Revenue Code of 1986, as amended,
- (1) the Adoption Agreement must specify the required employee contribution as established by the participating local district employer and the employer contribution, if any; and
 - (2) the participating local district may change the amount of the required employee contribution annually, effective July 1 immediately following its decision to change the amount. The participating local district must document the change by amending its Adoption Agreement to state the new required employee contribution amount. An employee already participating in the district's 401(a) plan at the time the required employee contribution amount is changed has the right to continue his/her employee contribution in the amount previously required or to change to the new required contribution amount.

7. Disability Retirement Benefits: Participants in a 401(a) Plan who are Not Members under The Plan

- A. **Applicability.** Employees who are participants in a 401(a) plan under this section and who are not members under The Plan are covered in the event of disability as set out in paragraph B.
- B. **Disability Retirement Program.** The disability retirement program established under this paragraph is that established by section 18521 *et seq.* and implemented by the System's related rules and policies, including but not limited to the disability application, determination and review processes, and standards for benefit eligibility and standards for continuation of benefits.
- (1) Title 5 M.R.S. §18524, sub-§2, applies to an employee with fewer than 5 years of participation in the 401(a) plan.
 - (2) Except as provided in subparagraph 3, the amount of the disability retirement benefit is 60% of the participant's annual compensation being paid at the time the participant became disabled, subject to adjustment as provided by 5 M.R.S. §18407 and this chapter.
 - (3) A participant who is found eligible for a disability retirement benefit and who terminates employment may elect to withdraw the balance of the participant's 401(a) account. If such a withdrawal includes employer contributions made on behalf of the participant, the disability retirement benefit will be actuarially adjusted so that the participant receives a

disability retirement benefit of not more than the amount specified in subparagraph 2.

- (4) Benefits cease if the participant is found no longer eligible under the applicable statute, or on the date that the participant is required to receive a Required Minimum Distribution under federal law, whichever is earlier.

SECTION 14. RETIRING AND RETURNING TO WORK

If a person who is a recipient of a service retirement benefit under The Plan returns to employment by a participating local district of The Plan in a position for which membership would be mandatory or optional for a new hire, the person continues to receive the service retirement benefit and does not re-enter The Plan as a member. During the period that a retiree is returned to employment, contributions must be remitted to the System by the participating local district in the amount of the greater of (i) 5% of the person's earnable compensation, or (ii) the equivalent of employer and employee unfunded actuarial liability contributions at the aggregate rate on the person's earnable compensation. For purposes of this section, earnable compensation does not include Workers' Compensation earnings paid to the person.

SECTION 15. TRANSITION

1. **Rates.** Employer and employee rates for July 1, 2018, through June 30, 2019, shall be the rates set under this Rule prior to the amendment effective July 1, 2018. The transition from those rates to the rates calculated pursuant to Sections 7 and 8 shall be accomplished by smoothing in the new rates over an actuarially sound period.
2. **Unused Sick Leave or Vacation Leave.** Section 6, subsection 7, applies to those with a retirement effectiveness date on or after August 1, 2019.
3. **Retiring and Returning to Work.** Section 14 does not apply to a retiree employed by a participating local district on October 1, 2018, until the earlier of termination of employment or June 30, 2021.
4. **Membership Election.** The one-time election to join The Plan by November 1, 2021 under PL 2021, c. 286, § 6 applies only to employees of participating local districts who specifically adopt that provision in their participation agreement prior to November 1, 2021, or at the next meeting of the participating local district's executive or legislative body, whichever is later. For participating local districts adopting the provision on or after November 1, 2021, the one-time election date shall be such later date stated in the amended participation agreement.

STATUTORY AUTHORITY:

5 M.R.S. §§ 17103(4), 18200 *et seq.*, 18801 *et seq.*

EFFECTIVE DATE:

May 11, 1993

AMENDED:

July 20, 1993

May 6, 1995

April 1, 2001

September 28, 2002
January 17, 2004
October 12, 2004
October 29, 2005 – filing 2005-449
October 9, 2006 – filing 2006-433
February 1, 2011 – filing 2011-45
December 9, 2013 – filing 2013-295 (header corrected March 7, 2016)
June 5, 2016 – filing 2016-099
August 30, 2017 – filing 2017-133
May 26, 2018 – filing 2018-082
September 19, 2018 – filing 2018-188
June 24, 2019 – filing 2019-101
November 4, 2019 – filing 2019-189
July 18, 2020 – Section 16 added, filing 2020-160
November 25, 2020 – filing 2020-236
October 4, 2021 – filing 2021-197
July 23, 2022 – filing 2022-137
January 24, 2023 – filing 2023-011

BASIS STATEMENT FOR ADOPTION JANUARY 11, 2024/STATEMENT OF COMMENTS;

The proposal for rulemaking was noticed on November 22, 2023. A public hearing was held on December 14, 2023.

Under the current rule, cost-of-living adjustments (COLA) are paid to eligible retirees based on the Consumer Price Index for All Urban Consumers (CPI-U), up to a maximum of 2.5%. The CPI-U for the twelve-month period ending June 30, 2023 was 3.0%. The proposed amendment to the rule authorizes an additional one-time, non-cumulative COLA payment equal to 0.5% of retirement benefits to be paid to retirees who were eligible for a COLA in September 2023.

The current rule includes several special plans that can be adopted by a participating local district (PLD) for its employees. Special Plan 4N is a non-COLA plan that provides for retirement after twenty-five (25) years of service at age 55. This plan is available only to certain classifications of employees. There currently are no employers participating in Special Plan 4N, and the proposed amendment removes that plan option effective February 1, 2024.

The PLD Advisory Committee was provided with information about the cost-of-living adjustment provision and discussed various options to address the recent unusually high inflation. By unanimous vote, Committee members voted to recommend an additional one-time payment of 0.5% of benefits to eligible retirees. The Committee was also provided with information about Special Plan 4N no longer being utilized because it is less attractive to employers and employees than other plans, and the Committee voted unanimously to make that plan no longer available for adoption. MainePERS staff brought these recommendations to the Board of Trustees for consideration through the proposed rule amendments.

No members of the public provided comments at the public hearing, and no written comments were submitted prior to the December 26, 2023 comment deadline.

At the Board's regular meeting held on January 11, 2024, _____ made the motion, seconded by _____ to adopt the amended rule. Voted _____.

MAINEPERS

BOARD OF TRUSTEES LEGISLATIVE MEMORANDUM

TO: BOARD MEMBERS
FROM: KATHY MORIN, DIRECTOR, ACTUARIAL AND LEGISLATIVE AFFAIRS
SUBJECT: LEGISLATIVE UPDATE
DATE: JANUARY 3, 2024

The Second Regular Session of the 131st Legislature convened on January 3, 2024. Statutory adjournment for this session is April 17, 2024. We will review proposed bills as they are printed and will bring bills to you that either could directly affect the System or are otherwise of interest. We are also including in this update the relevant bills that were carried over from the First Special Session that will be considered in the Second Regular Session.

POLICY REFERENCE

[Board Policy 3.1 – Reporting](#)

[Board Policy 3.2 – Legislation](#)

[Board Policy 4.5 – Board/Staff Relations](#)

[Board Policy 4.6 – Communications and Support to the Board](#)

BILLS ENACTED INTO LAW IN FIRST SPECIAL SESSION WITH FUTURE EFFECTIVE DATES:

CHAPTER 412 (L.D. 258) – STATE BUDGET

Part IIII of Chapter 412 moves certain employees in the Department of Public Safety, Computer Crime Laboratory or computer crimes unit from the 1998 Special Plan to the 25 year, regardless of age, special plan effective August 1, 2024. The budget included an appropriation of approximately \$1.8 million to pay for the increased liabilities associated with this plan change. The State will also pay the increased normal cost rate associated with the new plan for the impacted employees.

CHAPTER 436 (L.D. 483) – RETROACTIVE SPECIAL PLAN COVERAGE

This law provides retroactive special plan coverage for certain employees of the Department of Corrections. This law is effective July 1, 2024. The bill included an appropriation of approximately \$170 thousand to pay for the increased liabilities associated with this plan change.

BILLS CARRIED OVER – LABOR AND HOUSING COMMITTEE

L.D. 550 – CORRECTIONAL OFFICER BENEFITS

This concept draft proposes to increase benefits for correctional officers, including changing the special plan by which they are covered. A public hearing was held on May 9, 2023 before the Criminal Justice and Public Safety Committee. The bill was subsequently referred to the Labor and Housing Committee, which has not yet considered it.

L.D. 926 – MAINEPERS REPRESENTATION

The stated intent of this concept draft is to improve MainePERS representation. A public hearing has not yet been held on this bill.

L.D. 1152 – LONG-TERM DISABILITY INSURANCE

This bill requires the Board to offer long-term disability insurance coverage to participating employers and requires employers to pay the full cost of that coverage. This bill is the version of the proposed legislation included in the November 2022 Long-Term Disability Insurance Implementation Plan that was favored by the labor members of the stakeholder group. A public hearing was held on April 4, 2023, and a work session was held on May 16, 2023.

L.D. 1424 – DEPARTMENT OF CORRECTIONS SPECIAL PLAN

This bill provides retroactive 1998 Special Plan coverage for all Department of Corrections employees whose positions are covered by that plan. A public hearing was held on April 19, 2023, and a work session was held on May 17, 2023.

BILLS CARRIED OVER – SPECIAL APPROPRIATIONS TABLE

L.D. 70 – COLA BASE

This bill, as amended, would change the COLA Base, which is the level of benefit that is subject to a cost-of-living adjustment (COLA), to \$40,000. This applies to retirees from the State-sponsored plans. The cost of this plan change is estimated to be approximately \$745 million in

increased liabilities, which would have to be funded when the change is enacted, and an increase in normal costs of approximately \$8.8 million annually.

L.D. 185 – TEACHER EARLY RETIREMENT

This bill would change the early retirement reduction that applies to teachers with at least thirty-five years of service credit. The amended bill reduces the early retirement reduction from the current reduction of 6% per year to 5% per year versus the 2% originally proposed in the bill. The cost of this plan change is estimated to be approximately \$12.3 million in increased liabilities, which would have to be funded when the change is enacted, and an increase in normal costs of approximately \$227 thousand annually.

L.D. 426 – MILITARY SERVICE PURCHASE

This bill expands the periods of military service that eligible members may purchase at a subsidized rate. The bill was amended to add a requirement that the System report back on the experience under the new law. The cost of this plan change is estimated to be approximately \$2.6 million in increased liabilities, which would have to be funded when the change is enacted.

L.D. 610 – EXPAND 1998 SPECIAL PLAN – MEDICAL EXAMINER EMPLOYEES

This bill would allow certain employees in the Office of the Chief Medical Examiner who are currently included in the regular plan to be covered instead by the 1998 Special Plan. The bill was amended to change the effective date of special plan coverage to October 1, 2023. The cost of this plan change is estimated to be approximately \$347 thousand in increased liabilities, which would have to be funded when the change is enacted, and an increase in normal costs, since the special plan normal cost rate is higher than the regular plan rate.

L.D. 1096 – COLA CAP

This bill, as amended, would provide an additional 2% cumulative COLA effective September 2022. The cost of this plan change is estimated to be approximately \$182 million in increased liabilities, which would have to be funded when the change is enacted, and a future increase in normal costs, which would be determined as part of future ratemaking.

L.D. 1760 – EXPAND 1998 SPECIAL PLAN – CRISIS WORKERS

This bill would allow certain employees in the Department of Health and Human Services who are currently included in the regular plan to be covered instead by the 1998 Special Plan. The bill was amended to remove a member election that is not permissible under federal law. The cost of this plan change is estimated to be approximately \$1.6 million in increased liabilities,

which would have to be funded when the change is enacted, and an increase in normal costs, since the special plan normal cost rate is higher than the regular plan rate.

L.D. 1761 – EXPAND 1998 SPECIAL PLAN – MENTAL HEALTH WORKERS

This bill would allow certain employees in the Department of Health and Human Services who are currently included in the regular plan to be covered instead by the 1998 Special Plan. The bill was amended to remove a member election that is not permissible under federal law. The cost of this plan change is estimated to be approximately \$8.4 million in increased liabilities, which would have to be funded when the change is enacted, and an increase in normal costs, since the special plan normal cost rate is higher than the regular plan rate.

REPORTS

The following required reports were submitted to the Legislature:

WINDFALL ELIMINATION PROVISION/GOVERNMENT PENSION OFFSET

Resolve, chapter 23, enacted in the First Special Session of the 131st Legislature, directed the System to study and report on the creation and adoption of an interstate compact with other states affected by the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO). A report of recommendations was due on December 6, 2023, and was submitted on November 21, 2023. A copy of the report is included with this memo.

BOARD AND PLD ADVISORY COMMITTEE ACTIVITY

The System is required to report annually to the Secretary of State on activities of the Board of Trustees and the PLD Advisory Committee. These reports were submitted on December 20, 2023, and copies are included with this memo.

ESG POLICY

The System is required to report information annually to the Legislature regarding its environmental, social and governance investment policy. This report must disclose commonly available environmental performance metrics on the environmental effects of the board's investment. This report was filed on December 19, 2023, and a copy is included with this memo.

DIVESTMENT

The System is required to report information to the Legislature regarding the progress of divestment from fossil fuels and the implementation of the divestment law enacted in 2021 (PL c. 231). This report must be submitted annually by January 1, 2023, 2024 and 2025. The report was submitted on December 19, 2023, and a copy is included with this memo.

The following reports will be prepared for the Legislature during the upcoming weeks:

PROCUREMENT

The System is required to report information annually to the Legislature regarding procurement, contributions, and changes to certain policies and procedures. This report is due by February 1, 2024, and a copy of the report will be provided to the Board once it is issued.

MILITARY SUBSIDY REPORT

The System is required to report information annually to the Legislature regarding military service credit purchase requests received from certain categories of members. This report is due by February 15, 2024, and a copy of the report will be provided to the Board once it is issued.

ANNUAL REPORT TO THE LEGISLATURE

The System is required to submit an annual report to the Legislature, including specific information set out in statute. This report is due by March 1, 2024, and a copy of the report will be provided once it is issued.

OTHER REQUESTED UPDATES

The Labor and Housing Committee requested that the System provide the following information in spring 2024:

- “Update on the member portal, as well as information on future plans by MainePERS to continue phasing in the member portal and the ability of members to access that data going forward.”
- “Update on how these rules (Chapter 506: Eligibility for Disability Retirement Benefits) are being implemented, including any feedback that MainePERS has received from members on the rules.”

These updates are being prepared and copies will be provided to the Board once completed.

November 21, 2023

Senator Michael Tipping, Senate Chair
Representative Amy Roeder, House Chair
Members, Joint Standing Committee on Labor and Housing
100 State House Station
Augusta, ME 04333-0100

Re: Resolve 2023, c. 23

Dear Sen. Tipping, Rep. Roeder, and Members of the Labor and Housing Committee:

I am pleased to submit the enclosed report on the Creation of an Interstate Compact on the WEP and GPO, which is required by Resolve 2023, c. 23.

We look forward to assisting the Committee in its review of this report.

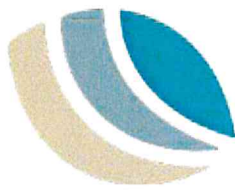
Sincerely,



Dr. Rebecca M. Wyke
Chief Executive Officer

Rmw/mg

Enclosure



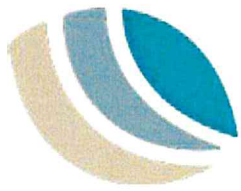
Maine PERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

Creation of an Interstate Compact on the WEP and GPO

Resolve 2023, c. 23

November 2023

Prepared by the Maine Public Employees Retirement System



Maine PERS

PUBLIC EMPLOYEES RETIREMENT SYSTEM

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APPENDICES:

- A. Social Security Administration, Windfall Elimination Provision (Sept. 2023)
- B. Social Security Administration, Government Pension Offset (May 2019)
- C. Congressional Research Service, Social Security: The Windfall Elimination Provision (WEP) (Updated Feb. 13, 2023)
- D. Congressional Research Service, The Windfall Elimination Provision (WEP) in Social Security: Proposals for a New Proportional Formula (Updated Sept. 19, 2023)
- E. Congressional Research Service, Social Security: The Government Pension Offset (Updated Feb. 13, 2023)

I. INTRODUCTION

Resolve 2023, chapter 23 directs the Maine Public Employees Retirement System (MainePERS) to study and report on the creation and adoption of an interstate compact with other states affected by the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO).

Chapter 23 includes provisions requiring MainePERS to:

- Study the creation and adoption of an interstate compact with other states affected by the WEP and GPO;
- Consult and collaborate with any applicable retirement associations as necessary;¹ and
- Submit a report with any recommendations to the Joint Standing Committee on Labor and Housing by December 6, 2023.

Following submission of information received from MainePERS, the Joint Standing Committee on Labor and Housing “may report out a bill based on the report and recommendations to the Second Regular Session of the 131st Legislature.”

II. EXECUTIVE SUMMARY

Maine state employees, teachers, and some local governmental employees who are entitled to receive Social Security benefits may have those benefits reduced because they have spent part of the work lives in positions covered by a governmental pension instead of Social Security. MainePERS frequently hears concerns from members who have paid into both Social Security and a MainePERS-covered plan about the impact of the WEP on their retirement income, as well as from members whose spousal benefit has been reduced by the GPO.

The WEP reduces a worker’s own Social Security benefits, while the GPO reduces or eliminates Social Security spousal benefits. Both mechanisms are intended to provide equivalent treatment between those whose entire career is covered by Social Security and those who work part of their career in a covered position and part in a non-covered position with a pension.

The application of the WEP and GPO to Maine governmental employees could be eliminated by either providing Social Security coverage or changing federal law.

¹ MainePERS has consulted with the National Association of State Retirement Administrators, the Coalition to Preserve Retirement Security, and the National Center for Interstate Compacts in preparing this report.

Providing Social Security coverage would require changes in state law and would only eliminate the WEP and GPO for future hires and some current employees, although other current employees may have the effects of the WEP and GPO reduced depending on their earnings history at retirement. There would be no effect on current retirees. If coverage is provided in addition to MainePERS membership, costs would increase for employers and employees; if coverage is provided instead of MainePERS membership, a valuable employee benefit and tool for recruiting and retention would be eliminated.

Four bills are pending in Congress that would repeal the WEP and GPO, and two bills are pending to improve the WEP formula. Prior federal legislation to eliminate or reform the WEP and GPO has been introduced over the years, but none of these initiatives have succeeded.

An interstate compact is a contract between two or more states for their mutual benefit. It involves each state enacting legislation and usually involves the creation of a commission to administer the compact. This process generally takes several years before a compact is in place.

MainePERS does not recommend pursuing an interstate compact concerning the WEP and GPO. Providing Social Security coverage would not require any action by other states. An interstate compact does not appear to be an appropriate vehicle for seeking a change in federal law. States could work together to influence federal lawmakers without going through the cumbersome and multi-year process of developing and enacting a compact.

If an interstate compact is pursued, MainePERS recommends attempting to engage the National Center for Interstate Compacts, part of the Council of State Governments, for development of the compact.

III. BACKGROUND

Social Security Coverage for State and Local Government Employees

The Social Security Act of 1935 created the Social Security program. The Federal Insurance Contribution Act (FICA) enabled collection of payroll taxes beginning in 1937.

The original Social Security Act of 1935 excluded state and local government employees from Social Security coverage because of unresolved legal questions regarding the federal government's authority to tax state and local governments.

An amendment to the Act allowed state and local governments beginning in 1951 to enter into voluntary agreements with the Federal government to provide Social Security coverage to their public employees. Section 218 of the Social Security Act authorized these "Section 218 Agreements."

In response, Maine enacted a statute in 1951 permitting employees of political subdivisions to participate in Social Security through a Section 218 Agreement, but did not extend this permission to members of the State Employee and Teacher Retirement Program (State/Teacher Plan).²

Maine then entered into a Section 218 Agreement with the Social Security Administration covering designated employment positions of 21 political subdivisions. The Agreement has since been modified 329 times and now covers more than 700 political subdivisions. Many of these entities participate in the MainePERS-administered Participating Local District Consolidated Retirement Plan (PLD Consolidated Plan). If a position is covered both by Maine's Section 218 Agreement and by the PLD Consolidated Plan, membership in the PLD Consolidated Plan is optional for the employee. If the employee elects membership, the employer and employee pay contributions to the Plan and pay the 12.4% FICA tax for Social Security (6.2% each for the employer and employee). If the employee declines membership, the employer and employee pay only the FICA tax.

All 50 states have entered into Section 218 Agreements providing Social Security coverage to at least some of their public employees.³ Approximately one-fourth of state and local government employees (approximately six million) are not covered by Social Security. Most of these work at the local level as police officers, firefighters, and teachers.⁴ States with high percentages of non-covered employees include Maine, Alaska, California, Colorado, Louisiana, Massachusetts, Nevada, Ohio, and Texas.⁵

A further amendment to the Social Security Act in 1991 mandated Social Security coverage for state and local government employees not covered under a Section 218 Agreement or by a qualified Social Security replacement plan.⁶ The defined benefit plans administered by MainePERS are qualified Social Security replacement plans.⁷

The WEP

The regular Social Security benefit formula is weighted to help workers who spend their lives in low-paying jobs by providing a retirement income that is a higher portion of career-average earnings than is provided to workers with higher earnings.⁸ However, this formula cannot distinguish between the workers it was intended to help and workers who appear to have low career-average earnings because

² P.L. 1951, ch. 395; 5 M.R.S. § 19001 (2023).

³ IRS Publication 963, Federal State Reference Guide (July 2020) at 1.

⁴ Publication 963 at 1.

⁵ National Association of State Retirement Administrators (NASRA), <https://www.nasra.org/socialsecurity> (visited Oct. 26, 2023); Publication 963 at 1.

⁶ Publication 963 at 2.

⁷ See Publication 963 at 53, 101-106.

⁸ Congressional Research Service, Social Security: The Windfall Elimination Provision (WEP) (Updated Feb. 13, 2023) at 1.

they have zero earnings in years when they were working in jobs not covered by Social Security.⁹ Before the WEP was adopted, “people whose primary job wasn’t covered by Social Security had their Social Security benefits calculated as if they were long-term, low-wage workers. They had the advantage of receiving a Social Security benefit representing a higher percentage of their earnings, plus a pension from a job for which they didn’t pay Social Security taxes.” (See Attachment 1)

Major amendments to the Social Security Act were enacted in 1983 “to shore up the financing of the Social Security program.”¹⁰ The amendments included the WEP, which was designed to make Social Security benefits equivalent between those who paid into Social Security for all their earnings and those who paid into Social Security for some, but not all of their earnings.¹¹ “The WEP is intended to place affected workers in approximately the same position they would have been in had *all* their earnings been covered by Social Security.”¹²

The WEP reduces Social Security benefits by 10-60% depending on the worker’s earning history. The reduction formula provides only a rough equivalency between those who worked their entire careers in positions covered by Social Security and those who worked part of their careers in non-covered employment.¹³ At the time the WEP was adopted in 1983, the Social Security Administration had insufficient data on non-covered earnings to adopt a more accurate formula.¹⁴ After 40 years, the Social Security Administration now has sufficient data to implement a more accurate reduction formula.¹⁵

Approximately 3% (two million people) of Social Security recipients are subject to the WEP.¹⁶ The percentage of affected recipients in Maine is 5.6% (approximately 20,000).¹⁷

The GPO

The GPO is related to the WEP in that it reduces certain Social Security benefits because the recipient has worked part of their career in employment not covered by Social Security. However, the GPO does not reduce a worker’s own Social Security benefit. It reduces “spousal benefits,” benefits received as a

⁹ CRS WEP Report at 1.

¹⁰ CRS WEP Report at 7.

¹¹ CRS WEP Report at 7.

¹² CRS WEP Report at 7.

¹³ Congressional Research Service, *The Windfall Elimination Provision (WEP) in Social Security: Proposals for a New Proportional Formula* (Updated Sept. 19, 2023) at 1.

¹⁴ CRS Proportional Formula Report at 1.

¹⁵ CRS Proportional Formula Report at 1.

¹⁶ CRS WEP Report at 14-15.

¹⁷ CRS WEP Report at 14-15.

spouse or surviving spouse of a Social Security participant. The reduction amount is two-thirds of any pension benefits the worker receives for governmental work not covered by Social Security.¹⁸

The spousal benefit was adopted in the 1930s “to compensate spouses who stayed home to raise a family and were financially dependent on the working spouse.”¹⁹ Where both spouses work and earn their own Social Security benefits, the “dual entitlement rule” prevents the worker from receiving both their own full benefits and full spousal benefits. Instead, the spousal benefit is reduced dollar-for-dollar by the worker’s own Social Security benefit, effectively leading to the worker receiving the higher of the two benefits.²⁰

The GPO was enacted in 1977 to create a comparable reduction to the Social Security spousal benefit for workers who are not covered by Social Security but receive a government pension. The GPO initially was a dollar-for-dollar reduction to the spousal benefit for the pension benefit, like the dual entitlement rule, but that was changed as part of the 1983 Social Security Act amendments to be a reduction of two-thirds of the government pension.²¹ So, the GPO imposes a smaller benefit reduction than the dual entitlement rule imposes on workers covered by Social Security.²²

Approximately 735,000 Social Security recipients are subject to the GPO, including approximately 8,100 in Maine.²³ These figures do not include people who did not apply for spousal benefits because they believed that the GPO would eliminate the benefits.²⁴

IV. OPTIONS FOR ELIMINATING APPLICATION OF THE WEP AND GPO

There are two options for eliminating the application of the WEP and GPO to Maine governmental employees: (1) Provide Social Security coverage to these employees; or (2) Change federal law to eliminate the WEP and GPO.

Providing Social Security Coverage

There are two ways to provide Social Security coverage to state and local governmental employees.

¹⁸ Congressional Research Service, Social Security: The Government Pension Offset (Updated Feb. 13, 2023) at 1.

¹⁹ Social Security Administration, Government Pension Offset (May 2019) at 1.

²⁰ CRS GPO Report at 1.

²¹ CRS GPO Report at 7.

²² CRS GPO Report at 6.

²³ CRS GPO Report at 8.

²⁴ CRS GPO Report at 8.

The first way is by adding the employees' positions to Maine's Section 218 Agreement with the Social Security Administration. This method already is available for non-teacher employees of political subdivisions. Making it available to teachers and state employees would require an amendment to 5 M.R.S. § 19001 and completing the federally-required process for amending Maine's Section 218 Agreement, which would include holding a referendum in which a majority of eligible employees voted in favor of Social Security coverage. Providing Social Security coverage in addition to membership in the State/Teacher Plan would increase costs to employers and employees by subjecting them to the 12.4% FICA tax (6.2% each for employer and employee).

Two years ago in response to Resolve 2021, chapter 66, MainePERS led a working group of employer and employee representatives in studying new pension designs for public employees based on participation in Social Security. The resulting study report outlined two options that would provide Social Security coverage supplemented by a new defined pension plan or a cash balance plan.²⁵ These options would produce a benefit comparable to the current State/Teacher Plan, avoid prospective application of the WEP and GPO, and offer increased portability.²⁶ The cost of these options would be less than the cost of adding Social Security coverage to the existing State/Teacher Plan.²⁷

The second way to provide Social Security coverage is to cease providing a qualified Social Security replacement plan (e.g., the State/Teacher Plan). Positions not covered by a qualified Social Security replacement plan are subject to mandatory Social Security coverage under federal law. Closing the State/Teacher Plan would require amendments to 5 M.R.S. §§ 17001-18101 and would eliminate a valuable employee benefit and tool for recruiting and retention.

Providing Social Security coverage would eliminate the WEP and GPO for employees hired in the future. There would be no effect on current retirees. Current employees may have the impact of the WEP and GPO reduced as their future employment will be covered by Social Security, but their past non-covered service may still subject them to these reductions depending upon their length of covered employment at the time of retirement.

Changing Federal Law

As the WEP and GPO are contained in federal law, federal legislation would be required to eliminate or change them.

²⁵ MainePERS, Pension Designs Based on Participation in Social Security (Feb. 10, 2022).

²⁶ MainePERS Pension Designs Report at 3-4.

²⁷ MainePERS Pension Designs Report at 14.

Several pieces of federal legislation to reduce the impact of the WEP and GPO have been introduced over the years, but none have been enacted.

There currently are four bills pending in Congress that would repeal the WEP and GPO: (1) The Social Security Fairness Act of 2023 (H.R. 82); (2) The Social Security Fairness Act (S. 597); (3) The Social Security 2100 Act (H.R. 4583); and (4) The Social Security 2100 Act (S. 2280).²⁸ The repeal in H.R. 4583 and S. 2280 is temporary, from 2025 through 2034. While a temporary or permanent repeal would have a negative impact on Social Security funding, H.R. 4583 and S. 2280 have offsetting provisions that would result in a net positive effect on funding.²⁹ Senators Collins and King have co-sponsored S. 597, Representatives Pingree and Golden have co-sponsored H.R. 82, and Representative Pingree has co-sponsored H.R. 4583.

Two other bills currently pending in Congress would leave the WEP and GPO in place but adopt a more-accurate, proportional WEP formula. These bills are the Public Servants Protection and Fairness Act of 2023 (H.R. 4260) and the Equal Treatment of Public Servants Act of 2023 (H.R. 5342). A proportional formula would result in a lower benefit reduction for some Social Security recipients, but would result in a greater reduction for others. To avoid negative impacts, both H.R. 4260 and H.R. 5342 contain provisions ensuring that recipients will be no worse off than under current law. The Social Security Administration's Office of the Chief Actuary estimates that these bills would cost an additional \$23.9 billion (H.R. 5342) to \$30.1 billion (H.R. 4260) from 2023 through 2032.³⁰ Representatives Pingree and Golden have co-sponsored H.R. 4260.

V. INTERSTATE COMPACTS

An interstate compact is a binding contractual agreement between two or more states for their mutual benefit. The Compacts Clause of the United States Constitution limits the ability of states to enter into interstate compacts without congressional approval.³¹ The United States Supreme Court has interpreted this limitation as applying only where the compact would increase the political power of the states at the expense of federal sovereignty, in which case congressional consent to the compact is required.³²

²⁸ United States Congress, www.congress.gov (visited 10/26/23)

²⁹ Social Security Administration, Chief Actuary Letter to Rep. Larson (July 12, 2023) at 1, 12.

³⁰ CRS Proportional Formula Report at 1-2.

³¹ U.S. Const. art. I, § 10, cl. 3.

³² *Virginia v. Tennessee*, 148 U.S. 503, 519 (1893).

Interstate compacts have been used to resolve boundary disputes between states, manage interstate resources and infrastructure projects, facilitate interstate oversight of probationers and parolees, manage multi-state lotteries, and allow professionals licensed in one state to practice in others.³³

Entering into an interstate compact involves each state enacting model legislation that imposes mutual obligations on the states and usually involves creation of a commission to administer the compact.³⁴ This process generally takes several years because it requires legislative action in multiple states.³⁵ The National Center for Interstate Compacts is available to assist in developing interstate compacts.³⁶ The Center is part of the Council of State Governments.³⁷

There are over 250 interstate compacts in existence.³⁸ Maine has belonged to 37 interstate compacts over the past century.³⁹ Within the past 20 years, Maine has entered into three: (1) The Enhance Nursing License Compact; (2) The Interstate Compact on Educational Opportunity for Children; and (3) The Interstate Insurance Product Regulation Compact.⁴⁰

VI. RECOMMENDATIONS

MainePERS does not recommend pursuing the creation and adoption of an interstate compact concerning the WEP and GPO. The effects of the WEP and GPO can only be eliminated by providing Social Security coverage to affected employees or by changing federal law.

Providing Social Security coverage would not require any action by other states, so an interstate compact would not be necessary or useful to achieving that result.

An interstate compact also does not appear to be an appropriate vehicle for seeking a change in federal law. States could work together to influence federal lawmakers without going through the cumbersome and multi-year process of developing and enacting a compact. Furthermore, the mutual legal obligations that are the hallmark of interstate compacts do not appear to be necessary to work in

³³ United States Congress, Constitution Annotated, art. I, sec. 10, clause 3.3, www.constitution.congress.gov (visited 10/25/23); *e.g.*, 8 M.R.S. §§ 401-422 (2023); 32 M.R.S §§ 2171-2181 (2023).

³⁴ National Center for Interstate Compacts, www.compacts.csg.org/faq/ (visited 10/25/23)

³⁵ National Center for Interstate Compacts, www.compacts.csg.org/faq/ (visited 10/25/23)

³⁶ National Center for Interstate Compacts, www.compacts.csg.org/faq/ (visited 10/25/23)

³⁷ National Center for Interstate Compacts, www.compacts.csg.org/faq/ (visited 10/25/23)

³⁸ National Center for Interstate Compacts, www.compacts.csg.org/faq/ (visited 10/25/23)

³⁹ Ballotpedia, www.ballotpedia.org/Interstate_compacts_by_state#Maine (visited 9/28/23).

⁴⁰ Ballotpedia, www.ballotpedia.org/Interstate_compacts_by_state#Maine (visited 9/28/23).

concert to influence federal lawmakers. Use of an interstate compact for this purpose appears to be unprecedented.⁴¹

If an interstate compact is pursued, MainePERS recommends exploring an engagement with the National Center for Interstate Compacts for development of the compact, including drafting legislation.

MainePERS recommends that attempts to influence federal legislation on the WEP and GPO continue to be pursued by interested employee and retiree associations.

⁴¹ None of the Maine interstate compacts listed on Ballotpedia appears to concern attempting to influence federal lawmakers, and the National Center for Interstate Compacts is unaware of any compact developed for that purpose. E-mail from Director, NCIC to MainePERS of 9/27/23.



Windfall Elimination Provision

Your Social Security retirement or disability benefits may be reduced

The Windfall Elimination Provision (WEP) can affect how Social Security calculates your retirement or disability benefit. If you work for an employer who doesn't withhold Social Security taxes from your salary, any retirement or disability pension you get from that work can reduce your Social Security benefits. Such an employer may be a government agency or an employer in another country.

When your benefits can be affected

The following provisions can affect you if both are true:

- You earn a retirement or disability pension from an employer who didn't withhold Social Security taxes.
- You qualify for Social Security retirement or disability benefits from work in other jobs for which you did pay taxes.

The WEP can apply if one of the following is true:

- You reached age 62 after 1985.
- You developed a qualifying disability after 1985.

If the latter applies, you must first have become eligible for a monthly pension based on work where you didn't pay Social Security taxes after 1985. This rule applies even if you're still working.

This provision also affects Social Security benefits for people who performed federal service under the Civil Service Retirement System (CSRS) after 1956. We won't reduce your Social Security benefit amount if you only performed federal service under a system such as the Federal Employees' Retirement System (FERS). Social Security taxes are withheld for workers under FERS.

How it works

Social Security benefits are intended to replace only some of a worker's pre-retirement earnings.

We base your Social Security benefit on your average monthly earnings adjusted for average wage growth. We separate your average earnings into 3 amounts and multiply the amounts using 3 factors to compute your full Primary Insurance Amount (PIA). For example, for a worker who turns 62 in 2023: the first \$1,115 of average monthly earnings is multiplied by 90%; earnings between \$1,115 and \$6,721 are multiplied by 32%; and the balance is multiplied by 15%. The sum of the 3 amounts equals the PIA, which is then decreased or increased

depending on whether the worker starts benefits before or after full retirement age (FRA). This formula produces the monthly payment amount.

When we apply this formula, the percentage of career average earnings paid to lower-paid workers is greater than higher-paid workers. For example, consider workers age 62 in 2023, with average earnings of \$3,000 per month. They could receive a benefit at FRA of \$1,606 (approximately 53%) of their pre-retirement earnings increased by applicable cost of living adjustments (COLAs). For a worker with average earnings of \$8,000 per month, the benefit starting at FRA could be \$2,989 (approximately 37%) plus COLAs. However, if either of these workers starts benefits earlier than their FRA, we'll reduce their monthly benefit.

Why we use a different formula

Before 1983, people whose primary job wasn't covered by Social Security had their Social Security benefits calculated as if they were long-term, low-wage workers. They had the advantage of receiving a Social Security benefit that represented a higher percentage of their earnings. They also had a pension from a job for which they didn't pay Social Security taxes. Congress passed the WEP to remove that advantage.

Under the provision, we reduce the 90% factor in our formula and phase it in for workers who reached age 62 or developed a disability between 1986 and 1989. For people who reach 62 or developed a disability in 1990 or later, we reduce the 90% factor to as little as 40%.

Some exceptions

The WEP doesn't apply if:

- You're a federal worker first hired after December 31, 1983.
- You're an employee of a non-profit organization who was exempt from Social Security coverage on December 31, 1983. This does not apply if the non-profit organization waived exemption and did pay Social Security taxes, but then the waiver was terminated prior to December 31, 1983.
- Your only pension is for railroad employment.
- The only work you performed for which you didn't pay Social Security taxes was before 1957.
- You have 30 or more years of substantial earnings under Social Security.

The WEP doesn't apply to survivors benefits. We may reduce spouses or surviving spouses benefits because of another law. For more information, read *Government Pension Offset* (Publication No. 05-10007).

For a more detailed estimate of how the WEP Guarantee may affect your Social Security benefit, please visit www.ssa.gov/benefits/retirement/planner/wep.html to access the WEP Online Calculator.

Social Security years of substantial earnings

If you have 30 or more years of substantial earnings, we don't reduce the standard 90% factor in our formula. See the first table that lists substantial earnings for each year.

The second table shows the percentage used to reduce the 90% factor depending on the number of years of substantial earnings. If you have 21 to 29 years of substantial earnings, we reduce the 90% factor to between 45% and 85%. To see the maximum amount we could reduce your benefit, visit www.ssa.gov/benefits/retirement/planner/wep.html.

A guarantee

If you receive a relatively low pension, and that pension is fully or partially based on earnings after 1956 where you did not pay Social Security taxes, there's a law that might help you. In most cases, we won't reduce your Social Security full retirement age benefit by more than half of your pension amount.

Contacting Us

The most convenient way to do business with us is to visit www.ssa.gov to get information and use our online services. There are several things you can do online: apply for benefits; start or complete your request for an original or replacement Social Security card; get useful information; find publications; and get answers to frequently asked questions.

Or, you can call us toll-free at **1-800-772-1213** or at **1-800-325-0778** (TTY) if you're deaf or hard of hearing. We can answer your call from 8 a.m. to 7 p.m., weekdays. We provide free interpreter services upon request. For quicker access to a representative, try calling early in the day (between 8 a.m. and 10 a.m. local time) or later in the day. **We are less busy later in the week (Wednesday to Friday) and later in the month.** You can also use our automated services via telephone, 24 hours a day, so you do not need to speak with a representative.

Year	Substantial earnings	Year	Substantial earnings	Year	Substantial earnings
1937–1954	\$900	1990	\$9,525	2015–2016	\$22,050
1955–1958	\$1,050	1991	\$9,900	2017	\$23,625
1959–1965	\$1,200	1992	\$10,350	2018	\$23,850
1966–1967	\$1,650	1993	\$10,725	2019	\$24,675
1968–1971	\$1,950	1994	\$11,250	2020	\$25,575
1972	\$2,250	1995	\$11,325	2021	\$26,550
1973	\$2,700	1996	\$11,625	2022	\$27,300
1974	\$3,300	1997	\$12,150	2023	\$29,700
1975	\$3,525	1998	\$12,675		
1976	\$3,825	1999	\$13,425		
1977	\$4,125	2000	\$14,175		
1978	\$4,425	2001	\$14,925		
1979	\$4,725	2002	\$15,750		
1980	\$5,100	2003	\$16,125		
1981	\$5,550	2004	\$16,275		
1982	\$6,075	2005	\$16,725		
1983	\$6,675	2006	\$17,475		
1984	\$7,050	2007	\$18,150		
1985	\$7,425	2008	\$18,975		
1986	\$7,875	2009–2011	\$19,800		
1987	\$8,175	2012	\$20,475		
1988	\$8,400	2013	\$21,075		
1989	\$8,925	2014	\$21,750		

Years of substantial earnings	Percentage
30 or more	90 %
29	85 %
28	80 %
27	75 %
26	70 %
25	65 %
24	60 %
23	55 %
22	50 %
21	45 %
20 or less	40 %



Securing today
and tomorrow

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Government Pension Offset

A law that affects spouses and widows or widowers

If you receive a retirement or disability pension from a federal, state, or local government based on your own work for which you didn't pay Social Security taxes, we may reduce your Social Security spouses or widows or widowers benefits. This fact sheet provides answers to questions you may have about the reduction.

How much will my Social Security benefits be reduced?

We'll reduce your Social Security benefits by two-thirds of your government pension. In other words, if you get a monthly civil service pension of \$600, two-thirds of that, or \$400, must be deducted from your Social Security benefits. For example, if you're eligible for a \$500 spouses, widows, or widowers benefit from Social Security, you'll get \$100 a month from Social Security ($\$500 - \$400 = \$100$). If two-thirds of your government pension is more than your Social Security benefit, your benefit could be reduced to zero.

If you take your government pension annuity in a lump sum, Social Security will calculate the reduction as if you chose to get monthly benefit payments from your government work.

Why will my Social Security benefits be reduced?

Benefits we pay to spouses, widows, and widowers are "dependent" benefits. Set up in the 1930s, these benefits were to compensate spouses who stayed home to raise a family and were financially dependent on the working spouse. It's now common for both spouses to work, each earning their own Social Security retirement benefit. The law requires a person's spouse, widow, or widower benefit to be offset by the dollar amount of their own retirement benefit.

For example, if a woman worked and earned her own \$800 monthly Social Security benefit, but was also due a \$500 spouse's benefit on her husband's record, we couldn't pay that spouse's benefit because her own benefit offsets it. Before enactment of the Government Pension Offset law, if that same woman was a government employee who didn't pay into Social Security and earned an \$800 government pension, there was no offset. We had to pay her a full spouse's benefit and her full government pension.

If this person's government work had been subject to Social Security taxes, we would reduce any spouse, widow, or widower benefit because of their own Social Security retirement benefit. The Government Pension Offset ensures that we calculate the benefits of government employees who don't pay Social Security taxes the same as workers in the private sector who pay Social Security taxes.

When won't my Social Security benefits be reduced?

Generally, we won't reduce your Social Security benefits as a spouse, widow, or widower if you:

- Receive a government pension that's not based on your earnings; or
- Are a federal (including Civil Service Offset), state, or local government employee and your government pension is from a job for which you paid Social Security taxes; and:
 - Your last day of employment (that your pension is based on) is before July 1, 2004; or
 - You filed for and were entitled to spouses, widows, or widowers benefits before April 1, 2004 (you may work your last day in Social Security covered employment at any time); or
 - You paid Social Security taxes on your earnings during the last 60 months of government service. (Under certain

conditions, we require fewer than 60 months for people whose last day of employment falls after June 30, 2004, and before March 2, 2009.)

There are other situations for which we won't reduce your Social Security benefits as a spouse, widow, or widower; for example, if you:

- Are a federal employee who switched from the Civil Service Retirement System (CSRS) to the Federal Employees' Retirement System (FERS) after December 31, 1987; and:
 - Your last day of service (that your pension is based on) is before July 1, 2004;
 - You paid Social Security taxes on your earnings for 60 months or more during the period beginning January 1988 and ending with the first month of entitlement to benefits; or
 - You filed for and were entitled to spouses, widows, or widowers benefits before April 1, 2004 (you may work your last day in Social Security covered employment at any time).
- Received, or were eligible to receive, a government pension before December 1982 and meet all the requirements for Social Security spouse's benefits in effect in January 1977; or
- Received, or were eligible to receive, a federal, state, or local government pension before July 1, 1983, and were receiving one-half support from your spouse.

Note: A Civil Service Offset employee is a federal employee, rehired after December 31, 1983, following a break in service of more than 365 days, with five years of prior CSRS coverage.

What about Medicare?

Even if you don't get benefit payments from your spouse's work, you can still get Medicare at age 65 on your spouse's record if you aren't eligible for it on your own record.

Can I still get Social Security benefits from my own work?

The offset applies only to Social Security benefits as a spouse, or widow, or widower. However, we may reduce your own benefits because of another provision. For more information, go online to read *Windfall Elimination Provision* (Publication No. 05-10045).

Contacting Social Security

The most convenient way to contact us anytime, anywhere is to visit www.socialsecurity.gov. There, you can: apply for benefits; open a *my* Social Security account, which you can use to review your *Social Security Statement*, verify your earnings, print a benefit verification letter, change your direct deposit information, request a replacement Medicare card, and get a replacement SSA-1099/1042S; obtain valuable information; find publications; get answers to frequently asked questions; and much more.

If you don't have access to the internet, we offer many automated services by telephone, 24 hours a day, 7 days a week. Call us toll-free at **1-800-772-1213** or at our TTY number, **1-800-325-0778**, if you're deaf or hard of hearing.

If you need to speak to a person, we can answer your calls from 7 a.m. to 7 p.m., Monday through Friday. We ask for your patience during busy periods since you may experience higher than usual rate of busy signals and longer hold times to speak to us. We look forward to serving you.



Securing today
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Social Security: The Windfall Elimination Provision (WEP)

Updated February 13, 2023

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Summary

Social Security is a work-based, federal insurance program that provides cash benefits to workers and their eligible family members in the event of the worker's retirement, disability, or death. A worker's employment or self-employment is considered covered by Social Security if the services performed in that job result in earnings that are taxable and creditable for program purposes. Although participation in Social Security is compulsory for most workers, about 6% of all workers in paid employment or self-employment are not covered by Social Security.

The *windfall elimination provision* (WEP) is a modified benefit formula that reduces the Social Security benefits of certain retired or disabled workers who are also entitled to pension benefits based on earnings from jobs that were not covered by Social Security and thus not subject to the Social Security payroll tax. Its purpose is to remove an unintended advantage or "windfall" that these workers would otherwise receive as a result of the interaction between the regular Social Security benefit formula and the workers' relatively short careers in Social Security-covered employment.

In December 2022, about 2.0 million people (or about 3% of all Social Security beneficiaries) were affected by the WEP. Those workers mainly include state and local government employees covered by alternative staff-retirement systems as well as most permanent civilian federal employees hired before January 1, 1984, who are covered by the Civil Service Retirement System (CSRS).

WEP's supporters argue that the formula is a reasonable means to prevent overgenerous payments and unintended benefits to people who have earnings not covered by Social Security and receive pensions from noncovered work. Opponents argue that the provision substantially reduces a benefit that workers may have included in their retirement plans, and it reduces benefits disproportionately for lower-earning households. Others criticize the current WEP formula as an imprecise way to determine the actual windfall when applied to individual cases.

Recent legislation has generally proposed either to eliminate the provision for all or some affected beneficiaries, or replace the current-law provision with a new proportional formula based on past earnings from both covered and noncovered employment.

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Introduction

Social Security provides insured workers and their eligible family members with a measure of protection against the loss of income due to the worker's retirement, disability, or death. The amount of the monthly benefit payable to workers and their family members is based on the worker's career-average earnings from jobs covered by Social Security (i.e., jobs in which the worker's earnings were subject to the Social Security payroll tax).¹ The Social Security benefit formula is weighted to replace a greater share of career-average earnings for low-paid workers than for high-paid workers. This means that low-paid workers receive relatively high benefits in relation to their payroll tax contributions, although the dollar amount of their benefits is lower than that provided to high-paid workers.

The benefit formula, however, cannot distinguish between workers who have low career-average earnings because they worked for many years at low earnings in Social Security-covered employment and workers who appear to have low career-average earnings because they worked for many years in jobs not covered by Social Security. (Those years show up as zeros in their Social Security earnings records, which, when averaged, lower their career earnings from covered work.) Consequently, workers who split their careers between covered and noncovered employment—even highly paid ones—may also receive the advantage of the weighted formula.

The *windfall elimination provision* (WEP) is a modified benefit formula designed to remove the unintended advantage, or “windfall,” of the regular benefit formula for certain retired or disabled workers who spent less than full careers in covered employment and who are also entitled to pension benefits based on earnings from jobs not covered by Social Security. The reduction in initial benefits caused by the WEP is designed to place affected workers in approximately the same position they would have been in had *all* their earnings been covered by Social Security.

Background on the Social Security Benefit Formula

Workers qualify for Social Security benefits if they worked and paid Social Security payroll taxes for a sufficient amount of time in covered employment.² Retired workers need at least 40 earnings credits (or about 10 years of covered work), whereas disabled workers generally need fewer earnings credits.³ Initial benefits are based on a worker's career-average earnings from jobs covered by Social Security. In computing the initial benefit amount, a worker's annual taxable earnings are indexed (i.e., adjusted) to average wage growth in the national economy.⁴ This is done to bring earlier years of earnings up to a comparable, current basis. Next, a summarized measure of a worker's career-average earnings is found by totaling the highest 35 years of

¹ For the purposes of this report, the term *payroll tax* includes the Social Security self-employment tax.

² Unless otherwise noted, the term *covered employment* includes self-employment covered by Social Security.

³ A worker may earn up to four earnings credits per calendar year. In 2023, a worker earns one credit for each \$1,640 of covered earnings, up to a maximum of four credits for covered earnings of \$6,560 or more. Earnings credits are also called *quarters of coverage*. See Social Security Administration (SSA), *How You Earn Credits*, Publication No. 05-10072, 2023, <https://best.ssa.gov/pubs/EN-05-10072.pdf>.

⁴ Years of earnings are indexed up to the second calendar year before the year of earliest eligibility (i.e., the year in which the worker first attains aged 62, becomes disabled, or dies). Years of earnings after the last indexing year are counted in nominal (i.e., unadjusted) dollars.

covered earnings and then dividing by 35.⁵ After that, a monthly average, known as *average indexed monthly earnings* (AIME), is found by dividing the annual average by 12.

Once the worker's AIME has been derived, it is then entered into the Social Security benefit formula to produce the worker's initial benefit amount. The benefit formula is progressive, replacing a greater share of career-average earnings for low-paid workers than for high-paid workers. The benefit formula applies three factors—90%, 32%, and 15%—to three different levels, or *brackets*, of AIME. The result is known as the *primary insurance amount* (PIA) and is rounded down to the nearest 10 cents. The PIA is the worker's basic benefit before any adjustments are applied.⁶ The benefit formula applicable to a given worker is based on the individual's earliest *eligibility year* (ELY), that is, the year in which the worker first attains age 62, becomes disabled, or dies.⁷ For workers whose ELY is 2023, the PIA is determined as follows in **Table 1**.

Table 1. Social Security Benefit Formula for Workers Who First Become Eligible in 2023

Factor	Average Indexed Monthly Earnings (AIME)
90%	of the first \$1,115, plus
32%	of AIME over \$1,115 and through \$6,721 (if any), plus
15%	of AIME over \$6,721 (if any)

Source: CRS, based on Social Security Administration (SSA), Office of the Chief Actuary (OCACT), "Benefit Formula Bend Points," <https://www.ssa.gov/oact/cola/bendpoints.html>.

The averaging provision in the benefit formula tends to cause workers with short careers in Social Security–covered employment to have low AIMEs, even if they had high earnings in their noncovered career. This results in these workers having AIMEs that are similar to those of people who worked for low earnings in covered employment throughout their careers. This is because years of zero covered earnings are entered as zeros into the formula that averages the worker's earnings history over 35 years. For example, a person with 10 years in Social Security–covered employment would have an AIME that reflects 25 years of zero earnings, even if that person worked for 25 years in a high-paying, noncovered career.

Consequently, for a worker whose AIME is low because his or her career was split between covered and noncovered employment, the benefit formula replaces more of covered earnings at the 90% rate than if the worker had spent a full 35-year career in covered employment at the same earnings level. The higher replacement rate⁸ for workers who have split their careers between Social Security–covered and noncovered jobs is sometimes referred to as a "windfall."⁹

⁵ The number of benefit computation years for disabled or deceased workers may be fewer than 35 years.

⁶ The worker's primary insurance amount (PIA) is subsequently adjusted to account for inflation through cost-of-living adjustments (COLAs). Additional adjustments may be made to the PIA to account for early retirement, delayed retirement, or certain other factors.

⁷ Although the factors in the formula are fixed in law, the dollar amounts defining the brackets, also known as *bend points*, are adjusted annually for average earnings growth in the national economy. Because the bend points change each year, the benefit formula for a worker with an earliest eligibility year (ELY) in 2023 is different from the benefit formula for a worker with an ELY in any other year. For bend point amount for years prior to 2023, see SSA, Office of the Chief Actuary (OCACT), "Benefit Formula Bend Points," <https://www.ssa.gov/oact/cola/bendpoints.html>.

⁸ The *replacement rate* is the ratio of the program benefit to a worker's prior earnings.

⁹ The windfall elimination provision (WEP) is sometimes confused with the government pension offset (GPO), which

How the Windfall Elimination Provision Works

A different Social Security benefit formula, known informally as the *windfall elimination provision*, applies to certain workers who are entitled to Social Security benefits as well as to pension benefits from employment not covered by Social Security.¹⁰ Under the WEP, the 90% factor in the first bracket of the formula is reduced to as low as 40%. The effect is to lower the proportion of earnings in the first bracket that are converted to benefits. **Table 2** illustrates how the regular benefit formula and the WEP work in 2023 for someone with a 40% factor.

Table 2. Hypothetical Scenario: PIA for a Worker with AIME of \$1,800 Who Becomes Eligible in 2023 and Has 20 Years of Substantial Coverage

Regular Formula		WEP Formula	
90% of first \$1,115	\$1,003.50	40% of first \$1,115	\$446.00
32% of earnings over \$1,115 and through \$6,721	219.20	32% of earnings over \$1,115 and through \$6,721	219.20
15% over \$6,721	0.00	15% over \$6,721	0.00
Total after rounding	\$1,222.70	Total after rounding	\$665.20

Source: CRS.

Note: PIA = Primary Insurance Amount. AIME = Average Indexed Monthly Earnings. By law, the PIA is rounded down to nearest 10 cents.

In this scenario, the monthly benefit is \$557.50 lower under the WEP than under the regular benefit formula (\$1,222.70 *minus* \$665.20). Note that the WEP reduction is limited to the first bracket in the AIME formula (90% vs. 40%), while the 32% and 15% factors for the second and third brackets are unchanged. As a result, for AIME amounts that exceed the first formula threshold of \$1,115, the WEP reduction remains a flat \$557.50 per month. For example, if the worker had an AIME of \$4,000 instead of \$1,800, the WEP reduction would still be \$557.50 per month. The WEP therefore causes a proportionally larger reduction in benefits for workers with lower AIMEs and monthly benefit amounts.¹¹

A *guarantee* in the WEP ensures that the WEP reduction cannot exceed half of the noncovered pension based on the worker's noncovered work. This guarantee is designed to help protect workers with low pensions from noncovered work. The WEP does not apply to workers who have 30 or more years of substantial employment covered under Social Security, with an adjusted

reduces Social Security benefits paid to spouses and widow(er)s of insured workers if the spouse or widow(er) also receives a pension based on government employment not covered by Social Security. See CRS Report RL32453, *Social Security: The Government Pension Offset (GPO)*.

¹⁰ Section 215(a)(7) and (d)(3) of the Social Security Act; 42 U.S.C. §415(a)(7) and (d)(3). See also 20 C.F.R. §§404.213 and 404.243. Moreover, see SSA, Program Operations Manual System, "RS 00605.360 WEP Applicability," June 24, 2013, <https://secure.ssa.gov/apps10/poms.nsf/lnx/0300605360>. The term *windfall elimination provision* is not specified in statute or in SSA's regulations.

¹¹ For the worker shown in **Table 2**, with an AIME of \$1,800 and a monthly benefit of \$1,222.70 under the regular benefit formula in 2023, the WEP reduction of \$557.50 represents a cut of approximately 46% to the regular formula monthly benefit amount. By comparison, a worker with an AIME of \$4,000 would be entitled to a PIA of \$1,926.70 under the 2023 regular benefit formula, and the same WEP reduction of \$557.50 per month would represent a 29% reduction in this worker's monthly benefit amount.

formula for workers with 21 to 29 years of substantial covered employment, as shown in Table 3.¹²

Table 3. Maximum WEP Reduction for Workers Who Become Eligible in 2023, by Years of Substantial Coverage

	Years of Social Security Coverage										
	20 or fewer	21	22	23	24	25	26	27	28	29	30+
First factor in formula:	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%
Maximum dollar amount of monthly WEP reduction for workers who first become eligible for Social Security in 2023 ^a (\$):	557.5	501.8	446.0	390.3	334.5	278.8	223.0	167.3	111.5	55.8	0.0

Source: CRS analysis.

Notes: The WEP reduction may be lower than the amount shown because the reduction is limited to one-half of the worker's pension from noncovered employment. In addition, because the WEP reduces the initial benefit amount *before* it is reduced or increased due to early retirement, delayed retirement credits (DRCs), cost-of-living adjustments (COLAs), or other factors, the difference between the final benefit with the WEP and the final benefit without the WEP may be less than or greater than the amounts shown.

- a. The maximum dollar amount of the monthly WEP reduction is based on a worker's ELY. Because the dollar amounts defining the brackets in the benefit formula change each year, the maximum dollar amount of the WEP reduction for a worker with an ELY of 2023 is different from the maximum deduction for a worker with an ELY of any other year. For maximum WEP reduction amounts for workers with ELYs prior to 2023, see SSA, "Windfall Elimination Provision (WEP) Chart," <https://www.ssa.gov/planners/retire/wep-chart.html>.

Types of Workers Affected by the WEP

The WEP applies to benefits payable to retired or disabled workers who meet the criteria above and to their eligible dependents; however, it does *not* apply to benefits payable to survivors of deceased insured workers. Groups of workers likely to be affected by the WEP include certain state and local government employees who are covered by alternative pension plans through their employers¹³ and most permanent civilian federal employees hired before January 1, 1984, who are covered by the Civil Service Retirement System (CSRS).¹⁴ The WEP does *not* apply to

¹² For determining years of coverage after 1978 for individuals with pensions from noncovered employment, *substantial coverage* is defined as 25% of the "old law" Social Security maximum taxable earnings base for each year in question. The old law maximum taxable earnings base refers to the earnings base that would have been in effect had the Social Security Amendments of 1977 (P.L. 95-216) not been enacted. In 2023, the old law taxable earnings base is equal to \$118,800. Therefore, to earn credit for one year of substantial employment under the WEP, a worker would have to earn at least \$29,700 in Social Security-covered employment. For the thresholds for previous years, see SSA, OCACT, "Old-Law Base and Year of Coverage," <https://www.ssa.gov/oact/cola/yoc.html>.

¹³ See Department of the Treasury, Internal Revenue Service (IRS), *Federal-State Reference Guide*, IRS Publication 963 (Rev. 7-2020), <https://www.irs.gov/pub/irs-pdf/p963.pdf>.

¹⁴ See CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*.

- federal employees performing service on January 1, 1984, to which coverage was extended on that date by reason of the Social Security Amendments of 1983 (P.L. 98-21);
- employees of a nonprofit organization who were exempt from Social Security coverage on December 31, 1983, and who became covered for the first time on January 1, 1984, under P.L. 98-21;
- workers who attained age 62, became disabled, or were first eligible for a pension from noncovered employment before 1986;
- workers who receive foreign pension payments after 1994 that are based on a totalization agreement with the United States;¹⁵
- workers whose only noncovered pension is based on earnings from noncovered domestic or foreign employment before 1957;¹⁶ and
- railroad workers whose only noncovered pension is based on earnings from employment covered by the Railroad Retirement Act.¹⁷

The Number of People Affected by the WEP

According to the Social Security Administration (SSA), as of December 2022, about 2.0 million Social Security beneficiaries were affected by the WEP (Table 4). The overwhelming majority of those affected (about 95%) were retired workers. Approximately 3% of all Social Security beneficiaries (including disabled workers and dependent beneficiaries) and 4% of all retired-worker beneficiaries were affected by the WEP in December 2022.¹⁸ Of retired workers affected by the WEP, approximately 54% were men (Table 5).

Table 4. Number of Social Security Beneficiaries in Current Payment Status with Benefits Affected by WEP, by State and Type of Beneficiary: December 2022

State	Total	Type of Beneficiary		
		Retired Workers	Disabled Workers	Spouses and Children
Total	2,013,310	1,910,130	11,870	91,310
Alabama	17,594	16,688	154	752
Alaska	13,221	12,729	59	433
Arizona	39,074	37,314	189	1,571
Arkansas	10,694	10,246	111	337
California	283,270	269,673	1,556	12,041
Colorado	73,103	70,403	736	1,964
Connecticut	21,790	21,134	97	559

¹⁵ *Totalization agreements* are bilateral agreements that provide limited coordination of the U.S. Social Security program with comparable social insurance programs of other countries. The agreements are intended primarily to eliminate dual Social Security taxation based on the same work and provide benefit protection for workers who divide their careers between the United States and a foreign country.

¹⁶ The WEP does not apply in cases where the pension is based, in part, on noncovered military reserve duty before 1988 but after 1956.

¹⁷ SSA, POMS, “RS 00605.362 Windfall Elimination Provision (WEP) Exceptions,” November 10, 2022, <https://secure.ssa.gov/poms.nsf/lnx/0300605362>.

¹⁸ Data on the total Social Security beneficiary and retired-worker populations used in these calculations are from SSA, OCACT, “Benefits Paid By Type Of Beneficiary,” <https://www.ssa.gov/oact/ProgData/icp.html>.

State	Total	Type of Beneficiary		
		Retired Workers	Disabled Workers	Spouses and Children
Delaware	4,586	4,425	26	135
District of Columbia	6,932	6,743	36	153
Florida	109,737	104,171	541	5,025
Georgia	57,854	55,901	347	1,606
Hawaii	11,671	11,023	37	611
Idaho	9,737	9,265	60	412
Illinois	102,391	99,068	356	2,967
Indiana	17,848	17,058	134	656
Iowa	8,319	8,022	52	245
Kansas	9,552	9,170	77	305
Kentucky	25,601	24,735	181	685
Louisiana	52,155	49,704	566	1,885
Maine	20,498	19,909	81	508
Maryland	45,942	44,195	195	1,552
Massachusetts	88,974	86,282	573	2,119
Michigan	22,966	21,810	181	975
Minnesota	16,349	15,826	70	453
Mississippi	9,535	9,121	70	344
Missouri	41,904	40,826	212	866
Montana	6,688	6,409	30	249
Nebraska	5,643	5,425	39	179
Nevada	37,905	36,670	209	1,026
New Hampshire	9,364	9,017	80	267
New Jersey	22,793	21,477	187	1,129
New Mexico	14,067	13,331	111	625
New York	32,062	30,056	212	1,794
North Carolina	31,736	30,489	157	1,090
North Dakota	2,339	2,252	10	77
Ohio	161,739	155,906	1,388	4,445
Oklahoma	17,166	16,389	147	630
Oregon	18,805	18,008	69	728
Pennsylvania	35,955	34,215	252	1,488
Rhode Island	6,305	6,114	52	139
South Carolina	19,597	18,796	98	703
South Dakota	3,959	3,836	14	109
Tennessee	22,626	21,674	134	818
Texas	208,368	199,750	1,115	7,503
Utah	14,373	13,507	74	792
Vermont	2,722	2,607	10	105
Virginia	47,152	44,985	122	2,045
Washington	35,150	33,231	138	1,781

State	Total	Type of Beneficiary		
		Retired Workers	Disabled Workers	Spouses and Children
West Virginia	6,120	5,756	57	307
Wisconsin	12,790	12,306	59	425
Wyoming	2,727	2,633	17	77
Outlying Areas and Foreign Countries	113,862	89,850	392	23,620

Source: CRS, based on unpublished data from Social Security Administration (SSA), Office of Research, Evaluation, and Statistics (ORES), Table B, January 2023.

Table 5. Number of Social Security Worker Beneficiaries in Current Payment Status with Benefits Affected by WEP, by Gender and Type of Beneficiary, December 2022

Gender	All Workers	Retired Workers	Disabled Workers
All Beneficiaries	1,922,000	1,910,130	11,870
Women	883,225	877,473	5,752
Men	1,038,775	1,032,657	6,118

Source: CRS, based on unpublished data from SSA, ORES, Table W01, January 2023. For data on the share of Social Security beneficiaries affected by the WEP in December 2021, by state, see **Table A-1** and **Table A-2** in the **Appendix**.

Legislative History and Rationale

The WEP was enacted in 1983 as part of major amendments (P.L. 98-21) designed to shore up the financing of the Social Security program. The 40% WEP formula factor was the result of a compromise between a House bill that would have substituted a 61% factor for the regular 90% factor and a Senate proposal that would have substituted a 32% factor.¹⁹

The purpose of the 1983 provision was to remove an unintended advantage that the regular Social Security benefit formula provided to certain retired or disabled worker-beneficiaries who were also entitled to pension benefits based on earnings from jobs not subject to the Social Security payroll tax. The regular formula was intended to help workers who spent their lifetimes in low-paying jobs, by providing them with a benefit that replaces a higher proportion of their career-average earnings than the benefit provided to workers with high career-average earnings. However, the formula does not differentiate between those who worked in low-paid jobs throughout their careers and other workers who appear to have been low paid because they worked many years in jobs not covered by Social Security and few years in covered jobs. Under the old law, workers who were employed for only a portion of their careers in jobs covered by Social Security—even highly paid ones—also received the advantage of the weighted formula, because their few years of covered earnings were averaged over their entire working career to determine the average covered earnings on which their Social Security benefits were based. The WEP is intended to place affected workers in approximately the same position they would have been in had *all* their earnings been covered by Social Security.

¹⁹ U.S. Congress, Committee of Conference, *Social Security Amendments of 1983*, conference report to accompany H.R. 1900, 98th Cong., 1st sess., March 24, 1983, H.Rept. 98-47 (Washington: GPO, 1983), pp. 120-121, <http://www.finance.senate.gov/imo/media/doc/Conf-98-47.pdf>.

Arguments for the WEP

Proponents of the measure say that it is a reasonable means to prevent payment of overgenerous and unintended benefits to certain workers who otherwise would profit from happenstance (i.e., the mechanics of the Social Security benefit formula). Furthermore, they maintain that the provision rarely causes hardship because by and large the people affected are reasonably well off because by definition they also receive pensions from noncovered work. The guarantee provision ensures that the reduction in Social Security benefits cannot exceed half of the pension from noncovered work, which protects people with small pensions from noncovered work. In addition, the impact of the WEP is reduced for workers who spend 21 to 29 years in Social Security–covered work and is eliminated for people who spend 30 years or more in Social Security–covered work.

Arguments Against the WEP

Some opponents of the WEP believe the provision is unfair because it substantially reduces a benefit that certain workers may have included in their retirement plans. Others criticize how the provision works. They say the arbitrary 40% factor in the windfall elimination formula is an imprecise way to determine the actual windfall when applied to individual cases.²⁰

The WEP's Impact on Low-Income Workers

The impact of the WEP on low-income workers has been the subject of debate. Jeffrey Brown and Scott Weisbenner (hereinafter “Brown and Weisbenner”) point out two reasons why the WEP can be regressive.²¹ First, because the WEP adjustment is confined to the first bracket of career-average earnings in the benefit formula (\$1,115 in 2023), it causes a proportionally larger reduction in benefits for workers with lower AIMEs and benefit amounts than for others. Second, a high earner is more likely than a low earner to cross the “substantial work” threshold for accumulating years of covered earnings (in 2023 this threshold is \$29,700 in Social Security–covered earnings); therefore, high earners are more likely to benefit from the provision that phases out the WEP for people with between 21 and 29 years of covered employment.

Brown and Weisbenner found that the WEP does reduce benefits disproportionately for lower-earning households.²² For some high-income households, applying the WEP to covered earnings even provides a higher replacement rate than if the WEP were applied proportionately to all earnings, covered and noncovered. Brown and Weisbenner found that the WEP can also lead to large changes in Social Security replacement rates based on small changes in covered earnings, particularly when a small increase in covered earnings carries a person over the threshold for an additional year of substantial covered earnings, leading to an adjustment in the WEP formula applied to the AIME.

²⁰ See, for example, the Social Security Advisory Board, *The Windfall Elimination Provision: It's Time to Correct the Math*, October 1, 2015, http://www.ssab.gov/Portals/0/OUR_WORK/REPORTS/WEP_Position_Paper_2015.pdf.

²¹ Jeffrey R. Brown and Scott Weisbenner, “The Distributional Effects of the Social Security Windfall Elimination Provision,” *Journal of Pension Economics and Finance*, vol. 12, iss. 04 (October 2013), pp. 415-434, http://business.illinois.edu/weisbenn/RESEARCH/PAPERS/JPEF_Brown_Weisbenner.pdf.

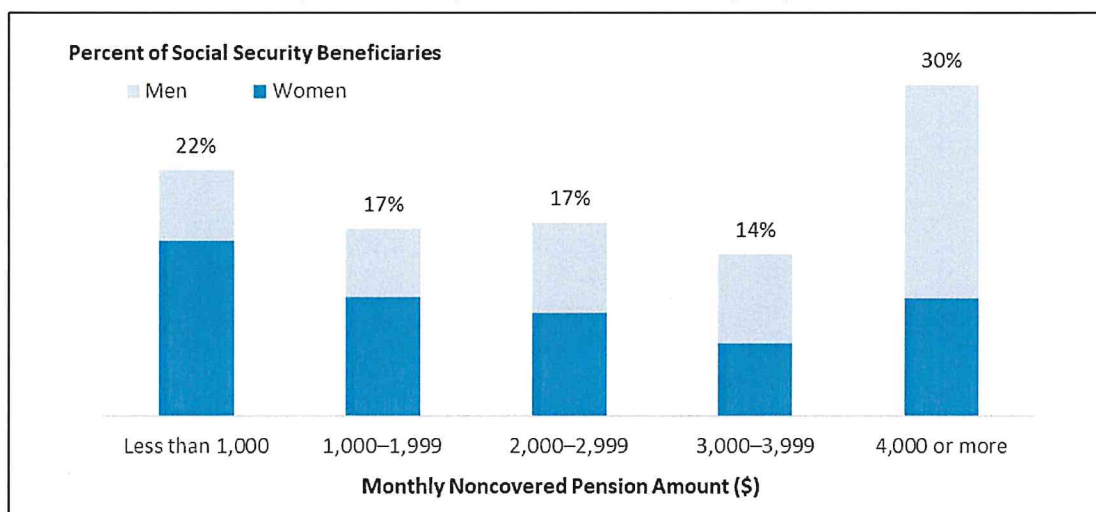
²² For more information, see CRS Report R46194, *The Windfall Elimination Provision (WEP) in Social Security: Comparing Current Law with Proposed Proportional Formulas*.

Noncovered Pensions for Beneficiaries Affected by the WEP

The WEP applies to Social Security beneficiaries who are entitled to (i.e., receiving) a pension based on earnings that were not covered by Social Security. SSA periodically provides data on those noncovered pension amounts for Social Security beneficiaries affected by the WEP. **Figure 1** shows the distribution of Social Security WEP-affected beneficiaries who first became eligible for benefits in 2019, by noncovered pension amount and gender. As of December 2022, about 22% of those beneficiaries received a noncovered pension amount of less than \$1,000 per month, approximately 48% received a monthly amount between \$1,000 and \$3,999, and 30% received a monthly amount of \$4,000 or more. Among those WEP-affected beneficiaries, women tended to have a lower noncovered pension amount than men on average.

Figure 1. Distribution of WEP-Affected Social Security Beneficiaries by Monthly Noncovered Pension Amount and Gender, December 2022

Among Social Security beneficiaries with first eligibility in 2019



Source: CRS, based on unpublished data from SSA's ORES, Table W12, January 2023.

Notes: Data reflects beneficiaries for whom noncovered pension amounts are available. The monthly pension amount represents the noncovered government pension amount at the time of initial filing for Social Security benefits.

A worker who split his or her career between Social Security–covered and noncovered jobs may receive both Social Security retired-worker benefits (subject to the WEP) and a noncovered pension. In December 2022, among all Social Security worker beneficiaries who were affected by the WEP, about 82% had 20 or fewer YOCs (substantial covered earnings under Social Security).²³ Usually, the longer the individual worked in noncovered employment, the shorter the employment in covered jobs (provided that the number of working years a person can work is relatively stable). In this case, the worker would be likely to receive a relatively larger noncovered pension amount and a smaller Social Security benefit. In December 2022, among WEP-affected beneficiaries who first became eligible for Social Security in 2019, about 31% of

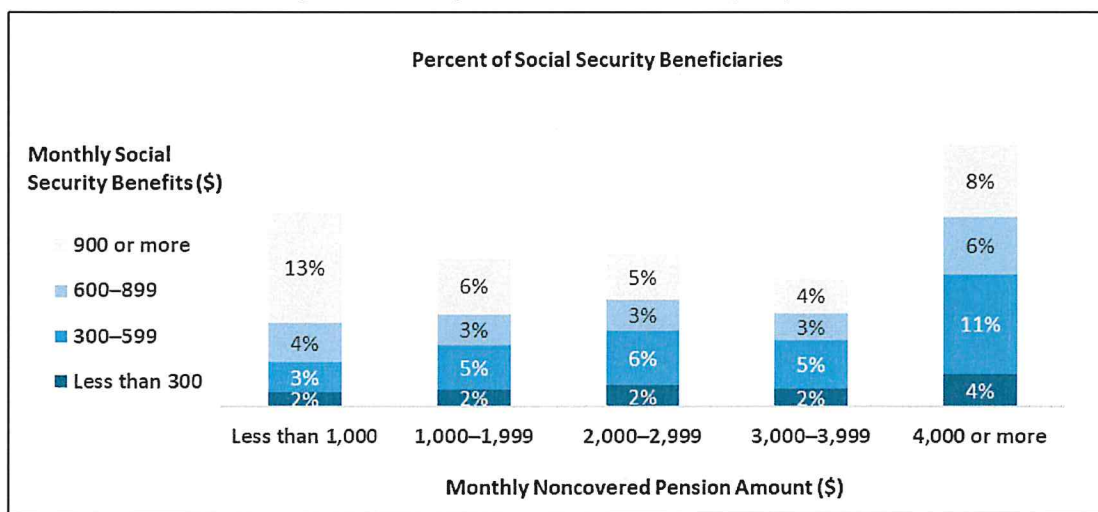
²³ CRS, based on unpublished data from Social Security Administration (SSA), Office of Research, Evaluation, and Statistics (ORES), Tables W01 and W06, January 2023.

them received a monthly noncovered pension amount of \$2,000 or more and a monthly Social Security benefit below \$600 after the effect of the WEP (see **Figure 2**).

However, some workers may work a relatively short career or at relatively low earnings in both Social Security–covered and noncovered jobs, thus resulting in relatively low combined Social Security and noncovered pension benefits. In December 2022, among WEP-affected beneficiaries who became eligible for Social Security in 2019, about 9% of those beneficiaries received less than \$1,000 per month in noncovered pensions and less than \$900 per month in Social Security benefits (for a combined total below \$1,900 per month). Another 7% received between \$1,000–1,999 per month in noncovered pensions and less than \$600 per month in Social Security (for a combined total greater than \$1,000 and below \$2,599 per month). This monthly benefit amount does not include retirement income received from other sources (such as need-based benefits and other government transfers, earnings, retirement savings, and asset income).

Figure 2. Distribution of WEP-Affected Social Security Beneficiaries by Monthly Noncovered Pension Amount and Monthly Social Security Benefits, December 2022

Among Social Security beneficiaries with first eligibility in 2019



Source: CRS, based on unpublished data from SSA's ORES, Table W16, January 2023.

Notes: Data reflects beneficiaries for whom noncovered pension amounts are available. The monthly pension amount represents the noncovered government pension amount at the time of initial filing. Social Security benefits are measured by the primary insurance amount after the effect of the WEP.

Legislative Activity on the WEP in the 117th Congress

In the 117th Congress, several proposals were introduced that would have repealed, replaced, or amended the WEP. These proposals are briefly described below.

The Social Security Fairness Act of 2021 was introduced by Representative Rodney Davis on January 4, 2021 (H.R. 82), and the Social Security Fairness Act was introduced by Senator Sherrod Brown on April 22, 2021 (S. 1302). The legislation would have repealed the WEP and the *government pension offset* (GPO), which reduces the Social Security benefits paid to spouses and widow(er)s of insured workers if the spouse or widow(er) also receives a pension based on

government employment not covered by Social Security.²⁴ The elimination of the WEP and GPO would have applied to benefits payable for months after December 2021. The Congressional Budget Office projected that eliminating only the WEP would have cost \$88 billion over the period 2022-2032 and that eliminating both the WEP and the GPO would have cost \$183 billion over the period 2022-2032.²⁵ SSA's Office of the Chief Actuary (OCACT) projected that eliminating both the WEP and the GPO would have reduced the long-range actuarial balance (i.e., would have increased the net long-term cost) of the combined Social Security trust funds by 0.12% of taxable payroll and would have changed the projected year of reserve depletion for the combined Social Security trust funds from 2035 under current law to 2034 under the proposal.²⁶ On September 20, 2022, the House Committee on Ways and Means held a markup for H.R. 82, and the bill reported without recommendation.²⁷

The bills titled Social Security 2100: A Sacred Trust were introduced by Representative John B. Larson (H.R. 5723) and Senator Richard Blumenthal (S. 3071), respectively, on October 26, 2021. Among other provisions, the bills would have repealed the WEP and the GPO for benefits payable during 2022-2026. OCACT estimated that enactment of this provision alone would have increased the net long-term cost by 0.01% of taxable payroll.²⁸

Since 2004, introduced legislation has reflected a different approach that would replace the WEP formula under current law with a new proportional formula for new beneficiaries. Under this approach, the proportional formula would apply the regular Social Security benefit formula to all past earnings from covered and noncovered employment. The resulting benefit would then be reduced by the ratio of career-average earnings from covered employment to career-average earnings from both covered and noncovered employment (i.e., combined earnings). Based on the estimate from OCACT, among all current beneficiaries in 2018, about 69% of those affected by the WEP would receive an increase in Social Security benefits using the proportional formula, and the remaining 31% would receive a lower benefit. In addition, 13.5 million beneficiaries who are not affected by the current WEP would receive a lower benefit using the proportional formula.²⁹ Most workers who are not affected by the current WEP but would be affected by the proportional formula are those with noncovered employment who have 30 or more years of substantial covered earnings, or those with noncovered employment who are not receiving noncovered pension benefits; both groups are exempt from the WEP under current law. To protect future beneficiaries from further benefit reduction compared with the current law, the recent

²⁴ See CRS Report RL32453, *Social Security: The Government Pension Offset (GPO)*. See also CRS In Focus IF10203, *Social Security: The Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO)*.

²⁵ U.S. Congressional Budget Office, *Cost Estimate: H.R. 82, Social Security Fairness Act of 2021*, September 20, 2022, <https://www.cbo.gov/publication/58488>.

²⁶ Letter from Stephen C. Goss, Chief Actuary, SSA, to the Honorable Rodney Davis and the Honorable Abigail Spanberger, U.S. House of Representatives, July 20, 2022, https://www.ssa.gov/OACT/solvency/DavisSpanberger_20220720.pdf. The projection was based on the intermediate assumptions of the 2022 Social Security trustees report. *Taxable payroll* is the total amount of earnings in the economy that is subject to Social Security payroll and self-employment taxes (with some adjustments). In the short term, SSA's Office of the Chief Actuary projected that the legislation repealing the WEP and the GPO would have increased program costs by \$146 billion over the period 2022-2031.

²⁷ U.S. House of Representatives, H.Rept. 117-482 - *Social Security Fairness Act of 2021*, September 20, 2022, <https://www.congress.gov/congressional-report/117th-congress/house-report/482>.

²⁸ Letter from Stephen C. Goss, Chief Actuary, SSA, to the Honorable John Larson, U.S. House of Representatives, October 26, 2021, https://www.ssa.gov/OACT/solvency/JLarson_20211026.pdf. The projection was based on the intermediate assumptions of the 2021 Social Security trustees report.

²⁹ Letter from Stephen C. Goss, Chief Actuary, SSA, to the Honorable Kevin Brady, U.S. House, July 24, 2019, https://www.ssa.gov/oact/solvency/KBrady_20190724.pdf. The projections are based on the intermediate assumptions of the 2019 Social Security trustees report.

legislation based on the proportional formula would generally attempt to hold beneficiaries harmless to a certain degree by providing the higher benefit of the current-law WEP or the proportional formula. This approach was reflected in the Public Servants Protection and Fairness Act of 2021 (H.R. 2337) and the Equal Treatment of Public Servants Act of 2021 (H.R. 5834), as described below in this section.

The Public Servants Protection and Fairness Act of 2021 (H.R. 2337) was introduced by Representative Richard E. Neal on April 1, 2021. The legislation would have replaced the WEP with a new proportional formula for individuals who become eligible for Social Security benefits in 2023 or later. The bill included a benefit guarantee provision that would have allowed individuals to receive the higher of their benefit under the current-law WEP or the proportional formula. The proposal would have also provided a rebate payment starting nine months after enactment for retired-worker and disabled-worker beneficiaries affected by the current WEP (up to \$150 per month); the rebate payments would have increased with cost-of-living adjustments. In 2021, OCACT estimated that the legislation would have increased program expenditures by about \$30.6 billion (mainly from the rebate) between 2021 and 2030. The change in net cash flow of \$29.0 billion (net of the revenue from income taxation on benefits) would have been reimbursed from the General Fund of the U.S. Treasury. In the long run (75 years), the projected program cost would have increased by an amount equal to 0.02% of taxable payroll, and the projected program income would have increased by the same amount with transfers from the General Fund, thus having no significant effect on the combined trust funds' actuarial balance.³⁰

The Equal Treatment of Public Servants Act of 2021 (H.R. 5834) was introduced by Representative Kevin Brady on November 3, 2021. Similar to H.R. 2337, the legislation would have replaced the WEP with the new proportional formula for individuals who become eligible for Social Security benefits in 2023 or later. Individuals becoming eligible during the transitional period between 2023 and 2061 would have received the higher of their benefit under the current-law WEP or the proportional formula. For those who become eligible in 2062 and later, benefits would have been based solely on the proportional formula. The proposal would have also provided a rebate payment starting nine months after enactment for workers (up to \$100 per month) and their dependents (up to \$50 per month) affected by the current WEP. The rebate payments would have increased with cost-of-living adjustments. In 2021, OCACT estimated that the legislation would have increased program costs by about \$27.7 billion (or \$26.3 billion net of the revenue from the income taxation on benefits) over the period 2022 through 2031. According to OCACT's estimates, over the 75-year projection period, future savings from the proportional formula would have offset the cost of the monthly rebate payments and the protection provision during the transitional period, so the bill would have had no significant effect on Social Security's long-term financial outlook.³¹

The Wellbeing for Every Public Servant Act of 2021 (H.R. 4788) was introduced by Representative Julia Letlow on July 29, 2021. Under the legislation, individuals whose combined monthly benefits from Social Security and noncovered public pensions were below a wage-indexed amount of \$5,500 would have been exempt from the WEP. Beneficiaries whose combined monthly benefits from Social Security and noncovered public pensions were between

³⁰ Letter from Stephen C. Goss, Chief Actuary, SSA, to the Honorable Richard Neal, U.S. House, April 1, 2021, https://www.ssa.gov/oact/solvency/RNeal_20210401.pdf. The estimates are based on the updated baseline of the 2020 Social Security trustees report intermediate projections, reflecting pandemic and recession effects, available at https://www.ssa.gov/oact/solvency/UpdatedBaseline_20201124.pdf.

³¹ Letter from Stephen C. Goss, Chief Actuary, SSA, to the Honorable Kevin Brady, U.S. House, November 3, 2021, https://www.ssa.gov/OACT/solvency/KBrady_20211103.pdf. The estimates are based on the intermediate assumptions of the 2021 Social Security trustees report.

\$5,500 and \$6,333 would have been subject to a partial WEP reduction. The legislation would have applied to benefits payable for months after the enactment of this act.

Legislative Activity on the WEP in the 118th Congress³²

On January 9, 2023, Representative Garret Graves introduced the Social Security Fairness Act of 2023 (H.R. 82). The legislation would repeal the WEP and the GPO for benefits payable for months after December 2023. For related information, see H.R. 82 in the 117th Congress, described above.

³² As of February 6, 2023.

Appendix. WEP-Affected Beneficiaries, by State

Table A-1. Number of Social Security Beneficiaries in Current Payment Status with Benefits Affected by WEP, by State and Type of Beneficiary: December 2021

State	Total	Type of Beneficiary		
		Retired Workers	Disabled Workers	Spouses and Children
Total	1,971,102	1,863,933	12,245	94,924
Alabama	17,831	16,849	157	825
Alaska	12,907	12,402	63	442
Arizona	38,573	36,692	202	1,679
Arkansas	10,652	10,184	105	363
California	276,358	262,076	1,616	12,666
Colorado	70,611	67,665	803	2,143
Connecticut	21,094	20,383	97	614
Delaware	4,562	4,384	31	147
District of Columbia	7,114	6,923	42	149
Florida	108,272	102,507	561	5,204
Georgia	56,893	54,803	360	1,730
Hawaii	11,626	10,922	40	664
Idaho	9,425	8,938	58	429
Illinois	99,946	96,375	373	3,198
Indiana	17,767	16,911	134	722
Iowa	8,315	8,003	60	252
Kansas	9,480	9,084	69	327
Kentucky	25,292	24,365	180	747
Louisiana	49,787	47,264	577	1,946
Maine	19,935	19,318	79	538
Maryland	46,498	44,566	223	1,709
Massachusetts	85,431	82,572	567	2,292
Michigan	22,645	21,437	179	1,029
Minnesota	16,484	15,894	74	516
Mississippi	9,571	9,120	78	373
Missouri	41,134	39,972	226	936
Montana	6,598	6,289	33	276
Nebraska	5,657	5,421	40	196
Nevada	36,716	35,425	222	1,069
New Hampshire	9,097	8,719	79	299
New Jersey	22,767	21,368	187	1,212
New Mexico	13,978	13,174	116	688
New York	32,400	30,289	222	1,889
North Carolina	31,636	30,269	182	1,185
North Dakota	2,302	2,212	8	82

State	Total	Type of Beneficiary		
		Retired Workers	Disabled Workers	Spouses and Children
Ohio	156,412	150,313	1,372	4,727
Oklahoma	17,254	16,443	135	676
Oregon	18,659	17,802	76	781
Pennsylvania	36,141	34,288	261	1,592
Rhode Island	6,130	5,928	48	154
South Carolina	19,429	18,584	104	741
South Dakota	3,970	3,836	18	116
Tennessee	22,298	21,287	144	867
Texas	200,309	191,331	1,145	7,833
Utah	14,298	13,379	79	840
Vermont	2,704	2,574	8	122
Virginia	47,723	45,358	127	2,238
Washington	34,905	32,804	157	1,944
West Virginia	6,246	5,854	61	331
Wisconsin	12,686	12,184	56	446
Wyoming	2,673	2,565	22	86
Outlying Areas and Foreign Countries	109,911	86,628	389	22,894

Source: CRS, based on unpublished data from SSA, ORES, Table B, February 2022.

Table A-2. Percentage of Social Security Beneficiaries in Current Payment Status Affected by the WEP, by State and Type of Beneficiary, December 2021

State	All Beneficiaries	Type of Beneficiary		
		Retired Workers	Disabled Workers	Spouses and Children
Total	3.0%	3.9%	0.2%	2.3%
Alabama	1.5%	2.2%	0.1%	1.1%
Alaska	11.7%	15.2%	0.6%	6.3%
Arizona	2.7%	3.3%	0.1%	2.0%
Arkansas	1.5%	2.2%	0.1%	0.8%
California	4.5%	5.7%	0.3%	2.8%
Colorado	7.6%	9.5%	0.9%	4.0%
Connecticut	3.0%	3.8%	0.1%	1.6%
Delaware	2.0%	2.5%	0.1%	1.4%
District of Columbia	8.5%	11.5%	0.3%	3.8%
Florida	2.2%	2.8%	0.1%	1.9%
Georgia	3.0%	4.0%	0.1%	1.5%
Hawaii	4.1%	4.7%	0.2%	4.2%
Idaho	2.5%	3.2%	0.1%	1.8%
Illinois	4.4%	5.7%	0.1%	2.3%
Indiana	1.3%	1.7%	0.1%	0.9%

State	All Beneficiaries	Type of Beneficiary		
		Retired Workers	Disabled Workers	Spouses and Children
Iowa	1.2%	1.6%	0.1%	0.7%
Kansas	1.7%	2.1%	0.1%	1.0%
Kentucky	2.5%	3.8%	0.1%	1.1%
Louisiana	5.4%	8.1%	0.4%	2.6%
Maine	5.6%	7.5%	0.2%	2.5%
Maryland	4.5%	5.7%	0.2%	3.0%
Massachusetts	6.6%	8.8%	0.3%	2.8%
Michigan	1.0%	1.3%	0.1%	0.7%
Minnesota	1.5%	1.9%	0.1%	0.9%
Mississippi	1.4%	2.0%	0.1%	0.8%
Missouri	3.1%	4.3%	0.1%	1.3%
Montana	2.7%	3.3%	0.1%	2.1%
Nebraska	1.6%	2.0%	0.1%	1.0%
Nevada	6.4%	8.1%	0.4%	3.6%
New Hampshire	2.8%	3.7%	0.2%	1.5%
New Jersey	1.4%	1.7%	0.1%	1.2%
New Mexico	3.1%	4.0%	0.2%	2.4%
New York	0.9%	1.1%	0.0%	0.7%
North Carolina	1.4%	1.9%	0.1%	1.1%
North Dakota	1.6%	2.1%	0.1%	1.1%
Ohio	6.5%	8.9%	0.4%	3.2%
Oklahoma	2.1%	2.9%	0.1%	1.4%
Oregon	2.1%	2.6%	0.1%	1.6%
Pennsylvania	1.3%	1.6%	0.1%	1.0%
Rhode Island	2.7%	3.5%	0.1%	1.2%
South Carolina	1.6%	2.1%	0.1%	1.2%
South Dakota	2.1%	2.6%	0.1%	1.3%
Tennessee	1.5%	2.0%	0.1%	1.0%
Texas	4.5%	6.1%	0.2%	2.3%
Utah	3.3%	4.2%	0.2%	2.5%
Vermont	1.7%	2.2%	0.0%	1.3%
Virginia	3.0%	3.9%	0.1%	2.4%
Washington	2.5%	3.1%	0.1%	2.2%
West Virginia	1.3%	1.9%	0.1%	0.8%
Wisconsin	1.0%	1.2%	0.0%	0.7%
Wyoming	2.2%	2.8%	0.2%	1.4%
Outlying Areas and Foreign Countries	7.0%	8.9%	0.3%	10.0%

Source: CRS analysis of data from the following sources: SSA, ORES, Table B, February 2022 (unpublished); and SSA, ORES, *Annual Statistical Supplement, 2022*, Table 5J2, <https://www.ssa.gov/policy/docs/statcomps/supplement/2022/5j.html#table5.j2>.

Notes: The column "All Beneficiaries" includes survivor beneficiaries who are not subject to the WEP. The row "Outlying Areas and Foreign Countries" includes a small number of Social Security beneficiaries whose state or area is unknown.

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The Windfall Elimination Provision (WEP) in Social Security: Proposals for a New Proportional Formula

Background

Social Security is a work-based federal insurance program that provides monthly cash benefits to workers and their eligible family members in the event of a worker's retirement, disability, or death. Although participation in Social Security is compulsory for most workers, about 6% of workers in paid employment or self-employment are not covered by Social Security (i.e., earnings are not taxable or creditable for program purposes).

The regular Social Security benefit formula is progressive, replacing a greater share of career-average earnings for low-paid workers than for high-paid workers. Career-average earnings in Social Security are calculated as *average indexed monthly earnings* (AIME), which is the monthly average of the highest 35 years of covered earnings after indexing for wage growth. If a person has earnings not covered by Social Security, those noncovered earnings are shown as zeros in their Social Security earnings records. As a result, the regular formula cannot distinguish workers who have low career-average earnings because they worked for many years at low earnings in covered employment from workers who appear to have low career-average earnings because they worked for many years in jobs not covered by Social Security. Therefore, based on the regular formula, a worker who worked in both covered and noncovered employment might receive a higher replacement rate of career-average earnings than a worker with the same earnings who spent an entire career in covered employment (see **Table 1**, column [1]). The windfall elimination provision (WEP) is designed to remove such an unintended advantage, or *windfall*, for certain beneficiaries with earnings not covered by Social Security.

The Current WEP Formula

The regular Social Security benefit formula applies three factors—90%, 32%, and 15%—to three different brackets of a worker's AIME. The result is the *primary insurance amount* (PIA), which is the worker's basic monthly benefit at the full retirement age before any adjustments. Under current law, the WEP reduction is based on years of coverage (YOCs). The amount of substantial covered earnings needed for a YOC is \$29,700 in 2023. For people with 20 or fewer YOCs, the WEP reduces the first factor from 90% to 40%. For each year of substantial covered earnings in excess of 20, the first factor increases by 5%. The WEP factor reaches 90% for those with 30 or more YOCs, and at that point it is phased out. In addition, the WEP reduction cannot exceed one-half of the pension benefit based on the worker's noncovered employment, and it does not apply to those who do not receive such a pension.

The Proportional Formula

Shortly before the WEP was enacted in 1983 (P.L. 98-21), the bipartisan National Commission on Social Security Reform (the Greenspan Commission) described two different methods of eliminating the *windfall* benefits: (1) the current-law method of adjusting the first replacement factor (90%) as discussed above; and (2) a proportional formula. The proportional formula for WEP purposes would apply the regular Social Security benefit formula to all past earnings from both covered *and* noncovered employment. The resulting benefit would then be multiplied by the ratio of career-average earnings (AIME) from covered employment only to career-average earnings (AIME) from both covered and noncovered employment.

The proportional formula better reflects the Greenspan Commission's recommendation for people with some earnings from noncovered employment to receive the same replacement rate as those workers who spent their entire careers in covered employment (see **Table 1**, column [3]), whereas the current-law WEP can only *approximately* achieve that goal (see **Table 1**, column [2]). However, in 1983, the Social Security Administration (SSA) lacked the data on noncovered earnings needed to make the benefit adjustment under the proportional formula, so Congress adopted the current WEP formula instead. As of 2017, SSA has 35 years of data on earnings from both covered and noncovered employment. This data's availability means that the proportional formula is now an option for Congress to consider.

Table 1. Illustrative Examples: Replacement Rates (Benefits as a Share of AIME) Under Alternative Formulas

Employment	Regular Formula (w/o WEP) (1)	Current-Law WEP (2)	Proportional Formula (3)
Covered: 35 years; Noncovered: 0 years	49%	49%	49%
Covered: 15 years; Noncovered: 20 years	72%	38%	49%

Source: Congressional Research Service.

Notes: The worker is assumed to earn \$45,000 (indexed by average wage growth) per year and becomes eligible for benefits in 2023.

Comparing the Current WEP and the Proportional Formula

If the proportional formula had applied to current beneficiaries in 2018, SSA's Office of the Chief Actuary

(OCACT) estimates that about 1.1 million beneficiaries affected by the current WEP (or 69%) would have received a *higher* benefit and about 0.5 million (or 31%) would have received a *lower* benefit. In addition, 13.5 million beneficiaries with some noncovered earnings who were not affected by the current WEP would have received a *lower* benefit. Therefore, if the proportional formula were applied to new beneficiaries, it would generate program savings.

Below are two examples in which beneficiaries affected by the current WEP would receive lower benefits under the proportional formula:

- *Beneficiaries with YOCs near 30.* Certain beneficiaries with YOCs near 30 would have a relatively high replacement factor (e.g., 85% for 29 YOCs) under current law. Therefore, those beneficiaries' benefit reduction under the current WEP might be smaller than under the proportional formula.
- *Beneficiaries with relatively high career-average earnings.* Since the current WEP reduction is limited to the first bracket in the PIA formula, it might under-adjust the benefit for some high earners with noncovered employment, resulting in a smaller benefit reduction under current law than under the proportional formula.

Current beneficiaries who had noncovered earnings and are exempt from the current-law WEP but would receive a lower benefit using the proportional formula might include (1) beneficiaries with 30 or more years of substantial covered earnings; (2) beneficiaries who do not receive a pension based on noncovered work; and (3) beneficiaries who fit both categories.

Legislation in 118th Congress

Two bills introduced in 2023 would replace the current-law WEP approach with a proportional formula for certain individuals who would become eligible for Social Security benefits in 2025 or later: (1) H.R. 4260 (the Public Servants Protection and Fairness Act of 2023), introduced by Representative Richard E. Neal; and (2) H.R. 5342 (the Equal Treatment of Public Servants Act of 2023), introduced by Representative Jodey Arrington.

No Benefit Cuts Relative to Current Law

Because the proportional formula could reduce Social Security benefits for some future beneficiaries with noncovered employment compared to current law, both bills provide a protection provision, wherein individuals would receive a benefit based on the higher of the current WEP formula or the proportional formula. H.R. 4260 would apply the protection provision to all future beneficiaries, and as with current law, the proportional formula would not apply to workers who do not receive a noncovered pension or who have 30 or more years of substantial covered earnings. In contrast, H.R. 5342 would apply the protection provision during the transitional period for new beneficiaries who become eligible for benefits during 2025 through 2067. For those who become eligible in 2068 and later, benefits would be based solely on the proportional formula.

Additional Monthly Payments to Current Beneficiaries

As discussed earlier, the proportional formula could provide a higher benefit to certain beneficiaries compared to current law, so both bills would provide additional monthly payments to current WEP-affected beneficiaries who are first eligible for benefits *before* 2025. H.R. 4260 would provide worker beneficiaries (but not dependents) an additional monthly payment equal to the lesser of \$150 or the current WEP reduction amount. H.R. 5342 would provide an additional monthly payment of \$100 to workers and \$50 to dependents. The additional monthly payments would begin nine months after enactment of the respective bill, would increase with cost-of-living adjustments, and would be exempt from most benefit adjustments under Social Security. The additional monthly payment under H.R. 4260 would be excluded in determining eligibility and the benefit amount under the Supplemental Security Income program.

Cost Estimates and Funding Rules

The OCACT estimates that H.R. 4260 would cost about \$30.1 billion from 2023 through 2032, net of additional revenue from income taxation, including \$1.5 billion for the new proportional formula and \$28.7 billion for the additional monthly payments. Over the 75-year projection period, the present value of the overall net cost would be about \$110.1 billion. The bill would provide transfers from the General Fund of the Treasury to the Social Security trust funds in amounts needed to fully offset the bill's costs, so it would have no effect on Social Security's long-term financial outlook.

The OCACT estimates that H.R. 5342 would cost about \$23.9 billion from 2023 through 2032, net of additional revenue from income taxation, including \$1.5 billion for the new proportional formula and \$22.4 billion for the additional monthly payments. Over the 75-year projection period, future savings from the proportional formula would offset the cost of the additional monthly payments and the protection provision during the transitional period, so the bill would have no significant effect on Social Security's long-term financial outlook.

Other Provisions

The annual Social Security statements that SSA makes available to all eligible workers provide benefit estimates based only on covered employment, with no estimates of the WEP adjustment. Because of this limitation, beneficiaries have argued that they were not given sufficient notice of how much their benefits would be reduced by the WEP. To address this issue, both bills would require SSA to show noncovered as well as covered earnings records on the statements. Moreover, H.R. 4260 would require the statements to include projected benefits using the proportional formula for those workers who would likely be subject to the WEP.

In addition, both bills would require studies on ways to facilitate data exchanges between SSA and state and local governments for purposes of improving WEP administration.

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Social Security: The Government Pension Offset (GPO)

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Summary

Social Security spousal benefits were established in the 1930s to help support wives who are financially dependent on their husbands. It has since become more common for both spouses in a couple to work, leading to more cases in which both members of a couple are entitled to Social Security or other government pensions based on their own work records. Social Security does not provide both a full retired-worker and a full spousal benefit to the same individual.

Two provisions are designed to reduce the Social Security spousal benefits of individuals who are not financially dependent on their spouses because they receive benefits based on their own work records. These are

- the *dual entitlement* rule, which applies to spouses who qualify for both (1) Social Security spousal benefits based on their spouses' work histories in Social Security–covered employment and (2) their own Social Security retired- or disabled-worker benefits, based on their own work histories in Social Security–covered employment; and
- the Government Pension Offset (GPO), which applies to spouses who qualify for both (1) Social Security spousal benefits based on their spouses' work histories in Social Security–covered employment and (2) their own retirement or disability government pensions, based on their own work in government employment that was not covered by Social Security.

The dual entitlement rule requires that 100% of a Social Security retirement or disability benefit as a covered worker is subtracted from any Social Security spousal or widow(er)'s benefit an individual is eligible to receive. The GPO reduces Social Security spousal or widow(er)'s benefits by two-thirds of the retirement or disability pension from noncovered government employment. The GPO does not reduce the benefits of the spouse who was covered by Social Security. In December 2022, 734,601 Social Security beneficiaries (about 1% of all beneficiaries) had spousal or widow(er)'s benefits reduced by the GPO.

Opponents contend that the GPO is imprecise and can be unfair. Defenders argue it is the best method currently available for preserving the spousal benefit's original intent of supporting financially dependent spouses and for eliminating an unfair advantage for spouses working in non–Social Security–covered employment compared with spouses working in Social Security–covered jobs (who are subject to the dual entitlement rule).

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Background

In general, Social Security spousal and survivor benefits are paid to the spouses of retired, disabled, or deceased workers covered by Social Security. The spousal benefit equals 50% of a retired or disabled worker's benefit and the survivor benefit equals 100% of a deceased worker's benefit.

Spousal and widow(er)'s benefits, which Congress created in 1939 and 1950,¹ are intended for individuals who are financially dependent on a working spouse. For this reason, but also because of the costs, Social Security does not provide both full worker and full spousal benefits to the same individual. For persons who qualify for both a Social Security worker benefit (retirement or disability) based on their own work history and a Social Security spousal benefit based on a spouse's work history, the *dual entitlement* rule effectively caps total benefits at the higher of the worker's own benefit or the spousal benefit. The dual entitlement rule has been in law since 1939, when Congress created benefits for eligible wives and widows. The Government Pension Offset (GPO) is analogous in purpose to the dual entitlement provision and applies to individuals who qualify for both a retirement or disability pension based on their own *non-Social Security*–covered government work and a Social Security spousal benefit based on a spouse's work in Social Security–covered employment.² The GPO was originally established in 1977. It replaced an earlier dependency test for spousal benefits that had been in law since 1950. The dual entitlement rule and the GPO share the same intent—to reduce the Social Security spousal benefits of individuals who are not financially dependent on their spouses because they receive their own retired-worker or disabled-worker Social Security benefits, or their own non-Social Security pension benefits.

Social Security Covered and Noncovered Work

A worker is *covered* by Social Security if he or she works in *covered* employment and pays into Social Security through the Federal Insurance Contributions Act (FICA) payroll tax. To be eligible for a Social Security retired-worker benefit, a worker generally needs 40 earnings credits (10 years of Social Security–covered employment).³ Disabled workers are generally required to have worked fewer years, depending on the age at which the worker became disabled.⁴ Approximately 94% of workers are covered by Social Security in 2023.⁵ The majority of noncovered positions are held by government employees: most federal employees hired before 1984 and some state and local government employees. Nationwide, approximately 72% of state

¹ Wife's and widow's benefits were created in 1939, while husband's and widower's benefits were enacted in 1950. As a result of the Supreme Court's decision in *Obergefell v. Hodges*, the Social Security Administration is now able to recognize same-sex marriages and certain nonmarital legal relationships in all states, territories, and the District of Columbia. See CRS Report R41479, *Social Security: Revisiting Benefits for Spouses and Survivors*.

² The Government Pension Offset (GPO) is often confused with the Windfall Elimination Provision (WEP), which reduces Social Security benefits that a person receives *as a worker* if he or she also has a government pension based on *work that was not covered by Social Security*. For additional information on the Windfall Elimination Provision (WEP), please refer to CRS Report 98-35, *Social Security: The Windfall Elimination Provision (WEP)*.

³ A worker may earn up to four earnings credits per calendar year. In 2023, a worker earns one credit for each \$1,640 of covered earnings, up to a maximum of four credits for covered earnings of \$6,560 or more. Earnings credits are also called *quarters of coverage*.

⁴ Social Security Administration (SSA), *How You Earn Credits*, 2023, <https://best.ssa.gov/pubs/EN-05-10072.pdf>.

⁵ SSA, Office of Chief Actuary, *Social Security Program Fact Sheet*, January 2023, https://www.ssa.gov/OACT/FACTS/fs2022_12.pdf.

and local government employees were covered by Social Security in 2019.⁶ However, coverage varied from state to state. For example, approximately 95% of state and local employees in New York were covered by Social Security, whereas less than 3% of state and local employees in Ohio, and about 3% in Massachusetts, were covered.⁷

The Dual Entitlement Rule and the GPO

The GPO is intended to approximate Social Security’s dual entitlement rule. Both provisions are intended to reduce the Social Security benefits of spouses or widow(er)s who are not financially dependent on their spouses because they receive retirement or disability benefits based on their own work records.

Dual Entitlement Rule

Without the dual entitlement rule, a couple with two earners covered by Social Security would receive two full primary benefits as well as two full spousal or widow(er)’s benefits. The Social Security dual entitlement rule requires that a beneficiary effectively receive the *higher* of the Social Security worker’s benefit or the spousal or widow(er)’s benefit, but not both. The total benefit received by a worker consists of his or her own worker benefit plus the excess of the spousal or widow(er)’s benefit (if any) over his or her own benefit—not the sum of the two benefits. So, in cases where the spousal or widow(er)’s benefit is higher than the worker’s own benefit, the worker receives his or her own worker benefit plus the reduced spousal or widow(er)’s benefit, which is the difference between the spousal or widow(er)’s benefit and the worker’s own benefit (100% reduction). In cases where the worker’s own benefit is higher than the spousal or widow(er)’s benefit, the worker receives only his or her own benefit (i.e., the spousal or widow[er]’s benefit is reduced to zero).

Table 1 demonstrates how the Social Security dual entitlement rule is applied to spouses.

Table 1. Dual Entitlement Formula Applied to Spouses

	John	Mary
Social Security monthly worker benefit (based on <i>worker’s</i> earnings record)	\$2,000	\$900
Maximum Social Security monthly spousal benefit (based on <i>spouse’s</i> earnings record, equal to 50% of the spouse’s Social Security worker benefit)	\$450	\$1,000
Actual Social Security spousal monthly benefit paid (subtract worker benefit from spousal benefit; \$0 if worker benefit is larger)	\$0	\$100
Total (<i>worker</i> and <i>spousal</i>) Social Security monthly benefits paid to John and Mary	\$2,000	\$1,000

Source: Illustrative example provided by the Congressional Research Service (CRS).

⁶ SSA, Office of Research Evaluation and Statistics (ORES), unpublished table, “Social Security and Medicare Coverage of Workers from their State and Local Government Employment in 2019.”

⁷ SSA, ORES, unpublished table, “Social Security and Medicare Coverage of Workers from their State and Local Government Employment in 2019.” The disparity in coverage among states occurs because, while Social Security originally did not cover any state and local government workers, over time the law has changed. Most state and local government employees became covered by Social Security through voluntary agreements between the Social Security Administration (SSA) and individual states, known as *Section 218 Agreements* because they are authorized by §218 of the Social Security Act. Beginning in July 1991, state and local employees who were not members of a public retirement system or covered by a Section 218 agreement were mandatorily covered by Social Security.

In this example, both John and Mary have worked enough years in Social Security–covered positions (i.e., paid into Social Security) to qualify for Social Security retirement benefits. John has earned a monthly Social Security worker benefit of \$2,000. His wife Mary has earned a monthly Social Security worker benefit of \$900. Both John and Mary are also eligible for spousal benefits based on the other’s earnings: John is eligible for a \$450 monthly spousal benefit, and Mary is eligible for a \$1,000 monthly spousal benefit. Under the dual entitlement rule, John will not be paid a spousal benefit because his \$2,000 worker benefit based on his own earnings is higher than and more than offsets the potential \$450 spousal benefit. Mary’s worker benefit of \$900 must be subtracted from her potential \$1,000 spousal benefit, and only the difference of \$100 is paid as a spousal benefit. In total, Mary will receive \$1,000 monthly—\$900 as a Social Security worker benefit and \$100 as a Social Security spousal benefit. The Social Security benefits received by the couple would total \$3,000 per month.

If John were to predecease Mary, Mary would then be entitled to a monthly widow’s benefit of up to 100% of John’s monthly amount.⁸ Mary would continue to collect her own benefit of \$900 monthly, and that amount would offset the potential \$2,000 monthly widow’s benefit based on John’s work history. Thus, Mary would receive a Social Security worker benefit of \$900 and a Social Security widow’s benefit of \$1,100 (or \$2,000-\$900), for a total monthly benefit of \$2,000.

Because most workers are in Social Security–covered employment, the dual entitlement scenario is more common than the GPO among two-earner couples. In 2021, approximately 7.4 million out of 47.3 million Social Security retired worker beneficiaries, or about 16%, were dually entitled.⁹

Government Pension Offset Formula

The Social Security spousal or widow(er)’s benefit of a person who also receives a pension from government employment (federal, state, or local) that was based on work *not covered* by Social Security is reduced by a provision known as the Government Pension Offset (GPO).¹⁰ The GPO reduction to Social Security spousal and widow(er)’s benefits equals *two-thirds* of the pension from noncovered government employment. If the pension from noncovered work is sufficiently large in comparison to a person’s Social Security spousal or widow(er)’s benefit, the GPO may eliminate the entire Social Security spousal or widow(er)’s benefit.

In December 2022, 734,601 Social Security beneficiaries (about 1% of all beneficiaries) had spousal or widow(er)’s benefits reduced fully or partially by the GPO (this figure does not include persons who were eligible for spousal or widow(er)’s benefits but were deterred from

⁸ Technically, a widow(er)’s benefit is equal to up to 100% of the worker’s Primary Insurance Amount (PIA). The worker’s PIA is the benefit payable to the worker at full retirement age before any applicable reductions. The terminology used here is intended for ease of reference. For more information, see CRS Report R42035, *Social Security Primer*.

⁹ SSA, *Annual Statistical Supplement 2022*, Table 5.G1, <https://www.ssa.gov/policy/docs/statcomps/supplement/2022/5g.html#table5.g1> and Table 5.A1, <https://www.ssa.gov/policy/docs/statcomps/supplement/2022/5a.html#table5.a1>. The term *dually entitled* applies only to those who receive spousal or widow(er)’s benefits. If an individual’s own worker benefit is greater than his or her spousal or widow(er)’s benefit, that person receives the higher worker benefit and is not considered dually entitled. Administrative data do not provide the number of people in this latter category.

¹⁰ A pension in this setting is referred to as a periodic or lump-sum payment received from an employer’s retirement or disability plan based upon the individual’s noncovered earnings while in the service of a federal, state, or local government. The payment can be from either a defined benefit or defined contribution plan—for example, 401(k), 403(b), or 457. For more information, see SSA, Program Operations Manual System (POMS), “GN 02608.100 Government Pension Offset (GPO) Provision,” at <https://secure.ssa.gov/apps10/poms.nsf/lnx/0202608100>.

filing for them because of the GPO).¹¹ The GPO does not affect the amount of the Social Security benefit a worker may receive based on his or her own work in Social Security–covered employment, but it does limit the amount that can be paid to his or her spouse or widow(er) who has worked in non–Social Security–covered employment.

Table 2 provides an example of how the GPO is applied, assuming that John worked in Social Security–covered employment while Mary spent her full career in state or local government employment that was not covered by Social Security.

Table 2. GPO Formula for Spouses

	John	Mary
Social Security retired- or disabled-worker monthly benefit (based on <i>worker's</i> earnings record)	\$2,000	—
Non-Social Security–covered (government) monthly retirement or disability pension	—	\$900
Maximum Social Security spousal monthly benefit eligible to receive (based on <i>spouse's</i> earnings record, equal to 50% of the spouse's Social Security retired worker benefit)	—	\$1,000
Reduction in Social Security spousal monthly benefit due to GPO (equals 2/3 of the non–Social Security–covered pension: $\$900 \times 2/3 = \600)	—	\$600
Actual Social Security spousal monthly benefit paid (subtract 2/3 of non–Social Security–covered worker's pension from Social Security spousal benefit: $\$1,000 - \$600 = \$400$)	—	\$400
Total monthly retirement benefits paid to John (Social Security only) and Mary (Social Security plus pension from noncovered employment)	\$2,000	\$1,300

Source: Illustrative example provided by CRS.

Note: Dashes means not applicable.

In this example, John worked enough years in Social Security–covered employment to qualify for a monthly Social Security retired-worker benefit of \$2,000. His wife, Mary, is *not* eligible for a Social Security retired-worker benefit because she worked in a non–Social Security–covered government position and did not contribute to Social Security. Instead, Mary is eligible for a \$900 government pension based on her work in a non–Social Security–covered position. Mary is also eligible for a Social Security *spousal* benefit of up to \$1,000 based on John's work history. Under the GPO, Mary's potential Social Security spousal benefit is reduced by an amount equal to two-thirds of her non–Social Security–covered government pension (or a reduction of \$600), and the difference of \$400 ($\$1,000 - \600) is paid to her as a Social Security spousal benefit. In total, Mary will receive retirement benefits of \$1,300 per month: \$900 from her noncovered pension and \$400 from her Social Security spousal benefit.¹²

If John predeceased Mary, then two-thirds of her \$900 noncovered pension (\$600) would be used to partially offset the \$2,000 Social Security benefit she would be eligible for as a widow based on John's work history. She would receive a \$1,400 monthly widow's benefit from Social Security (in addition to her \$900 monthly noncovered pension benefit).

Table 3 highlights the differences between the dual entitlement rule and the GPO.

¹¹ SSA, ORES, unpublished Government Pension Offset Table A, received by CRS in January 2023.

¹² In this example, John is not eligible for a Social Security spousal benefit because Mary's employment was not covered by Social Security.

Table 3. Dual Entitlement Rule Compared with Government Pension Offset

Dual Entitlement Rule	Government Pension Offset
<p>Applies to individuals who qualify for both (a) a Social Security worker benefit (retirement or disability) based on their own work history in Social Security–covered employment and (b) a Social Security spousal or widow(er)'s benefit based on their spouse's work history in Social Security–covered employment.</p> <p>Dually entitled beneficiaries effectively receive the higher of the worker benefit or the spousal or widow(er)'s benefit. Specifically, the Social Security dual entitlement rule requires that 100% of a Social Security retirement or disability benefit earned as a worker be subtracted from any Social Security spousal or widow(er)'s benefit one is eligible to receive. Only the difference, if any, is paid as a spousal or widow(er)'s benefit and is added to the beneficiary's own worker benefit. Under the dual entitlement rule, a Social Security spousal or widow(er)'s benefit may be reduced to zero.</p>	<p>Applies to individuals who qualify for both (a) a government pension based on <i>non–Social Security–covered</i> government employment and (b) a Social Security spousal or widow(er)'s benefit based on a spouse's Social Security–covered employment. The GPO reduces Social Security benefits that a person receives as a <i>spouse or widow(er)</i> if he or she also has a federal, state or local government pension based on work that was <i>not</i> covered by Social Security.</p> <p>The GPO reduction to Social Security spousal or widow(er)'s benefits is equal to two-thirds of the noncovered retirement or disability government pension. Under the GPO, a Social Security spousal or widow(er)'s benefit may be reduced to zero.</p>

Source: Table compiled by CRS.

Rationale and Legislative History

Spouses' Financial Dependence

The policy rationale for Social Security spousal benefits has been, since the creation of spousal benefits in the 1930s, to support spouses who are financially dependent on the working spouse. The dual entitlement rule has operated since 1939 as a gauge of financial dependence.

Parity Between Spouses Subject to the Dual Entitlement Rule and the GPO

The GPO is intended to place spouses and widow(er)s whose government employment *was not covered* by Social Security in approximately the same position as spouses whose jobs *were covered* by Social Security. Before the GPO was enacted in 1977, workers who received pensions from a government job not covered by Social Security could also receive full Social Security spousal or widow(er)'s benefits even though they were not financially dependent on their spouses. The scenarios below demonstrate why the law was changed.

Table 4 shows how the spousal benefit of the same individual, Mary, would vary under three scenarios: (1) as a dually entitled recipient of Social Security retirement and spousal benefits; (2) as the recipient of a noncovered government pension and Social Security spousal benefits *before* the GPO was enacted; and (3) as the recipient of a noncovered government pension and Social Security spousal benefits *after* the GPO was enacted. In all three examples, it is assumed that Mary is potentially eligible for a Social Security spousal benefit of \$1,000 per month, computed as 50% of her husband's monthly Social Security benefit of \$2,000.

As a dually entitled retiree, under the first scenario, Mary's \$1,000 Social Security spousal benefit is reduced by her own Social Security retired-worker benefit of \$900, leaving her with a net spousal benefit of \$100 and a total (combined) Social Security benefit of \$1,000. Under the

second scenario (where Mary receives a noncovered government pension instead of a Social Security retirement benefit), *before* the GPO takes effect, Mary's Social Security spousal benefits are not reduced at all and she receives a full Social Security spousal benefit of \$1,000, plus the noncovered pension of \$900, for total monthly pension benefits of \$1,900. Under the third scenario (after the GPO was enacted in 1977), Mary's Social Security spousal benefit is reduced by two-thirds of her \$900 noncovered government pension, leaving her with a net Social Security spousal benefit of \$400 ($\$1,000 - \$900 \times 2/3$) and a total monthly pension benefit of \$1,300 (\$900 from the noncovered pension + \$400 from the Social Security spousal benefit).

Note that *the reduction to Social Security spousal benefits is smaller under the GPO than it is under the dual entitlement rule*: Mary receives monthly Social Security spousal benefits of \$100 under the dual entitlement rule, compared with \$400 under the GPO. Her total monthly retirement benefits are \$1,000 under the dual entitlement rule, compared with \$1,300 under the GPO. For those under the dual entitlement rule, the Social Security spousal benefit is reduced by one dollar for every dollar of Social Security retirement benefits based on their own work histories in Social Security-covered employment. For those under the GPO, however, the Social Security spousal benefit is reduced by approximately 67 cents for every dollar of a pension from noncovered government employment.

Table 4. Mary's Spousal Benefit Under Three Scenarios: Dual Entitlement Rule, Before GPO Enactment, and After GPO Enactment

	Mary works in Social Security–Covered Position	Mary works in Non-Social Security–Covered Position	
	Dually Entitled	Before GPO Enactment	After GPO Enactment
Social Security retired-worker monthly benefit (based on own earnings record)	\$900	\$0	\$0
Non-Social Security–covered monthly pension	\$0	\$900	\$900
Maximum Social Security spousal monthly benefit eligible to receive (based on spouse's earnings record), equal to 50% of the spouse's Social Security retirement benefit	\$1,000	\$1,000	\$1,000
Reduction in spousal monthly benefit due to dual entitlement rule (equal to worker's Social Security retired-worker benefit)	\$900	—	—
Reduction in Social Security spousal monthly benefit due to GPO (equals 2/3 of non-Social Security–covered pension)	—	—	\$600
Actual Social Security spousal monthly benefit paid	\$100	\$1,000	\$400
Total monthly retirement benefits paid to Mary (Social Security spousal benefit plus either (a) Social Security retired-worker benefit or (b) noncovered pension)	\$1,000	\$1,900	\$1,300

Source: Illustrative example provided by CRS.

Notes: Dashes are used to represent scenarios in which either the dual entitlement rule or the GPO are not applicable. For example, in the dual entitlement scenario, Mary does not receive a noncovered government pension and, thus, the GPO does not apply.

Why a Two-Thirds Reduction?

The GPO was originally established in 1977 (P.L. 95-216) and replaced an earlier *dependency test* for spousal benefits that had been in law since 1950.¹³ The 1977 law provided that 100% of the noncovered government pension be subtracted from the Social Security spousal or widow(er)'s benefit. If the original legislation had been left intact, individuals affected by the dual entitlement rule and the GPO would have been treated identically because, in both cases, the Social Security spousal or widow(er)'s benefit would have been reduced by 100% of the pension from noncovered employment.

The GPO's two-thirds offset rule was established by the Social Security Amendments of 1983 (P.L. 98-21), which made a number of amendments to Social Security. One section of the House version of this law proposed that the amount used in calculating the offset be one-third of the noncovered government pension. The Senate version contained no such provision and would therefore have left standing the 100% offset that existed at the time. The conferees adopted the House bill except that the offset was fixed at two-thirds of the noncovered government pension.¹⁴

Who Is Affected by the GPO?

In 2019, approximately 6.5 million state and local government workers (28% of all state and local government workers) were in non-Social Security-covered positions.¹⁵ A government worker who does not pay into Social Security may potentially be affected by the GPO if he or she is entitled to a Social Security spousal or widow(er)'s benefit based on a spouse's or ex-spouse's work in Social Security-covered employment.

Generally, federal government employees hired before 1984 are covered by the Civil Service Retirement System (CSRS) and are not covered by Social Security; therefore, they may be subject to the GPO.¹⁶ Most federal workers first hired into federal service after 1983 are covered by the Federal Employees' Retirement System (FERS), which includes Social Security coverage. Thus, although FERS retirees are not subject to the GPO, they, like all covered workers, may be subject to the Social Security dual entitlement rule.

As of December 2022, 734,601 Social Security beneficiaries, or about 1% of all beneficiaries, had spousal or widow(er)'s benefits reduced by the GPO (not counting those who were potentially eligible for spousal or widow(er)'s benefits but were deterred from filing for them because of their expectation that the GPO would eliminate the spousal or widow(er)'s benefit). Of these persons subject to the GPO, 52% were spouses and 48% were widows and widowers. About 83% of all affected persons were women.¹⁷ **Table 5** provides a breakdown of the affected beneficiaries by state and type of benefit.

¹³ The dual entitlement rule has been in law since 1939, when spousal benefits were introduced.

¹⁴ Effectively, the GPO offset formula assumes that two-thirds of the government pension is roughly equivalent to the Social Security retirement (or disability) benefit the spouse would have earned as a worker if his or her job had been covered by Social Security.

¹⁵ SSA, ORES, unpublished table, "Social Security and Medicare Coverage of Workers from their State and Local Government Employment in 2019."

¹⁶ Workers who switch from the Civil Service Retirement System (CSRS) to the Federal Employees' Retirement System (FERS) must work for five years under FERS to be exempt from the GPO.

¹⁷ SSA, ORES, unpublished Government Pension Offset Table DE01, January 2023.

Table 5. Number of Social Security Beneficiaries Affected by GPO, by State, Type of Benefit, and Offset Status, December 2022

State	Total	Type of Beneficiary		Offset Status	
		Spouses	Widow(er)s	Fully Offset ^a	Partially Offset ^b
Total	734,601	378,677	355,924	511,487	223,114
Alabama	4,564	1,833	2,731	3,376	1,188
Alaska	3,516	1,911	1,605	2,493	1,023
Arizona	10,099	5,059	5,040	7,392	2,707
Arkansas	3,165	1,423	1,742	2,305	860
California	102,344	54,313	48,031	81,631	20,713
Colorado	27,790	15,163	12,627	15,322	12,468
Connecticut	9,840	5,577	4,263	8,501	1,339
Delaware	778	296	482	579	199
District of Columbia	1,996	446	1,550	1,645	351
Florida	29,417	14,996	14,421	22,070	7,347
Georgia	21,415	10,176	11,239	15,189	6,226
Hawaii	1,978	1,019	959	1,511	467
Idaho	2,411	1,304	1,107	1,819	592
Illinois	47,484	25,330	22,154	39,311	8,173
Indiana	4,917	2,255	2,662	3,597	1,320
Iowa	1,899	904	995	1,433	466
Kansas	2,341	1,044	1,297	1,574	767
Kentucky	12,996	6,931	6,065	10,499	2,497
Louisiana	40,144	19,791	20,353	23,581	16,563
Maine	8,102	4,419	3,683	5,357	2,745
Maryland	8,951	2,808	6,143	7,165	1,786
Massachusetts	41,638	22,549	19,089	28,970	12,668
Michigan	6,238	3,078	3,160	4,653	1,585
Minnesota	4,816	2,350	2,466	3,894	922
Mississippi	3,241	1,382	1,859	2,414	827
Missouri	16,770	9,371	7,399	13,455	3,315
Montana	1,372	670	702	975	397
Nebraska	1,283	588	695	918	365
Nevada	11,927	6,072	5,855	9,039	2,888
New Hampshire	2,766	1,474	1,292	2,006	760
New Jersey	4,153	1,639	2,514	3,461	692
New Mexico	3,396	1,640	1,756	2,578	818

State	Total	Type of Beneficiary		Offset Status	
		Spouses	Widow(er)s	Fully Offset ^a	Partially Offset ^b
New York	6,785	2,943	3,842	5,428	1,357
North Carolina	8,329	3,724	4,605	6,149	2,180
North Dakota	491	187	304	315	176
Ohio	101,947	55,587	46,360	61,522	40,425
Oklahoma	3,974	1,494	2,480	2,594	1,380
Oregon	4,901	2,534	2,367	3,577	1,324
Pennsylvania	7,494	3,142	4,352	5,655	1,839
Rhode Island	2,125	1,151	974	1,770	355
South Carolina	5,671	2,755	2,916	4,177	1,494
South Dakota	824	424	400	600	224
Tennessee	6,815	3,081	3,734	5,053	1,762
Texas	99,749	51,699	48,050	54,886	44,863
Utah	2,862	1,363	1,499	1,781	1,081
Vermont	682	323	359	510	172
Virginia	7,857	2,909	4,948	5,813	2,044
Washington	7,006	3,529	3,477	5,089	1,917
West Virginia	1,618	682	936	1,024	594
Wisconsin	3,523	1,765	1,758	2,809	714
Wyoming	632	326	306	417	215
Outlying areas and foreign countries	17,569	11,248	6,321	13,605	3,964

Source: Social Security Administration, Office of Research, Evaluation and Statistics, January 2023, unpublished data.

Notes: Includes persons entitled to spousal/widow(er)'s benefits only and those dually entitled to spousal/widow(er)'s and worker benefits.

- a. Individual received no Social Security spousal or widow(er)'s benefit because the reduction in the Social Security spousal or widow(er)'s benefit (a reduction equal to two-thirds of the pension from noncovered government employment) was greater than the Social Security benefit itself. Either the noncovered pension was large, or the potential Social Security benefit was small (or both).
- b. Individual received partial Social Security spousal or widow(er)'s benefits because the reduction in the Social Security benefit (a reduction equal to two-thirds of the pension from noncovered government employment) was less than the Social Security benefit itself.

In December 2022, the average noncovered government pension amount for persons affected by the GPO was \$2,690 per month (\$2,453 per month for women and \$3,798 per month for men).¹⁸ The average pre-offset Social Security spousal benefit at that time was \$1,058 per month (\$1,136

¹⁸ SSA, ORES, unpublished Government Pension Offset Table G209, January 2023. Data are limited to those beneficiaries for whom the offset amount is available.

per month for women and \$691 per month for men).¹⁹ The average reduction caused by the GPO was \$808 per month (\$839 per month for women and \$665 per month for men).²⁰ The average Social Security spousal benefit component after applying the GPO was \$249 per month (\$297 per month for women and \$26 per month for men).²¹ Among beneficiaries who were affected by the GPO in December 2022, 70% had their potential Social Security spousal or widow(er)'s benefit fully offset by the GPO reduction; that is, their potential Social Security spousal or widow(er)'s benefit was reduced to zero.²² Among those whose Social Security spousal or widow(er)'s benefit was partially offset by the GPO reduction, on average, the reduced Social Security benefit comprised about 43% of the total payment received (noncovered government pension plus reduced Social Security benefit).²³

In comparison to the 723,970 beneficiaries affected by the GPO in December 2021,²⁴ the dual entitlement rule affected approximately 7.4 million retired worker beneficiaries. About 7.1 million (96%) of all affected beneficiaries were women.²⁵ Wives made up 41% of all dually entitled retired workers, and widows made up 55%. Among dually entitled workers, the average Social Security total benefit (retired worker plus spouse or widow(er)'s benefit) received was \$1,493.²⁶ Of this amount, \$851 was the retired worker component of the benefit. The spousal or widow(er)'s benefit component was \$642 (after reduction for dual entitlement).²⁷ On average, among dually entitled retired workers, therefore, the spousal or widow(er)'s benefit comprised about 43% of the total Social Security benefit received.

Issues

Opponents argue that the GPO is not well understood and that it harms lower-wage workers. The GPO's defenders maintain that it helps ensure that only financially dependent spouses receive the Social Security spousal or widow(er)'s benefit, while curtailing what otherwise would be an unfair advantage for government workers who are not covered by Social Security.

¹⁹ SSA, ORES, unpublished Government Pension Offset Table G309, January 2023. Data are limited to those beneficiaries for whom the offset amount is available. Includes persons entitled to spousal/widow(er)'s benefits only and those dually entitled to spousal/widow(er)'s and worker benefits. For a dually entitled beneficiary, the pre-offset Social Security benefit is the difference between the larger spousal/widow(er)'s benefit and the smaller worker benefit.

²⁰ SSA, ORES, unpublished Government Pension Offset, Table G609, January 2023. Data are limited to those beneficiaries for whom the offset amount is available.

²¹ SSA, ORES, unpublished Government Pension Offset Table G509, January 2023. Data are limited to those beneficiaries for whom the offset amount is available. Amounts may not add due to rounding.

²² SSA, ORES, unpublished Government Pension Offset Table G105, January 2023. Data are limited to those beneficiaries for whom the offset amount is available.

²³ SSA, ORES, unpublished Government Pension Offset Tables G209 and G509, January 2023. Data are limited to those beneficiaries for whom the offset amount is available.

²⁴ SSA, ORES, unpublished Government Pension Offset Table DE01, February 2022.

²⁵ SSA, *Annual Statistical Supplement, 2022*, Table 5.G2, available at <https://www.ssa.gov/policy/docs/statcomps/supplement/2022/5g.html#table5.g2>. The term *dually entitled* applies only to those who receive spousal or widow(er)'s benefits. If an individual's own worker benefit is greater than his or her spousal or widow(er)'s benefit, that person receives the higher worker benefit and is not considered dually entitled. Administrative data do not provide the number of people in this latter category.

²⁶ SSA, *Annual Statistical Supplement, 2022*, Table 5.G3.

²⁷ SSA, *Annual Statistical Supplement, 2022*, Table 5.G3.

Awareness of the GPO and Retirement Preparedness

The GPO's critics say that it is not well understood and that many affected by it are unprepared for a smaller Social Security benefit than they had assumed in making retirement plans. The provision's supporters say it has been law for more than 40 years (it was enacted in 1977); therefore, people have had ample time to adjust their retirement plans. P.L. 108-203, passed in 2004, included a provision that sought to ensure that SSA and government employers notify potentially affected individuals about the effect of the GPO and the Windfall Elimination Provision (WEP).²⁸

Section 1143 of the Social Security Act (as amended) requires SSA to provide Social Security number holders with annual statements that contain certain information from their Social Security records.²⁹ The annual statement is now referred to as the Social Security Statement or, more simply, as the Statement. In accordance with the law, the Statement advises the individual that participation in a retirement plan or receipt of a pension based on earnings for which he or she did not pay Social Security payroll taxes could result in lower Social Security benefits. The Statement provides a link to related information about the WEP and the GPO on SSA's website. Under current policy, annual Statements are available online for any individual who creates a "my Social Security Account" on SSA's web portal. SSA sends an email each year to "my Social Security Account" holders reminding them to check their annual Statements online. SSA automatically mails paper Statements annually to any individual who (1) is aged 60 or older, (2) has not yet claimed benefits, and (3) has not created a "my Social Security Account." A Statement is mailed three months before an individual's birthday. Individuals can also request a mailed paper Statement at any time.³⁰

GPO Reduction Smaller Than Dual Entitlement Reduction

The reduction to Social Security spousal or widow(er)'s benefits is smaller under the GPO than it is under the dual entitlement rule. Those under dual entitlement face a 100% offset to spousal or widow(er)'s benefits for every dollar received from a Social Security retired-worker benefit, whereas those under the GPO face an offset to spousal and widow(er)'s benefits equal to two-thirds of a non-Social Security-covered pension. In the example shown in **Table 4**, in which comparable spouses each receive a \$900 retirement benefit based on their own work histories, applying the dual entitlement provision's 100% offset results in a \$100 monthly Social Security spousal benefit for Mary. Comparatively, Mary qualifies for a \$400 monthly Social Security spousal benefit under the GPO's two-thirds offset.

Parity Among Social Security-Covered Workers and Noncovered Workers

The majority of state and local government workers, and federal employees hired since 1984, are covered by Social Security. Some argue that eliminating the GPO would be unfair to government employees in Social Security-covered positions, who would continue to be subject to the dual entitlement provision. As discussed above, for those under dual entitlement, the Social Security

²⁸ The WEP reduces Social Security benefits that a person receives as a worker if he or she also has a government pension based on work that was not covered by Social Security.

²⁹ See Section 1143 of the Social Security Act (Social Security Account Statements) at https://www.ssa.gov/OP_Home/ssact/title11/1143.htm.

³⁰ See CRS Report R47183, *The Social Security Statement*.

spousal or widow(er)'s benefit is reduced by one dollar for every dollar of Social Security retirement benefits based on their own work history in Social Security–covered employment. For those under the GPO, however, the Social Security spousal or widow(er)'s benefit is reduced by approximately 67 cents for every dollar of a pension from noncovered government employment.

Impact on Low-Wage Workers

There is disagreement about the original intention of the GPO, which was enacted in 1977. Some argue that the original purpose was to prevent higher-paid workers from reaping overly generous spousal or widow(er)'s benefits. Others contest this, saying that the GPO was never targeted to a particular income group.

The GPO's opponents argue that the provision hurts lower- and middle-wage workers, such as teachers, and in some circumstances throws these workers into poverty. Opponents also say that the GPO is especially disadvantageous for surviving spouses.

Evidence of the GPO's effect on low earners comes from SSA data on the program.³¹ While 70% of those affected by the GPO in December 2022 had their benefits fully offset, about 15% of those with noncovered pensions of less than \$1,000 per month had their benefits fully offset, compared with 55% of those with monthly noncovered pensions between \$1,000 and \$1,999, 85% of those between \$2,000 and \$2,999, and nearly 100% of individuals with noncovered pensions over \$3,000 per month.³² Among the group of individuals whose benefits were completely eliminated by the GPO, about 5% of this group had a noncovered pension amount lower than \$1,000 per month.³³ And among the beneficiaries who received some Social Security spousal or widow(er)'s benefit after GPO reduction (partially offset), about 58% of them had a noncovered government pension amount less than \$1,000 per month, and almost 100% of them had a noncovered government pension amount less than \$3,000 per month.³⁴ Thus, if the noncovered pension amount is a reflection of the approximate earnings levels of individuals affected by the GPO, a greater percentage of those with lower earnings receive at least a partial Social Security benefit relative to the overall GPO-affected population.

³¹ How an individual would be affected by the GPO versus the dual entitlement rule is determined by several key variables, including the relative earnings level of the individual, the timing of the worker's noncovered employment during his or her career, and the number of years in noncovered employment. The primary difference between outcomes among high and low earners is driven by the fact that a worker's Social Security benefit (the basis for the dual entitlement offset, which reduces the spousal benefit by 100% of this amount) is progressive, while pensions from noncovered government employment (the basis for the GPO reduction, which reduces spousal benefits by two-thirds of this amount) generally provide a pension that is the same fixed percentage of earnings regardless of the earnings level. As earnings rise, if the earnings are from noncovered employment then the pension from this employment rises proportionately; if the earnings are from covered employment, then the Social Security benefit, which is progressive, rises less than proportionately. Hence for high earners, the GPO offset to spousal benefits, which is two-thirds of noncovered pensions and which rises proportionately as income rises, becomes more significant than the dual-entitlement offset to spousal benefits, which involves a 100% offset to the Social Security benefit and which rises more slowly as income rises. In general, any combination of variables (such as earnings level, timing of noncovered employment, or number of years in noncovered employment) that increases the size of the noncovered government pension more than it increases the size of the Social Security benefit (assuming the same earnings were covered by Social Security) would make the dual entitlement rule more advantageous to an individual than the GPO.

³² CRS calculations based on data provided by SSA's ORES, unpublished Table I, January 2023. The sample is limited to those beneficiaries for which the offset amount is available.

³³ CRS calculations based on data provided by SSA's ORES, unpublished Table I, January 2023. The sample is limited to those beneficiaries for which the offset amount is available.

³⁴ CRS calculations based on data provided by SSA's ORES, unpublished Table I, January 2023. The sample is limited to those beneficiaries for which the offset amount is available.

Regarding concerns about pushing those affected by the GPO into poverty, in 2001, the poverty rate among those affected by the GPO was approximately 6.0%, whereas the poverty rate for those affected by the dual entitlement rule was approximately 8.9%.³⁵ The poverty rate for all Social Security beneficiaries aged 65 and older was about 8.5%. For comparison purposes, the poverty rate for the general population at that time was approximately 11.3%.

Imprecision of the Two-Thirds Offset to Noncovered Government Pensions

Opponents point out that whatever the rationale for the GPO, reducing everyone's spousal or widow(er)'s benefit by two-thirds of their government pension is an imprecise way to estimate what the spousal benefit would have been if the government job had been covered by Social Security. If two-thirds of the government pension were in fact a good proxy for Social Security retirement benefits, there would be no significant difference in outcomes between the dual entitlement rule and the GPO. As noted above (see the previous section, "Impact on Low-Wage Workers"), however, there is great variation in outcomes. The GPO may lead to a smaller offset relative to the dual entitlement rule for low earners than for high earners.

Ideally, opponents argue, the way to compute the offset is to replicate the dual entitlement rule. Under the dual entitlement rule, the reduction to the spousal or widow(er)'s benefit is Social Security worker's benefit, that is, applying Social Security benefit formula to the spouse's all Social Security-covered earnings. To mimic that approach, in cases that the spouse's entire career was not covered by Social Security, the GPO reduction would be an amount equivalent to applying the Social Security benefit formula to all those noncovered earnings.³⁶ All covered and noncovered earnings have been reported to SSA on Form W-2 since 1978.³⁷ Although some initial records were incomplete or duplicative, sufficient earnings records over a worker's entire working life are now available to SSA. This data's availability means that the offset based on both spouses' covered and noncovered earnings is now an option for Congress to consider.³⁸

³⁵ Poverty rates were calculated by David Weaver, SSA's Office of Retirement Policy, using the March 2001 Current Population Survey (CPS). Poverty status is taken directly from the CPS and is thus subject to errors in the reporting of income. The sample for the GPO and dually entitled poverty rates only includes persons for whom SSA administrative records could be matched. The sample size for the GPO poverty rate is relatively small (130 cases). Poverty rates for the Social Security beneficiary population aged 65 and over and for the general population do not require matched data and are based completely on CPS data. Updated data for this comparison are not available.

³⁶ In cases that the spouse's career is split between covered and noncovered jobs, the GPO reduction would be the Social Security benefit based on total earnings subtracting the Social Security benefit based on covered earnings—that is, the part of Social Security benefits based on total earnings that are attributable to noncovered earnings. In this situation, the person might be entitled to both Social Security worker's benefits and spousal or widow(er)'s benefits (i.e., dually entitled), and the person might be affected by both the Windfall Elimination Provision (WEP) and the GPO. The person's Social Security worker's benefit might be reduced by the WEP, and the person's Social Security spousal or widow(er)'s benefit might be reduced by both Social Security worker's benefit (affected by the WEP) and the GPO reduction. For more information, see CRS Report R45845, *Social Security: Beneficiaries Affected by Both the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO)*.

³⁷ Anya Olsen and Russell Hudson, "Social Security Administration's Master Earnings File: Background Information," 2009, *Social Security Bulletin*, vol. 69, no. 3, at <https://www.ssa.gov/policy/docs/ssb/v69n3/v69n3p29.html>.

³⁸ The President's Budget for FY2017 included a proposal to modify the GPO based on both spouses' covered and noncovered earnings. For more information, see https://www.ssa.gov/legislation/testimony_032216.html.

Applying the GPO to Government Versus Private Pensions

Some question why the GPO does not apply to the spousal or widow(er)'s benefits received by private-sector workers' spouses, who may receive private, employer-sponsored pensions (defined benefit or defined contribution) in addition to Social Security benefits. Generally, the private-sector employment on which the private pension is based would be covered by Social Security. Therefore, the dual entitlement rule (which the GPO is meant to replicate) would instead reduce any Social Security spousal or widow(er)'s benefits for which a beneficiary might be eligible. As noted earlier, in many cases the dual entitlement rule would produce a larger reduction in spousal or widow(er)'s benefits than does the GPO.

Cost of Eliminating the GPO

Some argue that weakening or eliminating the GPO would be costly at a time when neither Social Security nor the federal budget is in sound financial condition. In 2022, the Congressional Budget Office (CBO) projected that eliminating the GPO would cost \$107 billion over the period 2022-2032.³⁹ Such a move could also lead to demands for repeal of the dual entitlement rule to ensure parallel treatment for those working in Social Security–covered employment. In 2003, SSA estimated that eliminating the dual entitlement rule would cost approximately \$500 billion over a five-year period.⁴⁰

Last Legislative Change: The GPO *Last-Day* Rule

A burgeoning controversy arose in the 108th Congress with the revelation that a growing number of state and local government workers had been making use of a little-known provision of the law that allowed them to escape the application of the GPO if they switched jobs at the very end of their government careers. That provision granted an exception to the GPO if, on the last day of one's government service, he or she worked in a Social Security–covered position. On August 15, 2002, the Government Accountability Office (GAO) released a report that found that, as of June 2002, 4,819 individuals in Texas and Georgia had switched to Social Security–covered positions to avoid having the GPO applied to their Social Security spousal benefits. The GAO projected that the cost to the program for these cases could be about \$450 million.⁴¹

³⁹ CBO also estimated that, accounting for the interaction among Social Security provisions and other federal programs, eliminating the WEP and the GPO would cost \$183 billion over the period 2022-2032. See CBO, *Cost Estimate: H.R. 82, Social Security Fairness Act of 2021*, September 20, 2022, <https://www.cbo.gov/publication/58488>. SSA's Office of the Chief Actuary projected that repealing the WEP and the GPO would have increased program costs by \$146 billion over the period including 2022-2031. The estimates also show that the bill would have reduced the long-range actuarial balance (i.e., increase the net long-term cost) of the combined Social Security trust funds by 0.12% of taxable payroll and would have changed the projected year of reserve depletion for the combined Social Security trust funds from 2035 under current law to 2034 under the proposal. See letter from Stephen C. Goss, Chief Actuary, SSA, to the Hon. Rodney Davis and the Hon. Abigail Spanberger, U.S. House of Representatives, July 20, 2022, https://www.ssa.gov/OACT/solvency/DavisSpanberger_20220720.pdf. The projection was based on the intermediate assumptions of the 2022 Social Security trustees report. *Taxable payroll* is the total amount of earnings in the economy that is subject to Social Security payroll and self-employment taxes (with some adjustments).

⁴⁰ SSA, Memorandum from Bert Kestenbaum of the Office of the Chief Actuary, "Estimated Additional OASDI Benefit Payments from Proposals to Eliminate or Change the Dual-Entitlement Offset Provision—INFORMATION," April 17, 2003. SSA has not published a more recent estimate.

⁴¹ U.S. General Accounting Office (now called Government Accountability Office), Report GAO-02-950, *Revision to the Government Pension Offset Exemption Should Be Reconsidered*, August 15, 2002.

On February 11, 2004, the House of Representatives agreed to Senate amendments and passed H.R. 743, the Social Security Protection Act of 2003, which became P.L. 108-203.⁴² As discussed below, P.L. 108-203 eliminated the last-day exception clause by requiring those workers switching from noncovered positions to Social Security–covered positions to work in the covered position for at least 60 months (five years) before being exempt from the GPO.⁴³ The new GPO provision became effective for Social Security spousal benefit applications filed after March 31, 2004.

How Does the Last-Day Rule Affect Exemption from the GPO?

Current Social Security beneficiaries who are receiving spousal benefits and are exempt from the GPO because they retired from their noncovered positions in government under the last-day rule would continue to be exempt from the GPO. Individuals may still be exempt from the GPO under the following conditions:

- *They applied for Social Security spousal benefits before April 1, 2004, and work their last day in a Social Security–covered position within the same retirement system.* In this case, an individual who received a Social Security spousal benefit before April 1, 2004, could continue to work in a noncovered position and still make use of the last-day rule when he or she retires from government employment, regardless of when the retirement occurs.
- *Their last day of government service occurred before July 1, 2004, and they worked their last day in a Social Security–covered position within the same retirement system.* In other words, if a worker switched from noncovered government work to Social Security–covered work for his or her last day of work within the same retirement system, he or she is exempt from the GPO, even if the worker files for Social Security benefits at a later date. However, if a worker returns to work in a noncovered position in the same retirement system that he or she previously retired from and new contributions are made by either the employee or employer to the noncovered pension system, the worker’s last-day exemption from the GPO will be revoked and he or she will be subject to the new 60-month requirement for exemption from the GPO.

⁴² For more information on H.R. 743, see SSA’s legislative bulletin on P.L. 108-203, http://www.socialsecurity.gov/legislation/legis_bulletin_030404.html.

⁴³ This five-year period for GPO exemption is consistent with that required of federal employees converting from CSRS to FERS.

- *Their last day of government service occurs on or after July 1, 2004, and before March 2, 2009, and they work a total of 60 months in a Social Security–covered position within the same retirement system.* The required 60-month period of Social Security–covered employment would be reduced by the number of months the worker performed in Social Security–covered employment under the same retirement system prior to March 2, 2004. However, in no case can the 60-month requirement be reduced to less than one month. For example, a teacher who is currently working in a noncovered position but who previously worked for 12 months in a Social Security–covered position under the same retirement system would have the 60-month requirement reduced to 48 months. The remaining months to be worked (in this case 48 months), must be worked consecutively and after March 2, 2004. Thus, if the worker switched to a covered position *in the same retirement system* as his or her prior government work for at least the final 48-month period of his or her employment *and* his or her last day of employment was before March 2, 2009, the worker would be exempt from the GPO.
- *Their last day of government service occurs after March 3, 2009, and they work their last 60 months in a Social Security–covered position within the same retirement system.*

All other individuals receiving government pensions based on noncovered employment would be subject to reductions in Social Security spousal or widow(er)'s benefits under the GPO.

Author Information

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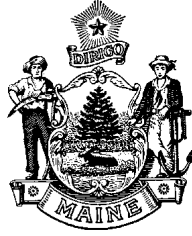
Acknowledgments

SSA's Office of Research, Evaluation, and Statistics provided unpublished data on beneficiaries affected by the GPO. CRS Research Assistant Paul Romero assisted updating the report.

Disclaimer

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Maine Secretary of State



Board or Commission Annual Report Covering calendar year 2023

BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM
MONICA GORMAN, Clerk of the Board
P.O. BOX 349
AUGUSTA, ME 04332-0349

SOS Tracking #: 411
Title 5, Chapter 379: 5 MRSA § 12004-F, sub-§ 9

Name of Person Completing the Report: MONICA GORMAN
Estimate of the number of hours that the Clerk spent working for the board or commission: 700.00
Date Report Filed: December 20, 2023

Is your board or commission active?: Yes
Did your board or commission meet in 2023?: Yes

Total number of meetings in 2023?: 12
Average number of members attending: 7.58
Average length of meeting: 3.92

Summary of the activities of the board or commission related to accomplishing its mission in 2023:

The MainePERS Board of Trustees met monthly to oversee the functions and operations of the System.

411 - BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM
Detailed Meeting Information for 2023

1 - Meeting or Other Activity

Description of meeting or other activity: BOARD OF TRUSTEE MEETING

Date of meeting or other activity: 01/12/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 8 of 8

Length of meeting or other activity: 3.50

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$330.00

Funding Source: PRIVATE FUND: \$330.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$140.60

Funding Source: PRIVATE FUND: \$140.60

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$38.34

Funding Source: PRIVATE FUND: \$38.34

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$237.25

Funding Source: PRIVATE FUND: \$237.25

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

411 - BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM
Detailed Meeting Information for 2023

2 - Meeting or Other Activity

Description of meeting or other activity: BOARD OF TRUSTEES MEETING

Date of meeting or other activity: 02/09/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 8 of 8

Length of meeting or other activity: 3.50

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$330.00

Funding Source: PRIVATE FUND: \$330.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$84.60

Funding Source: PRIVATE FUND: \$84.60

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$36.73

Funding Source: PRIVATE FUND: \$36.73

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$201.05

Funding Source: PRIVATE FUND: \$201.05

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

411 - BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM
Detailed Meeting Information for 2023

3 - Meeting or Other Activity

Description of meeting or other activity: BOARD OF TRUSTEES MEETING

Date of meeting or other activity: 03/09/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 8 of 8

Length of meeting or other activity: 4.00

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$330.00

Funding Source: PRIVATE FUND: \$330.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$84.60

Funding Source: PRIVATE FUND: \$84.60

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$36.73

Funding Source: PRIVATE FUND: \$36.73

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$307.65

Funding Source: PRIVATE FUND: \$307.65

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

411 - BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM
Detailed Meeting Information for 2023

4 - Meeting or Other Activity

Description of meeting or other activity: BOARD OF TRUSTEES MEETING

Date of meeting or other activity: 04/13/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 8 of 8

Length of meeting or other activity: 3.50

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$330.00

Funding Source: PRIVATE FUND: \$330.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$116.90

Funding Source: PRIVATE FUND: \$116.90

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$38.34

Funding Source: PRIVATE FUND: \$38.34

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$401.94

Funding Source: PRIVATE FUND: \$401.94

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

411 - BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM
Detailed Meeting Information for 2023

5 - Meeting or Other Activity

Description of meeting or other activity: BOARD OF TRUSTEES MEETING

Date of meeting or other activity: 05/11/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 7 of 8

Length of meeting or other activity: 3.00

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$275.00

Funding Source: PRIVATE FUND: \$275.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$116.90

Funding Source: PRIVATE FUND: \$116.90

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$38.34

Funding Source: PRIVATE FUND: \$38.34

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$312.99

Funding Source: PRIVATE FUND: \$312.99

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

411 - BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM
Detailed Meeting Information for 2023

6 - Meeting or Other Activity

Description of meeting or other activity: BOARD OF TRUSTEES MEETING

Date of meeting or other activity: 06/08/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 6 of 8

Length of meeting or other activity: 3.00

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$275.00

Funding Source: PRIVATE FUND: \$275.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$164.80

Funding Source: PRIVATE FUND: \$164.80

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$38.34

Funding Source: PRIVATE FUND: \$38.34

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$417.18

Funding Source: PRIVATE FUND: \$417.18

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

411 - BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM
Detailed Meeting Information for 2023

7 - Meeting or Other Activity

Description of meeting or other activity: BOARD OF TRUSTEES MEETING

Date of meeting or other activity: 07/13/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 8 of 8

Length of meeting or other activity: 3.50

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$330.00

Funding Source: PRIVATE FUND: \$330.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$168.40

Funding Source: PRIVATE FUND: \$168.40

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$38.34

Funding Source: PRIVATE FUND: \$38.34

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$374.42

Funding Source: PRIVATE FUND: \$374.42

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

411 - BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM
Detailed Meeting Information for 2023

8 - Meeting or Other Activity

Description of meeting or other activity: BOARD OF TRUSTEES MEETING

Date of meeting or other activity: 08/10/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 8 of 8

Length of meeting or other activity: 3.50

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$330.00

Funding Source: PRIVATE FUND: \$330.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$116.90

Funding Source: PRIVATE FUND: \$116.90

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$38.34

Funding Source: PRIVATE FUND: \$38.34

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$237.43

Funding Source: PRIVATE FUND: \$237.43

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

411 - BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM
Detailed Meeting Information for 2023

9 - Meeting or Other Activity

Description of meeting or other activity: BOARD OF TRUSTEES MEETING

Date of meeting or other activity: 09/14/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 7 of 8

Length of meeting or other activity: 5.50

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$116.90

Funding Source: PRIVATE FUND: \$116.90

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$0.00

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$414.58

Funding Source: PRIVATE FUND: \$414.58

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$275.00

Funding Source: PRIVATE FUND: \$275.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

411 - BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM
Detailed Meeting Information for 2023

10 -Meeting or Other Activity

Description of meeting or other activity: BOARD OF TRUSTEES MEETING

Date of meeting or other activity: 10/12/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 7 of 8

Length of meeting or other activity: 5.50

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$85.40

Funding Source: PRIVATE FUND: \$85.40

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$0.00

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$257.71

Funding Source: PRIVATE FUND: \$257.71

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$275.00

Funding Source: PRIVATE FUND: \$275.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

411 - BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM
Detailed Meeting Information for 2023

11 -Meeting or Other Activity

Description of meeting or other activity: BOARD OF TRUSTEES MEETING

Date of meeting or other activity: 11/09/2023

Location of meeting or other activity: PORTLAND, ME

Number of members attending: 8 of 8

Length of meeting or other activity: 5.00

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$249.00

Funding Source: PRIVATE FUND: \$249.00

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$0.00

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$497.60

Funding Source: PRIVATE FUND: \$497.60

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$330.00

Funding Source: PRIVATE FUND: \$330.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

411 - BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM
Detailed Meeting Information for 2023

12 -Meeting or Other Activity

Description of meeting or other activity: BOARD OF TRUSTEES

Date of meeting or other activity: 12/14/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 8 of 8

Length of meeting or other activity: 3.50

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$168.40

Funding Source: PRIVATE FUND: \$168.40

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$0.00

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$465.15

Funding Source: PRIVATE FUND: \$465.15

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$330.00

Funding Source: PRIVATE FUND: \$330.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

411 - BOARD OF TRUSTEES, MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

Members of the Board or Commission as recorded in the Secretary of State's office as of the date of filing:

Seat 01

JOHN S. BELIVEAU

MAINEPERS, P.O. BOX 349, AUGUSTA, ME 04332-0349

Appointment Date: 01/27/2022

Expiration Date: 12/31/2024

Seat 02

BRIAN H. NOYES

MAINEPERS, P.O. BOX 349, AUGUSTA, ME 04332-0349

Appointment Date: 04/23/2021

Expiration Date: 12/31/2023

Seat 03

JOHN H. KIMBALL

MAINEPERS, P.O. BOX 349, AUGUSTA, ME 04332-0349

Appointment Date: 04/19/2023

Expiration Date: 12/31/2025

Seat 04

KENNETH WILLIAMS

MAINEPERS, P.O. BOX 349, AUGUSTA, ME 04332-0349

Appointment Date: 04/23/2021

Expiration Date: 12/31/2023

Seat 05

MARK A. BRUNTON

MAINEPERS, P.O. BOX 349, AUGUSTA, ME 04332-0349

Appointment Date: 04/23/2021

Expiration Date: 12/31/2023

Seat 06

RICHARD T. METIVIER

MAINEPERS, P.O. BOX 349, AUGUSTA, ME 04332-0349

Appointment Date: 04/19/2023

Expiration Date: 12/31/2025

Seat 07

SHIRRIN L. BLAISDELL

MAINEPERS, P.O. BOX349, AUGUSTA, ME 04332-0349

Appointment Date: 01/27/2022

Expiration Date: 12/30/2024

Seat 08

HENRY BECK

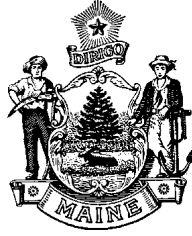
39 SHS, AUGUSTA, ME 04333-0039

Appointment Date: 01/08/2019

Expiration Date:

Total seats vacant as of December 31, 2023: 0

Maine Secretary of State



Board or Commission Annual Report Covering calendar year 2023

PARTICIPATING LOCAL DISTRICT ADVISORY COMMITTEE
MONICA GORMAN, Clerk of the Board
P.O. BOX 349
AUGUSTA, ME 04332-0349

SOS Tracking #: 5051
Title 5, Chapter 379: 5 MRSA § 12004-I, sub-§ 78-A

Name of Person Completing the Report: MONICA GORMAN
Estimate of the number of hours that the Clerk spent working for the board or commission: 35.00
Date Report Filed: December 28, 2023

Is your board or commission active?: Yes
Did your board or commission meet in 2023?: Yes

Total number of meetings in 2023?: 4
Average number of members attending: 9.75
Average length of meeting: 1.50

Summary of the activities of the board or commission related to accomplishing its mission in 2023:

The Participating Local District Advisory Committee met to review items related to the administration of the PLD Consolidated Retirement Plan.

5051 - PARTICIPATING LOCAL DISTRICT ADVISORY COMMITTEE

Detailed Meeting Information for 2023

1 - Meeting or Other Activity

Description of meeting or other activity: PLD ADVISORY COMMITTEE MEETING

Date of meeting or other activity: 02/07/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 10 of 12

Length of meeting or other activity: 1.00

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$0.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$0.00

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$41.55

Funding Source: PRIVATE FUND: \$41.55

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$0.00

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

5051 - PARTICIPATING LOCAL DISTRICT ADVISORY COMMITTEE

Detailed Meeting Information for 2023

2 - Meeting or Other Activity

Description of meeting or other activity: PLD ADVISORY COMMITTEE MEETING

Date of meeting or other activity: 05/02/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 9 of 12

Length of meeting or other activity: 1.50

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$55.00

Funding Source: PRIVATE FUND: \$55.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$0.00

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$41.55

Funding Source: PRIVATE FUND: \$41.55

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$0.00

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

5051 - PARTICIPATING LOCAL DISTRICT ADVISORY COMMITTEE

Detailed Meeting Information for 2023

3 - Meeting or Other Activity

Description of meeting or other activity: PLD ADVISORY COMMITTEE MEETING

Date of meeting or other activity: 08/01/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 8 of 12

Length of meeting or other activity: 1.50

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$0.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$0.00

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$41.55

Funding Source: PRIVATE FUND: \$41.55

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$0.00

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

5051 - PARTICIPATING LOCAL DISTRICT ADVISORY COMMITTEE

Detailed Meeting Information for 2023

4 - Meeting or Other Activity

Description of meeting or other activity: PLD ADVISORY COMMITTEE MEETING

Date of meeting or other activity: 11/07/2023

Location of meeting or other activity: AUGUSTA, ME

Number of members attending: 12 of 12

Length of meeting or other activity: 2.00

Total Per diem compensation received by board members for each meeting or other activity of the board. This expense category includes per diem payments only.: \$55.00

Funding Source: PRIVATE FUND: \$55.00

Total Expense related to the functioning of the board for public hearing costs for a meeting or other activity of the board.: \$0.00

Total Expense related to the functioning of the board for facility rental costs for a meeting or other activity of the board. This expense category may also include, but is not limited to, the cost associated with internet connections, audio visual equipment or telecommunication connections and equipment.: \$0.00

Total Expenses for which board members were reimbursed for each meeting or other activity of the board. This expense category includes, but is not limited to, mileage, lodging, tolls and meals and incidentals.: \$0.00

Total Expense related to the functioning of the board for other expenses not classified in 5 MRSA Section 12005-A, sub-section 6-A, paragraph D. This expense category may include, but is not limited to, the cost of professional services. This expense category (as well as the other expense categories) does NOT include State employee (personal services) costs to support the board; this information does not need to be reported.: \$0.00

Total Expense related to the functioning of the board for refreshment costs for a meeting or other activity of the board.: \$0.00

Total Reimbursement to board members other than for per diem or expenses such as a stipend.: \$0.00

5051 - PARTICIPATING LOCAL DISTRICT ADVISORY COMMITTEE

Members of the Board or Commission as recorded in the Secretary of State's office as of the date of filing:

Seat 01

JOHN BRACCIODIETA
35 COMMUNITY DRIVE, AUGUSTA, ME 04330
Appointment Date: 08/14/2023
Expiration Date: 05/21/2025

Seat 02

JOHN NUTTAL
20 WINTER STREET, AUGUSTA, ME 04330
Appointment Date: 07/10/2023
Expiration Date: 05/21/2027

Seat 03

SHELLY PAGE
5 COMMUNITY DRIVE, AUGUSTA, ME 04330-8087
Appointment Date: 02/04/2021
Expiration Date: 05/21/2024

Seat 04

RICK CAILLER
LEWISTON FIRE DEPARTMENT, LEWISTON, ME 04240
Appointment Date: 05/03/2021
Expiration Date: 07/18/2023

Seat 05

ED MARZANO
TEAMSTERS LOCAL 340, 144 THAEUS STREET, SOUTH PORTLAND, ME 04106
Appointment Date: 11/27/2023
Expiration Date: 05/21/2026

Seat 06

SOPHIA WILSON
TOWN OF FREEPORT, 30 MAIN STREET, FREEPORT, ME 04032
Appointment Date: 05/21/2021
Expiration Date: 05/21/2026

Seat 07

BRENDAN O'CONNELL
389 CONGRESS STREET ROOM 110, PORTLAND, ME 04101-3503
Appointment Date: 05/23/2023
Expiration Date: 05/21/2028

Seat 08

DAVID BARRETT

MMA, 60 COMMUNITY DRIVE, AUGUSTA, ME 04330

Appointment Date: 05/03/2021

Expiration Date: 05/21/2025

Seat 09

JIM HODGKIN

WINTHROP SCHOOL DEPARTMENT, 17 HIGHLAND AVE, WINTHROP, ME 04364

Appointment Date: 09/13/2022

Expiration Date: 05/21/2024

Seat 10

DEBORAH L. ROBERTS

49 COMMUNITY DRIVE, AUGUSTA, ME 04330

Appointment Date: 07/14/2022

Expiration Date: 05/21/2027

Seat 11

STEVEN J. BUTTERFIELD

PO BOX 349, AUGUSTA, ME 04330

Appointment Date: 11/02/2019

Expiration Date: 05/21/2020

Seat 12

REBECCA M. WYKE

PO BOX 349, AUGUSTA, ME 04333

Appointment Date: 08/30/2021

Expiration Date:

Total seats vacant as of December 31, 2023: 0

December 19, 2023

Senator Michael Tipping, Senate Chair
Representative Amy Roeder, House Chair
Members, Joint Standing Committee on Labor and Housing
100 State House Station
Augusta, ME 04333-0100

Re: ESG Report

Dear Sen. Tipping, Rep. Roeder, and Members of the Labor and Housing Committee:

I am pleased to submit the enclosed ESG Report, which is required by 5 M.R.S. §1957, sub-§5.

We look forward to assisting the Committee in its review of this report.

Sincerely,



Michael J. Colleran
Chief Operating Officer and General Counsel

Enclosure



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT

Public Law 2021, c. 231

December 2023

Maine Public Employees Retirement System

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IV.	ESG: Considerations in Investments	4
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Appendix

- A. MainePERS Governance Manual, 2.6 Environmental, Social and Governance Policy
- B. MainePERS Governance Manual, 2.7 Engagement Policy
- C. MainePERS Governance Manual, 2.1 Investment Policy Statement

I. Introduction

The MainePERS Board of Trustees adopted Policy 2.6 – Environmental, Social and Governance Policy in January 2015 and subsequently amended this policy in May 2017 and November 2021. This policy directs MainePERS staff to incorporate environmental, social and governance (ESG) considerations into its investment decision-making and ongoing monitoring of investments. Policy 2.6 is contained in Appendix A and has three broad areas of focus:

ESG: Maintaining Awareness

Directs staff to maintain awareness and knowledge of ESG considerations and to understand the role these considerations play in investment valuation.

ESG: Investment Implementation

Directs staff to integrate ESG considerations when making investments and in the monitoring of existing investments. It also directs staff to encourage governance structures providing appropriate oversight in audit, risk management, and potential conflicts of interest, and to encourage managers to employ sound ESG practices.

ESG: Transparency and Stakeholder Engagement

Directs staff to provide timely and transparent disclosures regarding ESG matters and be accessible to, and engage with, relevant stakeholders.

II. Investments at MainePERS

MainePERS approach to ESG implementation in investments varies by investment area due to the nature of the assets and the specific approach taken when investing in different asset classes. Broadly speaking, MainePERS' strategic asset allocation includes three general categories – public markets, risk diversifiers, and private markets. Policy weights by category are shown below:

Public Market Assets	45.0%
Risk Diversifiers	7.5%
Private Market Assets	47.5%

Public market investments include domestic and international equity, traditional credit, and U.S. Government Securities. In broad terms, MainePERS employs a passive “buy the market” approach for its investments in public markets where the likelihood of generating outperformance is low. This allows the System to earn market returns at very low cost while maintaining a very high level of diversification. Since MainePERS does not make investment decisions based on the merits of individual securities within this asset class, ESG implementation primarily occurs via proxy voting, where MainePERS encourages appropriate governance and ESG practices.

In contrast, the System uses an active “beat the market” approach for other asset classes, where it is reasonable to believe that an active approach will add value. Investment in risk diversifiers are made via private funds employing active strategies to invest in assets such as public stocks, bonds, and commodities. These strategies are expected to have little correlation to public markets, intended to provide diversification away from growth assets, and are typically implemented using derivatives – buying stock index futures rather than holding shares in individual companies. ESG considerations within Risk Diversifiers typically focus on an analysis of the manager’s ESG characteristics and practices.

Private market assets include infrastructure, private equity, alternative credit, natural resources, and real estate. MainePERS invests in private market assets by committing capital as a limited partner to long-term private investment funds. The general partners (GP) of these funds agree to serve as fiduciaries to MainePERS and have wide discretion in the sourcing, managing, creating value, and timing of the acquisition and disposition of investments. MainePERS typically partners with managers pursuing a generalist investment approach in their funds, which allows the GP to direct capital into industries and sectors based on what it perceives as the most attractive investments based on current market conditions and the long-term opportunity set. Outcomes are driven by GP skill, and there is wide dispersion in performance across the universe of private market managers. MainePERS’ investments in this area are made subsequent to conducting due diligence on all aspects of the investments, including ESG considerations.

III. ESG: Maintaining Awareness

As discussed below, MainePERS’ Investment Team is able to draw on a variety of resources to maintain awareness of ESG-related investment considerations, including consultants, peer and professional networks, and participation in broad-based as well as ESG-focused organizations.

ESG Awareness: Weekly Team Meetings

The full Investment Team meets in-person on a weekly basis and is joined via Zoom by the System’s asset class consultants (Albourne and Cliffwater). These meetings are focused on presentations and discussions related to all aspects of the current pipeline of potential investments as well as discussion of existing investments and industry events and trends. While meeting topics are generally not ESG-specific, ESG-related investment issues are regularly considered as the merits of potential investments are presented and discussed. Specific examples include:

- EU Sustainable Finance Disclosure Regulation (SFDR) – discussion of the requirements for compliance and potential impact on private market funds’ strategies

- Investment Team Briefings – each potential investment is presented to the Team during early stages of due diligence, and key investment aspects (including ESG-related aspects) are presented and discussed
- Team debriefs – individual team members will brief the full group on topics and issues of general interest, including items arising in recent meetings with managers and peers. ESG-specific examples include:
 - Blackstone - Energy transition landscape and investment opportunities
 - ESG Book – ESG data and analytics provider
 - Ecosystem Investment Partners – Wetland-mitigation based strategy
 - Quantum Capital – VC approach to energy, sustainability, and decarbonization
 - Bluefield Partners – Renewables-focused infrastructure manager
 - S&P – Net zero indices
 - CIO-led discussions of stakeholder concerns regarding specific managers or investments
- Consultant discussion of ESG integration into investment due diligence

ESG Awareness: Professional Networks and Organizations

The investment team has access to ESG-related resources from both broad-based professional organizations such as the CFA Institute and CAIA (Chartered Alternative Investment Analyst) Association and via System membership in ESG-focused organizations such as the Coalition for Environmentally Responsible Economies (Ceres) and the Thirty Percent Coalition. Many of these organizations produce research and guidance specifically related to ESG considerations in investments, including private market investments. Examples of activities and materials related to professional networks and organizations include:

- The CFA Institute’s Certificate in ESG Investing. Two investment team members earned this certificate in 2022 and during 2023 presented an overview of the program to the full investment team.
- MainePERS is a member of the CAIA Association, which seeks to be a thought leader with respect to ESG trends and developments, and offers a variety of materials and events to assist members. The CAIA Association offers a well-respected certification in alternative investment analysis, and seven investment team members have earned this certification.
- MainePERS is a member of the Institutional Limited Partners Association (ILPA), an organization dedicated to advancing the interests of Limited Partners through education, research, and advocacy. Team members attend events both in-person and virtually, and the organization provides substantial ESG-related resources.
- MainePERS is a member of Ceres, a nonprofit group that works with institutional investors to promote investment sustainability. The group produces sustainability-related reports and tools, and hosts monthly calls to discuss risks related to fossil fuel investments.

IV. ESG Considerations in Investments

As noted above, MainePERS' approach to integrating ESG considerations into investment decisions varies by asset class, based on both the nature of the asset class and the investment approach taken by MainePERS.

ESG Considerations in Investments: Public Market Investments

As noted above, MainePERS takes a passive "buy the market" approach to investing in public markets. Such "indexing" allows the System to earn market returns at low cost while maintaining a high level of diversification. This approach does not involve evaluating the investment merits (ESG or otherwise) of individual securities and results in MainePERS owning small minority stakes in thousands of individual companies with limited ability to influence any particular organization. That said, the MainePERS Investment Team selectively engages companies where we believe engagement can have meaningful impact related to encouraging good governance.

The MainePERS Investment Team believes that being active owners and making our voice heard by voting of proxies of publicly traded companies has economic value and can serve to reduce portfolio risk. Proxies are the vehicle by which boards of directors are elected, bylaws are changed, and other actions in which owners are involved are accomplished. In conjunction with our proxy agent, Glass Lewis, MainePERS typically votes on over 10,000 individual management and shareholder proxy items each year. During the most recent fiscal year, MainePERS voted in favor of 50% of shareholder proposals and voted against management's recommendations concerning shareholder proposals in 67% of cases.

In addition, MainePERS engaged with 14 companies prior to casting our proxy vote on specific governance items. In these cases, we communicated to the companies our thinking regarding governance best practices and informed the company of our intention to vote our proxy contrary to management's recommendation. In one case (General Dynamics), we engaged in follow-up conversations with the company to better understand the reasoning behind their recommendation and ultimately changed our vote to support management on the particular issue.

ESG Considerations in Investments: Risk Diversifiers

Investments in MainePERS' Risk Diversifier allocation are intended to provide diversification away from growth assets such as equities. In general, these strategies are highly systematic – managers use quantitative data-driven models to construct portfolios and generally obtain exposures via derivatives, rather than taking positions in individual securities. Within this allocation, ESG considerations typically arise in the course of conducting manager-level due diligence, rather than strategy-specific due diligence. ESG considerations reviewed as part of manager-level due diligence include a review of the manager's history, SEC filings, involvement in legal actions, and potential for MainePERS to suffer reputational harm as a result of engaging with the manager. The ownership structure of the manager is considered, as well as the potential for conflicts of interest and the manager's own ESG practices and policies.

Implementing ESG Considerations: Private Market Investments

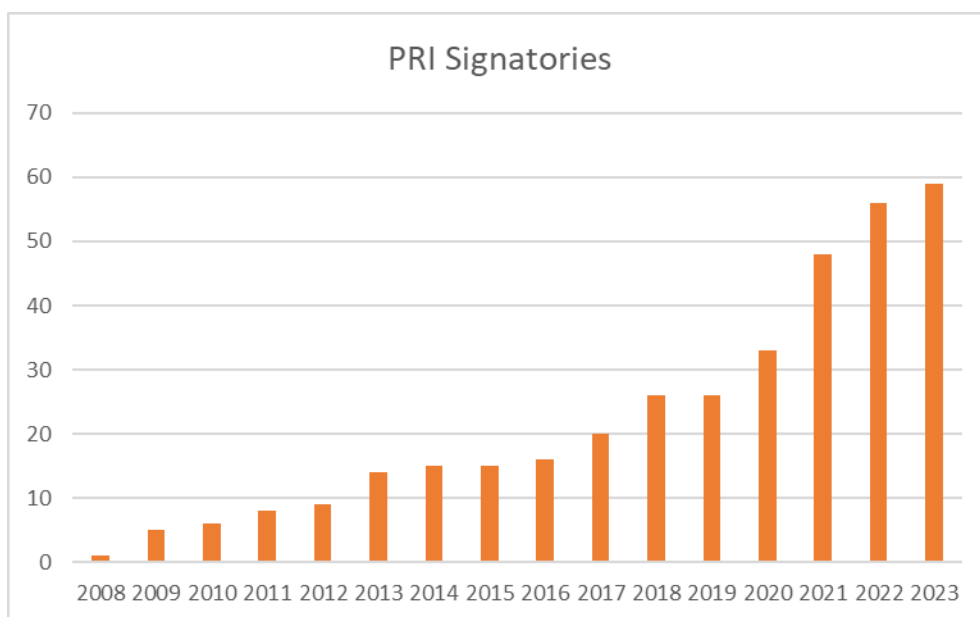
MainePERS invests in a number of private “alternative” asset classes, including infrastructure, private equity, alternative credit, natural resources, and real estate. Prior to investing with any particular private asset manager, the MainePERS Investment Team completes a thorough due diligence process. This process is designed to assist the Team in the identification and monitoring of risk factors, including ESG-specific risks, and includes a review of a prospective manager’s internal ESG policy.

Governance and labor practices are crucial concerns in our due diligence process. Appropriate governance and alignment of interests is a prerequisite for any MainePERS investment. We also study labor practices of both the fund and the companies they manage. The due diligence process provides our Investment Team with a road map of strengths and weaknesses that allows us to make an informed investment recommendation to the Board of Trustees.

Our holistic approach means we rarely make an investment decision based on a single issue (ESG-related or otherwise). Bringing all these factors into consideration, MainePERS looks to partner with asset managers that operate in an environmentally responsible manner, foster a fair and meritocratic work environment, and provide responsible corporate citizenship. Our Investment Team also believes that conducting due diligence into the ESG practices of potential managers is itself an important act and in many cases serves to alert managers to a need to improve their ESG practices and disclosures. The improvements to ESG practices are beginning to take root, and we have noticed an increasing number of managers incorporating ESG-related issues such as climate risk into investment decisions each year.

ESG Considerations in Investments: Encouraging Managers

As discussed above, part of MainePERS’ due diligence process includes a review of a prospective manager’s integration of ESG considerations into investment due diligence. Not surprisingly, the number of managers explicitly considering ESG factors when making investments has risen over time as institutional investors such as MainePERS include ESG considerations as part of investment due diligence. One quantifiable measure of this is the number of managers that have signed onto the Principles for Responsible Investing, a UN-supported effort that works with investors and asset managers around the world. PRI signatories commit to incorporating ESG issues into investment analysis and asset ownership and to appropriate levels of ESG-related disclosures. As shown below, the number of managers in the MainePERS portfolio that have signed on to these Principles for Responsible Investing has grown steadily over time. As of fiscal year end, 59 (out of 89 total) of MainePERS’ managers, with investment responsibility for 84% of assets, were PRI signatories.



V. ESG: Transparency and Stakeholder Engagement

As an organization, MainePERS strives to be transparent and willing to engage with stakeholders as appropriate. With respect to the System’s investments in general, and ESG-related topics specifically, this commitment to transparency is evidenced by the materials available on the System’s website. Interested stakeholders are easily able to find and review:

- System policies, including
 - Policy 2.1 – Investment Policy Statement
 - Policy 2.6 – Environmental, Social and Governance Policy
 - Policy 2.7 – Engagement
- System reports, including
 - Annual Comprehensive Financial Reports
 - Annual ESG and Divestment Reports
 - Monthly Investment Reviews prepared for each month’s Trustee meeting
- Detailed lists of investment holdings
- Summary and detailed proxy voting reports

Stakeholders, both individuals and organizations, frequently contact MainePERS regarding ESG-related investment issues. These inquiries range from simple requests for information to requests to meet in order to discuss particular issues. In all cases, requests are appropriately responded to. In many cases these inquiries lead to the Investment Team holding discussions with individual managers to fully understand the issues raised by stakeholders and, as warranted,

result in Trustee notification and discussion. During 2023, MainePERS' CEO and CIO also participated in the following virtual meetings in response to stakeholder inquiries:

- January 2023: MainePERS' proxy voting discussion with representatives from SEIU.
- April 2023: MainePERS' proxy voting discussion with representatives from the Sierra Club and Stop the Money Pipeline.
- June 2023: Met with representatives from the Private Equity Stakeholder Project to discuss issues raised by the group concerning one of MainePERS' managers.

VI. ESG: Metrics

The development and reporting of ESG-related metrics remains nascent, and such metrics are primarily available only for publicly listed companies. In this section we provide environmental metrics for the public equity portion of MainePERS' portfolio. We hope to expand this reporting in future years as these metrics become available for additional asset classes.

As discussed earlier, MainePERS employs an indexing approach to its public equity investments. This approach allows MainePERS to obtain broad exposure to global stock markets at very low cost. By "buying the market," MainePERS is invested in the shares of over 5,000 companies spread across 50 developed and emerging markets. As a result, the characteristics of MainePERS' equity holdings mirror those of the benchmarks that the portfolio tracks. For example, the U.S. Equity portion of the portfolio is indexed to the Russell 3000 Index. This means that the features and characteristics of MainePERS' U.S. equity holdings match those of the index. For example, if aggregate price-to-earnings (P/E) ratio of the index equals 23, then the U.S. portion of MainePERS' equity holdings will also have a P/E ratio of 23. This correspondence also holds for other features, including ESG-related metrics.

The below table contains commonly available environmental metrics for those global equity benchmarks to which MainePERS' equity portfolio is indexed.

	Russell 3000 Index	MSCI All Country World Index ex U.S.
Total CO2 Emissions / \$1m invested (1)	97	210
Emissions Intensity (2)	177	263

(1) Annual tons of Scope 1 and Scope 2 CO2 equivalent emissions per \$1m invested value.

(2) Annual tons of Scope 1 and Scope 2 CO2 equivalent emissions per \$1m revenue.

As of June 30, 2023, MainePERS held \$3.0 billion of U.S. equities and \$1.8 billion of non-U.S. equities, which represents approximately 0.007% of the total value of these indexes. Applying these dollar amounts to the benchmark metrics contained above allows us to estimate the total CO2 equivalent emissions (Scope 1 and 2) related to MainePERS public equity investments as

669,200 metric tons. MainePERS' portfolio metrics, both environmental and otherwise, should be viewed as being in line with global benchmarks as we are invested in benchmarks that effectively comprise all companies listed in global markets other than "frontier" markets.

Board Responsibilities – Investments and Administration

2.6 – Environmental, Social and Governance Policy

Date Adopted: January 8, 2015

Date Amended: May 11, 2017; November 18, 2021

Policy

The MainePERS Board of Trustees considers material environmental, social, and governance (ESG) risks and value creation opportunities critical for inclusion in its due diligence and ongoing monitoring of investments subject to its fiduciary duties, constitutional requirements and in accordance with laws and regulations. The MainePERS Board of Trustees directs the Chief Executive Officer and MainePERS Investment Team to incorporate ESG considerations into all investments considered or made by MainePERS following the adoption date of this policy, and to examine opportunities for ESG integration in existing investments.

MainePERS acknowledges that it will not always be feasible to ensure a particular investment's integration of ESG considerations, especially in cases where MainePERS is a minority owner and has limited ability to influence the organization. In these cases, the MainePERS Investment Team shall engage organizations with which it currently invests to strongly consider relevant ESG-related issues. In addition, MainePERS will consider its ability to influence ESG considerations when weighing prospective investments.

The MainePERS Board of Trustees shall annually review implementation of this policy and update or revise this policy as appropriate.

This policy shall also apply to investment consultants hired by MainePERS to provide guidance on investment due diligence matters.

Statutory/Legal Provisions

- [Me. Const. art. IX § 18](#)
- [5 M.R.S. §§ 1957, 17102 and 17103](#)

Roles and Responsibilities

The Chief Executive Officer shall ensure that the MainePERS Investment Team integrates this policy into the investment due diligence process. The MainePERS Chief Investment Officer and Deputy Chief Investment Officer shall ensure that material ESG issues are continually reviewed, revised and integrated by the investment team in the due diligence process. A report describing the implementation of this policy, including recommendations for updates or revisions to this policy, will be provided to the Trustees at the December Board meeting each year. The report must also include commonly available environmental performance metrics on the environmental effects of MainePERS' investments.

ESG Due Diligence

MainePERS believes that organizations that understand the benefit of and openly practice sound environmental, social and governance business practices create strong business models and investment opportunities. Consistent with its fiduciary duties, constitutional requirements and in accordance with laws and regulations, MainePERS shall:

1. Maintain awareness of new and existing key ESG considerations and their impact on investment valuation, and update the due diligence process used to identify material ESG issues accordingly.
2. Examine and understand each potential or existing investment's material ESG risk exposure and use this knowledge when evaluating potential investments and during the duration of investment ownership.
3. Be accessible to, and engage with, relevant stakeholders.
4. Encourage and support the adoption and implementation of sound environmental, social, and governance practices by companies and managers in which MainePERS invests.
5. Encourage governance structures that provide appropriate levels of oversight in the areas of audit, risk management, and potential conflicts of interest.
6. Encourage MainePERS investments, and MainePERS business partners to commit to aligning their operations and strategies with the United Nations Global Compact's principles regarding human rights, labor, environment, and anti-corruption.
7. Provide timely and transparent information accessible by stakeholders on the matters addressed in this policy.

Board Responsibilities – Investments and Administration

2.7 – Engagement

Date Adopted: February 11, 2016

Date Amended: October 11, 2018; November 18, 2021

Policy

MainePERS is the fiduciary for funds it is assigned to manage. MainePERS shall be a good steward for the funds entrusted to it, managing and investing these funds as a “prudent investor” in accordance with the “exclusive benefit rule” and the laws and Constitution of the State of Maine. MainePERS shall also promote the long-term success of companies with which the System invests through engagement activities.

Statutory/Legal Provisions

- [Me. Const. art. IX, § 18.](#)
- [5 M.R.S. §§ 17102, 17103, 17435; 18-B M.R.S. § 801, et seq.](#) (Maine Uniform Trust Code); [18-B M.R.S. § 901, et seq.](#) (Maine Uniform Prudent Investor Act).
- [5 M.R.S. §§ 17153\(4\).](#)
- Restatement (Third) of Trusts § 78(1) (2007) (the “sole interest rule”).
- The Employee Retirement Income Security Act (“ERISA”), codified at [29 U.S.C. § 1002, et seq.](#), provides a description of the standard of care that applies to trustees of private sector retirement plans. Although the System as a public retirement plan is not specifically governed by the fiduciary duty standard set forth in ERISA, courts will often consider the standard set forth in ERISA when addressing public pension plan issues. Under ERISA, a fiduciary must act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person (expert) acting in a like capacity would act. This statutory standard is derived from the common law of trusts, which is applicable in the State of Maine.

Engagement

Engagement is encouraging long-term success and growth of publicly traded companies with whom MainePERS invests through activities such as:

- Direct engagement
- Participating in or sponsoring shareholder litigation
- Proxy voting

Direct Engagement

MainePERS will maintain a direct engagement effort consistent with the need for and resources available to encourage the publicly traded companies in its portfolio to achieve long term growth and success, balancing the long term focus of good stewardship with the short term challenges the company faces. Direct engagement opportunities may be based on continuous monitoring of its investments including investment analysis, trade publications, trade organizations, or coordination with other institutional investors.

Direct engagement includes written and oral communication to companies, including attending shareholder meetings and sponsoring shareholder resolutions in unusual circumstances.

Shareholder Litigation

MainePERS will participate in shareholder litigation only to the extent that participation is likely to benefit MainePERS members as pension beneficiaries. MainePERS generally will not assume the role of lead plaintiff in a securities class action unless no other investor with interests similar to MainePERS and sufficient resources to support the litigation is willing to serve as lead plaintiff and the System otherwise will lose the benefit of the litigation to members.

Proxy Voting

MainePERS will vote its proxies in the best interests of its members as pension beneficiaries. This will generally mean focusing on good stewardship by the companies with which MainePERS invests, including:

- Voting to optimize each company's value to shareholders, balancing the long-term focus of good stewardship with the short-term challenges the company faces. Good stewardship includes establishment of effective governance and management practices, responsibility to employee and customer welfare, and responsibility to the environment;
- When there is a conflict between long- and short-term interests, voting shall be in favor of proposals that maximize shareholder control consistent with effective business operations of the company;
- Refraining from voting to further the interests of any group other than the best interests of MainePERS members as pension beneficiaries.

The Chief Executive Officer and Chief Investment Officer shall implement this direction by engaging a proxy voting agent to vote shares of stock owned by MainePERS. The MainePERS investment team shall create, maintain, and update general guidance in the following areas that the proxy voting agent can use to map to proxy votes available to MainePERS:

- Management resolutions
 - Elections of officers
 - Ratification of auditors
 - Governance structure and shareholder rights
 - Compensation

- Shareholder proposals
 - Environment
 - Social matters
 - Governance
 - Compensation
- Mergers and proxy contests

The MainePERS Investment team shall work with the proxy voting agent to determine MainePERS' position on proxies not directly covered by the implementation guidance. The Investment team shall monitor the proxy voting agent's implementation of the MainePERS guidance and report semi-annually to the Board of Trustees. The Board may meet with the proxy voting agent from time to time to discuss MainePERS' votes.

Board Responsibilities – Investment Policy for Defined Benefit Plans

2.1 – Investment Policy Statement

Date Adopted: June 9, 2016

Date Amended: November 10, 2016; May 11, 2017; June 8, 2017; September 14, 2017; December 14, 2017; November 12, 2020; January 14, 2021; May 12, 2022, February 9, 2023

Policy

The Board of Trustees of the Maine Public Employees Retirement System is authorized and responsible for administering defined benefit retirement programs at the State and local levels. The Board carries out this responsibility by adopting investment objectives and establishing an investment program through which the policy is implemented. In the case of conflicts, this policy statement supersedes previous policies and actions by the Board.

This policy covers the investment management of the assets of the following defined benefit programs administered by the Board:

- Legislative Retirement Program;
- Judicial Retirement Program;
- State Employee and Teacher Retirement Program, which includes State employees and public school members; and
- Participating Local District Retirement Program, which includes retirement plans of withdrawn participating local districts and the Consolidated Plan for Participating Local Districts.

Collectively, the assets of these programs are referred to as the DB Plan Assets. Statutes allow for the pooling of the DB Plan Assets for the purpose of investment. Pooling provides significant efficiencies. Because the relevant characteristics of the DB plans are sufficiently similar, all the DB Plan Assets are pooled for investment.

Statutory/Legal Provisions

- [Me. Const. art. IX, § 18.](#)
- [5 M.R.S. §§ 1957-1958](#) (divestment statutes)
- [5 M.R.S. §§ 17102, 17103, 17435; 18-B M.R.S. § 801](#), et seq. (Maine Uniform Trust Code); [18-B M.R.S. § 901](#), et seq. (Maine Uniform Prudent Investor Act).
- [5 M.R.S. §§ 17153\(4\).](#)
- Restatement (Third) of Trusts § 78(1) (2007) (the “sole interest rule”).
- Restatement (Third) of Trusts formally permits, and in some cases requires, the delegation of investment decisions from trustees to internal staff or external agents with the necessary skills and knowledge.

- The Employee Retirement Income Security Act (“ERISA”), codified at [29 U.S.C. § 1002, et seq.](#), provides a description of the standard of care that applies to trustees of private sector retirement plans. Although the System as a public retirement plan is not specifically governed by the fiduciary duty standard set forth in ERISA, courts will often consider the standard set forth in ERISA when addressing public pension plan issues. Under ERISA, a fiduciary must act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person (expert) acting in a like capacity would act. This statutory standard is derived from the common law of trusts, which is applicable in the State of Maine.

Resources

The Board of Trustees implements this investment policy in coordination with:

- in-house investment professionals (the “Investment Team”), with experience, authority and responsibility to implement the investment policy and administer investment operations;
- consultants, with appropriate expertise, to assist the Board and the Investment Team;
- investment managers, selected individually and collectively to reflect and implement the investment policy, having full discretion within policy and contractual limits to manage assets allocated to them;
- custodians qualified to carry out recordkeeping, reporting, measurement and custodial functions; and
- other advisors that the Board deems appropriate and necessary

The Investment Team shall oversee the processes by which Custodians, Consultants, and other Advisors are hired, evaluated, and terminated, and shall work with the General Counsel on the terms of contracts of engagement.

At least every five years, the Investment Team will evaluate the performance and contract terms of all such service providers and make a recommendation to the Board as to whether or not a search process for new providers and/or renegotiation of terms be initiated.

Investment Objectives

MainePERS’ investment objectives balance the System’s twin goals of generating investment returns (to ensure growth of the trust funds) and minimizing investment risks (loss of capital and cash flow shortfalls). The Board recognizes and accepts that these goals are in opposition, and that a trade-off exists between expected risk and return. The Board balances these goals by seeking to optimize portfolio returns consistent with an established targeted portfolio risk level. Additionally, by optimizing investment returns on trust assets, rather than attempting to maximize them, the Board seeks to maintain contribution rate and funding level volatility at acceptable levels that have been determined from time to time during strategic asset allocation planning and asset/liability reviews.

Strategic Asset Allocation and Rebalancing

The Investment Team and Board consultants shall annually review long-term capital market expectations and existing asset class allocations with Trustees. The Board shall review, and when strategically appropriate, approve recommended changes to the existing strategic asset classes, target weights, and ranges for implementation by the Investment Team. (See Appendix 1)

The specified policy weight ranges define minimum and maximum acceptable weights for each asset class. (See Appendix 2) The Investment Team shall maintain asset class weights within target ranges, subject to considerations such as transactions costs and the unique characteristics of private market investments, by reallocating capital within existing strategies and investments. The Investment Team will provide Trustees with reports showing the fund's current asset allocation at least monthly, and report on rebalancing activity quarterly.

Portfolio Risk Management

The primary method of controlling risk shall be the selection of the strategic asset allocation and asset class target weights within the allocation. (See Appendix 1) Combined with long term capital market expectations, these policy weights define a portfolio with a specific level of risk.

The Chief Investment Officer shall develop a risk strategy for managing assets within the Board approved strategic asset allocation. The risk strategy will specify practices and procedures for the measurement and management of portfolio risk, including the provision of a portfolio risk report to the Board at least quarterly. (See Appendix 3)

Nothing in the risk strategy shall override the Asset Classes, Policy Weights and Ranges described in Appendix 1.

Performance Objectives and Benchmarks

The Board acknowledges that benchmarks provide insight into fund and asset class performance, but are not necessarily guides for changing asset allocations or fund managers. The rate of return earned by fund assets will be measured against a policy benchmark comprised of the asset class benchmarks. (See Appendix 4) Returns earned by individual managers will be compared with a benchmark index appropriate to each manager's investment approach.

For performance evaluation purposes, all rates of return will be measured net of the deduction of investment management fees.

During a period of transition from one asset allocation to another, certain transitional allocations to appropriate benchmarks are permitted.

Investment Implementation

The Investment Team shall implement the investment policy, subject to Board guidelines:

- Exposure to publicly traded equity securities is expected to be obtained passively and with weightings substantially similar to those of the benchmarks specified in Appendix 4. Any exceptions must be approved by the Board.
- Investments within each Asset Class should be consistent with the Asset Class definitions provided in Appendix 1.

Environmental, Social, and Governance; Engagement

In performing due diligence and monitoring activities, the Board and the Investment Team shall comply with Board Policy 2.6, Environmental, Social and Governance Policy; and Board Policy 2.7, Engagement.

Investment Manager Selection and Allocation Process

MainePERS invests through external investment managers, who are charged to act as fiduciaries, and allocates fund assets among them in accordance with the strategic asset allocation. The Investment Team identifies, performs due diligence on, and recommends investment managers and allocations to the Board. The Investment Team also monitors performance and recommends retention and termination decisions to the Board. The Board retains final authority for manager selection, retention and termination decisions.

Managers are selected and retained on the basis of an evaluation that establishes sufficient confidence that the manager will improve the return and risk of the investment program. If and when the Investment Team and/or consultant(s) identify an investment manager that they believe will improve the investment program, the Investment Team will make a recommendation to the Board of Trustees that the manager be hired. This recommendation will be accompanied by an opinion by the investment consultant on this recommendation. The Board retains the final authority to accept or reject such recommendations.

The Investment Team will prepare and present to the Board of Trustees selection criteria they deem pertinent for each manager search and recommendation to hire. The Investment Team will provide the Board with all the necessary information and analysis to enable an informed decision. The Board may choose to interview the recommended manager or they may rely on the Investment Team to conduct interviews.

Derivatives

In general, the use of derivatives is permitted provided that the purpose of the derivative is to achieve an investment objective at lower cost and/or risk than would be the case with direct investments in the underlying securities. The System may also invest in strategies which use derivatives to obtain leverage. In all such cases, the use of derivatives must be disclosed to the

Board prior to the Board's approval, and the strategy must be structured so as to limit System liability to the amount committed to the strategy.

Leverage

The System may invest in strategies in which managers have discretion to use leverage. The use of leverage in any strategy must be disclosed to the Board prior to the Board's approval, and the strategy must be structured so as to limit System liability to the amount committed to the strategy.

Fossil Fuel and Private Prison Investments

The System may invest in strategies providing managers with broad discretion in the selection of investments. The potential for fossil fuel or for-profit prison investment must be disclosed to the Board prior to the Board's approval of a strategy. For those strategies likely to invest in stocks, securities or other obligations of fossil fuel or for-profit prison assets, disclosures will include a description of the expected role of such investments in the proposed strategy and discussion of the process leading to the selection of the strategy.

On an annual basis, the Board will be provided with a report summarizing the System's fossil fuel and for-profit prison investments. This report will include a discussion of the actual and expected changes in these exposures, and analysis of these exposures within the context of the divestment statutes, 5 M.R.S. §§ 1957 and 1958.

Hedging

The Board has reviewed the benefits and risks associated with foreign currency exposures. As a general rule the Board has chosen not to hedge currency at the portfolio level. Unless otherwise directed asset managers will have discretion to hedge investments under their management as they deem most beneficial to their mandate.

Transaction Costs and Brokerage

The Board of Trustees expects investment managers, in their capacity as fiduciaries, to manage transaction costs in the best interests of the System as an investor. To enable the managers to fulfill this fiduciary duty, it is the Board's policy not to be party to directed brokerage programs.

Securities Lending

The System may participate in a securities lending program either directly through its separately managed portfolios or indirectly through its investments in pooled vehicles. In each case, the securities lending program must focus on low risk, as opposed to maximization of returns. All DB Plan Assets are available for securities lending.

Monitoring

The Board relies on the Investment Team and the investment consultant(s) to continuously monitor the investment program and to report to the Board as outlined below.

- the Investment Team and investment consultant(s) provide comprehensive periodic reports on the entire investment program, including asset allocation, performance of each component relative to benchmarks, attribution analysis, and commentary.
- the Investment Team and investment consultant(s) monitor changes and developments at investment managers and at custodian(s) on an ongoing basis and report significant changes or events with recommended actions as needed.

Emergency Measures

Immediate action may be taken beyond the bounds of this policy under extraordinary circumstances and in order to preserve the best interests of the plans' participants by unanimous decision of the following:

- The Chair, or in the Chair's absence, Vice Chair of the Board
- The Chief Executive Officer, or in the Chief Executive Officer's absence, the Chief Operating Officer and General Counsel
- The Chief Investment Officer, or in the Chief Investment Officer's absence, Deputy Chief Investment Officer, or in the absence of both of them, the general investment consultant

Any such action must be reported to the Board of Trustees at the earliest opportunity.

Board Responsibilities – Investment Policy

Appendix 1: Asset Classes, Policy Weights and Ranges

Date Adopted: June 9, 2016

Date Amended: June 8, 2017; September 14, 2017; January 14, 2021; May 12, 2022

The System's assets are invested across nine Asset Classes that play four distinct Roles in the overall Fund. The Trustees define these Roles and Asset Classes and set target policy weights and ranges below.

	Weights		
	Minimum	Policy	Maximum
GROWTH	35%	42.5%	55%
Public Equity	20%	30%	40%
Private Equity	5%	12.5%	20%
RISK DIVERSIFIERS	0%	7.5%	12.5%
HARD ASSETS	15%	25%	35%
Real Estate	5%	10%	15%
Infrastructure	5%	10%	15%
Natural Resources	0%	5%	10%
CREDIT	5%	15%	20%
Traditional Credit	0%	5%	10%
Alternative Credit	0%	10%	15%
MONETARY HEDGE	5%	10%	15%
US Government Securities	5%	10%	15%
Cash	0%	0%	10%

Asset Class Definitions

The below Asset Class definitions are simplified and are intended to convey the general characteristics of investments held within each class. Some investment strategies involve assets and securities that span multiple asset classes.

Public Equity

Investments in publicly-traded shares of companies. May include different classes of common stock, shares of REITs, and MLPs.

Private Equity

Investments in non-publicly traded shares of companies. Investments are typically made via private limited partnerships, and may include both equity and debt securities.

Risk Diversifiers

Investments typically made through private funds that generally invest in listed assets such as stocks, bonds, and commodities, via strategies that are expected to have little correlation with declining or rising stock markets.

Real Estate

Investments providing direct exposure Real Estate, including investments through private funds.

Infrastructure

Investments typically made through private funds that generally invest in assets that meet most or all of the following criteria: provide essential public services, possess monopoly-like characteristics, provide long term contracted cash flows, and bear limited volumetric and price risk.

Natural Resources

Investments in private funds that generally invest in businesses focused on natural resources such as timberland, agriculture, and mining. Private energy investments will generally be included in Private Equity, rather than Natural Resources.

Traditional Credit

Investments in investment-grade debt instruments that are not issued by the U.S. Government. Such debt may or may not be registered for sale to the general public.

Alternative Credit

Investments in debt instruments issued by non-investment grade and unrated entities. This may include, but is not limited to high yield debt, bank loans, structured debt, and asset-backed debt. Alternative credit investments are expected to pay or accrue periodic interest and to return principal at maturity. Distressed debt and other debt or yield-oriented securities that include equity-like exposures are considered Private Equity, not Alternative Credit.

Monetary Hedges

Investments in debt instruments issued by the U.S. Government, including nominal Treasury securities and Treasury Inflation Protected Securities (TIPS), held in approximately equal proportions.

Roles in the Overall Fund

Each of the above asset classes fills a specific Role in the overall portfolio. These Roles are defined below.

Growth Assets

Growth Assets are intended to reduce the system's funding needs in the long term by appreciating in value. Growth Assets possess inherently higher expected returns than other asset classes. Growth Assets also have higher expected volatility than other asset classes, and are expected to increase funding volatility in the short run.

Risk Diversifiers

Risk Diversifiers are investments that primarily derive their return from alpha (or active manager skill) as opposed to market directionality. Risk Diversifiers are expected to provide significant risk diversification benefits away from Growth Assets.

Hard Assets

Investments in the Hard Assets category provide exposure to long-lived "real" assets, such as real estate, timber, agricultural, and infrastructure assets. Expected return levels of Hard Assets are lower than those of Growth Assets, and a substantial portion of such returns is expected to come from ongoing cash flows. Hard Assets are expected to provide inflation protection, to have low correlation with Growth Assets, and to provide diversification benefits.

Credit Assets

Credit investments provide capital to end-users via loans and the purchase of debt securities. Such investments provide for contractual returns (interest) and repayment of principal. Credit investments possess lower risk and expected returns than equity investments, but have higher risk and expected returns than monetary hedges. Credit investments are expected to provide diversification away from Growth Assets.

Monetary Hedges

The role of Monetary Hedges in the portfolio is to provide liquidity and a safe harbor in times of turbulence. These investments are cash and obligations of the U.S. Government, and are considered to be free of default risk.

Board Responsibilities – Investment Policy

Appendix 2: Rebalancing

Date Adopted: June 9, 2016

Date Amended: May 12, 2022; July 14, 2022

The Board has set target weights for each Asset Class and Role in Portfolio category in Appendix 1, and delegates the management of asset class allocation to the Investment Team. The Investment Team is expected to maintain asset class weights near target, subject to considerations such as transactions costs and the unique funding and liquidity characteristics of private market investments.

To this end, the Team is permitted to reallocate capital within existing strategies and investments for rebalancing purposes. The Investment Team is expected to consider both Role in Portfolio and Asset Class policy weights when rebalancing. The Team will provide Trustees with reports showing the Fund's current asset allocation at least monthly, and report on rebalancing activity at least quarterly.

In the specific case of the System's Risk Diversifier allocation, the Investment Team is permitted to rebalance across existing managers and strategies, consistent with the goal of maintaining diversification within the allocation. Rebalancing activity will be reported to Trustees at least quarterly.

Board Responsibilities – Investment Policy

Appendix 3: Risk Strategy

Date Adopted: June 9, 2016

Date Amended: New

While this Risk Strategy is in development the Chief Investment Officer shall rely on the Strategic Asset Allocation and Rebalancing provisions of this policy to manage the Fund's risk.

The Investment Team and the Board believe that this approach will deliver an appropriate expected return with commensurate risk over a long term horizon. However they also recognize that the portfolio's realized risk will vary over time which may result in periods during which the fund bears substantially higher risk than the System initially targeted.

In an effort to achieve more stable (less volatile) returns, the Investment Team will seek to develop management tools and practices that they believe will be better able to keep the fund's risk in an acceptable range.

This Risk Strategy shall be updated from time to time by the Trustees to reflect recommendations developed by the Chief Investment Officer.

Nothing in the Risk Strategy shall override the Asset Classes, Policy Weights and Ranges described in Appendix 1.

Board Responsibilities – Investment Policy

Appendix 4: Policy Benchmarks

Date Adopted: June 9, 2016

Date Amended: June 8, 2017, January 14, 2021, May 12, 2022

Asset	Benchmark	Weight
Total Public Equity	Russell 3000 & MSCI ACWI ex-USA, based on ACWI weights	30%
Private Equity	Russell 3000 + 3%	12.5%
Diversifiers	0.3 Beta MSCI ACWI	7.5%
Real Estate	NCREIF Property (lagged one quarter)	10%
Infrastructure	CA Infrastructure Median	10%
Natural Resources	CA Natural Resources Median	5%
Traditional Credit	Barclays US Aggregate, ex Treasury	5%
Alternative Credit	50% BAML US HY II + 50% S&P/LSTA US Leveraged Loan Index	10%
U.S. Government Securities	50% Bloomberg Barclays U.S. Government Bond Market Index + 50% Bloomberg U.S. TIPS Index	10%

Board Responsibilities – Investment Policy

Appendix 4: Co-Investment

Date Adopted: June 9, 2016

Date Amended: June 8, 2017; January 14, 2021; May 12, 2022

Co-investments are permitted within private market asset classes, subject to the below guidelines.

Target Allocation	7.5% of total Fund. This target is a subset of the total 47.5% allocation to private market asset classes, and is not in addition to that allocation.
Asset Classes	Co-investment may be made in each of the private market asset classes.
Discretion	Investment Team has discretion to make co-investments, in conjunction with the asset class consultant.
Signatories	The Chief Executive Officer, Chief Investment Officer, and General Counsel are authorized as signatories to execute documents in connection with co-investments.
Permissible Partners	Unless otherwise authorized, co-investments will only be made alongside Funds in which the System is a current investor.
Size Limits	Unless otherwise authorized, maximum of \$25m invested into any single co-investment. Unless otherwise authorized, maximum of \$200m aggregate co-investment in a single asset class with any single General Partner. The Investment Team will provide additional co-investment portfolio reporting to Trustees for those General Partners with more than \$100m of aggregate co-investment in any single asset class.

December 19, 2023

Senator Michael Tipping, Senate Chair
Representative Amy Roeder, House Chair
Members, Joint Standing Committee on Labor and Housing
100 State House Station
Augusta, ME 04333-0100

Re: Divestment Report

Dear Sen. Tipping, Rep. Roeder, and Members of the Labor and Housing Committee:

I am pleased to submit the enclosed Divestment Report, which is required by 5 M.R.S. §1957.

We look forward to assisting the Committee in its review of this report.

Sincerely,



Michael J. Colleran
Chief Operating Officer and General Counsel

Enclosure



DIVESTMENT REPORT

Public Law 2021, c. 231

December 2023
Prepared by the Maine Public Employees Retirement System

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Appendices

- I. 2023 Divestment Report and appendices
 - A. Maine Constitution, Article IX, Section 18
 - B. Divestment Legislation, Public Law 2021, c. 231
 - C. Letter from Attorney General Aaron Frey to the Joint Standing Committee on Labor and Housing, April 9, 2021
 - D. Letter from Assistant Attorney General Andrew Black to MainePERS, December 8, 2022
 - E. MainePERS Governance Manual, 2.1 Investment Policy Statement
 - F. Request for Proposal 2022-03, Divestment Consulting Services
 - G. NEPC Divestment Consulting Services Proposal, April 2022
 - H. NEPC Divestment Memo, November 2022

- II. MainePERS Governance Manual, 2.1 Investment Policy Statement – amended February 9, 2023

I. Introduction

The Maine Public Employees Retirement System (MainePERS or System) is an incorporated public instrumentality of the state governed by a Board of Trustees pursuant to Maine law. Since 1942, MainePERS has joined with public employers to help their employees prepare for retirement. The System's active contributing members include teachers; state, county, and municipal employees; legislators; judges; and others. Upon retirement, our members receive monthly benefits from their respective defined benefit plans. The basic defined benefit retirement plan funding equation provides that, over the long term, contributions plus investment earnings must be equal to benefit obligations. While investment market performance affects plan funding levels and funding requirements, it does not affect benefit obligations.

The Board of Trustees owes fiduciary duties to MainePERS' members, retirees and beneficiaries. First, the Board owes a duty of loyalty – to follow the exclusive benefit rule established in the Maine Constitution (2023 Divestment Report, Appendix A) by acting solely in the interests of the members, retirees, and beneficiaries as recipients of retirement or related benefits. This duty includes not using the Board's position of trust for personal gain or to advance other causes. Second, the Board owes a duty of prudence. This requires the exercise of reasonable care, skill, and caution. In making investment decisions, this requires considering the portfolio as a whole, the role each investment plays in the portfolio, and diversification. Additionally, the Board may incur only costs that are reasonable in relation to the trust property, the purposes of the trust and the skills of the Board. The 2023 Divestment Report (Appendix I) provides additional detail on the legal and policy framework to which the Board must adhere.

Public Law 2021, c. 231, An Act to Require the State to Divest Itself of Assets Invested in the Fossil Fuel Industry (2023 Divestment Report, Appendix B), became effective on October 18, 2021. This divestment statute (5 M.R.S. §1957) directs the Board of Trustees of the Maine Public Employees Retirement System to refrain from future investment in fossil fuel companies and divest of any existing holdings by January 1, 2026, subject to the limitation that these actions be achieved "in accordance with sound investment criteria and consistent with fiduciary obligations." Additionally, the divestment statute requires MainePERS report annually regarding the progress of divestment with a final report due on January 1, 2026. This report includes an update on the implementation of the divestment statute and the status of MainePERS' fossil fuel investments as of June 30, 2023.

Following the enactment of Public Law 2021, c. 231, MainePERS expended considerable resources and the better part of a year working diligently to implement the law by exploring the financial implications of alternative strategies to avoid fossil fuel investments and consulting with the Attorney General's Office on the legal issues guiding the fiduciary duty of the Board of Trustees in implementing the new law. The 2023 Divestment Report (Appendix I), summarized in section II, details these efforts and is appended to this report.

II. Summary of the 2023 Divestment Report

Article IX, Section 18, of the Maine Constitution (2023 Divestment Report, Appendix A) establishes a fiduciary duty to hold, invest, and disburse MainePERS pension trust funds solely in the best financial interest of the members as pension recipients. In fulfilling its fiduciary obligations, the Board appropriately relies on staff members and consultants with investment expertise.

The Board, based on investment staff and consultant recommendations, has adopted a passive, index-based approach to investing in the public markets as being in the best interests of members as pension recipients. For private market investments, the Board has adopted an approach to hire managers following due diligence that includes the manager's approach to environmental, social, and governance issues, and then to rely upon the manager's selection of portfolio investments as being in the best interest of members as pension recipients.

In October 2021, in accordance with sound investment criteria and consistent with fiduciary obligations, the Board of Trustees voted to continue its current approach to investing in the public and private markets while directing staff to explore the financial implications of alternative strategies to avoid fossil fuel investments. This included continuing discussions with MainePERS' investment consultants and with asset managers who provide fossil fuel-free or climate-aware investment options, including the extent to which alternatives are available with comparable risk and return profiles and fees.

Additionally, in November 2021, the Board of Trustees approved a plan to engage a specialty consultant to assist the staff in a review of the portfolio's exposure to fossil fuel and an evaluation of investment implications resulting from the divestment statute. A working group was formed to develop a request for proposals (RFP) for this engagement. This group consisted of staff, MainePERS' general consultant -- Cambridge Associates, and several external investment professionals with public plan experience related to these issues. The working group held a series of meetings during January and February 2022 to develop an appropriate scope of work for the RFP. One meeting was used to provide stakeholders an opportunity for input. Six individuals offered oral testimony, and 25 individuals submitted written comments.

MainePERS issued the RFP (2023 Divestment Report, Appendix F) directly to 13 potential bidders and via public media in March 2022. Five responses were received by the deadline in April 2022. Following a review of the RFP responses MainePERS engaged NEPC, formerly New England Pension Consultants, in June 2022 for the below scope of work (2022 Divestment Report, Appendix G):

- A. Broad review of divestment and the climate change-related landscape;
- B. Identify and quantify the System's portfolio holdings subject to divestment;
- C. Identify and quantify direct divestment costs; and
- D. Identify and quantify divestment impact on the portfolio.

NEPC delivered its report to the Board of Trustees in November 2022 (2023 Divestment Report, Appendix H). The report notes MainePERS' holdings of fossil fuel investments are both substantial and widespread, with a majority of asset classes containing fossil fuel exposure. Importantly, these exposures are not intentional, but rather arise as a result of investment decisions made in order to best balance the System's goals of generating returns while minimizing investment risks. Achieving and maintaining a fossil fuel-free portfolio by 2026 would require both disposing of significant existing investments as well as making fundamental changes to MainePERS' investment approach. The 2023 Divestment Report (Appendix I) discusses the impacts of divestment in more detail.

Subsequent to the receipt of the NEPC report, MainePERS sought advice from the Office of the Attorney General on how to interpret certain provisions of the fossil fuel and for-profit prison divestment statutes. The Office of the Attorney General issued a letter dated December 8, 2022, (2023 Divestment Report, Appendix D,). The letter states, in part:

The subject statutes do not affect the Board's exercise of its fiduciary duties. And they do not require the Board to either cease investing in or divest such holdings unless sound investment criteria and fiduciary obligations require such actions. Both statutes specifically condition their directives on "accordance with sound investment criteria" and "consisten[cy] with fiduciary obligations." As such, they reiterate rather than modify the Board's fiduciary obligations as a trustee – both constitutional and statutory.

The letter also states:

The Board's focus should remain on adhering to sound investment criteria and fulfilling its fiduciary obligations. However, if the Board encounters a situation where the application of sound investment criteria and its fiduciary obligations neither favors nor disfavors either of two potential investment options, the Board shall pursue the option that more closely complies with the directives of [the divestment statutes].

The Board of Trustees planned to modify Board Policy 2.1 (2023 Divestment Report, Appendix E; and, as amended, Appendix II), the System's Investment Policy Statement, to recognize the divestment statute, require annual divestment reporting, and provide guidance on investments that include exposure to fossil fuels.

The 2023 Divestment Report (Appendix I) noted that a majority of MainePERS' fossil fuel exposure resides in its private market investments, concentrated within the infrastructure and private equity asset classes. The report further noted that the last private market commitments to investments with a fossil fuel-focus occurred in 2017, that the capital invested in these strategies should be returned in the next several years as these investments wind down, and that no further commitments to funds with a fossil fuel-focus are anticipated. As a result, MainePERS projected the portfolio's exposure to fossil fuels would decline by roughly one-third by 2026.

III. Investments at MainePERS

The Board's Investment Policy Statement (Appendix II) directs staff in the investment of trust assets, by spelling out both high-level goals and specific implementation guidelines. As noted at the start of the Policy, all investments are made consistent with the need to balance two competing objectives:

- Generating investment returns (to ensure growth of the trust funds); and
- Minimizing investment risks (loss of capital and cash flow shortfalls);

while maintaining the volatility of contribution rates and the plan's funded status at acceptable levels. As the Policy notes, these two goals are in opposition – generating adequate returns requires constructing a portfolio that exposes trust assets to investment risk. The 2023 Divestment Report (Appendix I) discusses MainePERS' investment approach in more detail.

Broadly speaking, MainePERS strategic asset allocation includes three general categories – public markets, risk diversifiers, and private markets. Investment implementation varies across these asset classes.

	<u>Policy Weight</u>
Public Market Assets	
Domestic Equity	19.0%
International Equity	11.0%
Total Public Equity*	30.0%
Traditional Credit	5.0%
US Gov. Securities	10.0%
Total Public Markets	45.0%
Risk Diversifiers	7.5%
Private Market Assets	
Infrastructure	10.0%
Private Equity	12.5%
Alternative Credit	10.0%
Natural Resources	5.0%
Real Estate	10.0%
Total Private Markets	47.5%

**Domestic Equity and International Equity policy proportions are based on floating MSCI ACWI weights.*

Public market investments include domestic and international equity, traditional credit, and US Government Securities. In broad terms, MainePERS employs a passive “buy the market” approach for its investments in public markets where the likelihood of generating outperformance is low. This allows the System to earn market returns at very low cost while maintaining a very high level of diversification.

In contrast, the System uses an active “beat the market” approach for other asset classes, where it is reasonable to believe that an active approach will add value. Investment in risk diversifiers are made via private funds employing active strategies to invest in assets such as public stocks, bonds, and commodities. These strategies are expected to have little correlation to public markets, intended to provide diversification away from growth assets, and are typically implemented using derivatives -- buying stock index futures rather than holding shares in individual companies.

Private market assets include infrastructure, private equity, alternative credit, natural resources, and real estate. MainePERS invests in private market assets by committing to capital as a limited partner to long-term private investment funds. The general partners (GP) of these funds agree to serve as fiduciaries to MainePERS, and have wide discretion in the sourcing, managing, creating value, and timing of the acquisition and disposition of investments. MainePERS typically partners with managers pursuing a generalist investment approach in their funds, which allows the GP to direct capital into industries and sectors based on what it perceives as the most attractive investments based on current market conditions and the long-term opportunity set. Outcomes are driven by GP skill, and there is wide dispersion in performance across the universe of private market managers.

As noted in section II of this report, exposure to fossil fuel assets are not intentional, but rather arise as a result of investment decisions made in order to best balance the System’s goals of generating returns while minimizing investment risks.

IV. Implementation Update

In February of 2023, the Board of Trustees amended the Investment Policy Statement (Appendix II) as discussed in the 2023 Divestment Report. The revised policy recognizes the divestment statute, requires annual divestment reporting, and provides guidance on investments that include exposure to fossil fuels. In particular, these changes direct the Investment Team to provide the Board of Trustees with disclosures regarding the potential for fossil fuel and other exposures when recommending new investments and to report on the System's exposures to these assets on an annual basis.

Board Policy 2.1 – Investment Policy Statement was amended to include the following provision:

Fossil Fuel and Private Prison Investments

The System may invest in strategies providing managers with broad discretion in the selection of investments. The potential for fossil fuel or for-profit prison investment must be disclosed to the Board prior to the Board's approval of a strategy. For those strategies likely to invest in stocks, securities or other obligations of fossil fuel or for-profit prison assets, disclosures will include a description of the expected role of such investments in the proposed strategy and discussion of the process leading to the selection of the strategy.

On an annual basis, the Board will be provided with a report summarizing the System's fossil fuel and for-profit prison investments. This report will include a discussion of the actual and expected changes in these exposures, and analysis of these exposures within the context of the divestment statutes, 5 M.R.S. §§ 1957 and 1958.

MainePERS is in compliance with revised Board Policy 2.1, including required disclosures along with a description of the expected role of the investments in proposed strategy and discussion of the process leading to the selection of the strategy.

Specifically, MainePERS made a total of six commitments to private market investments subsequent to adopting the above language in revised Board Policy 2.1. As discussed in section III of this report, these private market investments take the form of interests in private partnerships. One of the six commitments was made to an infrastructure fund. It is typical for such funds to include one or more fossil fuel sectors as potential investment areas, however these are expected to represent a minority of fund investments. Per revised Board Policy 2.1, this was disclosed along with a description of the expected role of the investments in proposed strategy and discussion of the process leading to the selection of the strategy.

V. Fossil Fuel Investment Status

Following is an update on the status of MainePERS' fossil fuel investments as of June 30, 2023, as compared to the status of fossil fuel investments as of June 30, 2022. While preparing this report it was discovered that a private market fossil fuel investment valued at \$32.3 million was omitted from the System's 2023 analysis due to a classification error. This error has been corrected and prior-year exposures contained in the below tables have been updated to include this omitted investment. This investment remains part of the System's private market portfolio, and its value is reflected in the 2023 figures in this report. The updated values are designated as "Corrected".

Table 1 – MainePERS Fossil Fuel Exposure

Asset	Estimated FF [\$M]	Weighted Exposure
Public Markets		
2022	\$445.5	2.5%
2023	\$428.4	2.3%
Risk Diversifiers		
2022	\$0.0	0.0%
2023	\$0.0	0.0%
Private Markets		
2022*	\$962.3	5.3%
2023	\$786.8	4.2%
Total		
2022*	\$1,407.8	7.8%
2023	\$1,215.2	6.5%

Note: Totals shown in tables may not sum due to rounding.

* Corrected.

As shown above, the System's holdings of fossil fuel investments decreased during the fiscal year by \$193M, from \$1,408M to \$1,215M, and represented 6.5% of total System assets as of June 30, 2023. Fossil fuel exposure remained constant at \$0 for Risk Diversifiers and declined for both public market and private market investments. The below tables provide additional detail on exposures within these categories.

Table 2 – MainePERS Fossil Fuel Exposures – Public Markets

Asset	Policy Target (A)	Portfolio Weight (B)	Estimated FF [% of (B)]	Estimated FF [\$M]	Weighted Exposure
Total Public Equity					
2022	30%	24.5%	9.1%	\$404.5	2.2%
2023	30%	25.6%	7.8%	\$376.0	2.0%
Traditional Credit					
2022	5%	5.7%	4.0%	\$41.0	0.2%
2023	5%	4.2%	6.7%	\$52.3	0.3%
US Govt. Securities					
2022	10%	7.7%	0.0%	\$0.0	0.0%
2023	10%	8.5%	0.0%	\$0.0	0.0%
Total Public Markets					
2022	45%	37.9%	6.5%	\$445.5	2.5%
2023	45%	38.2%	5.9%	\$428.4	2.3%

Note: Totals shown in tables may not sum due to rounding.

Fossil fuel exposure within public equity dropped by \$28.5M. This decrease was offset by an increase of \$11.3M in the Traditional Credit portfolio, producing a net decrease of \$17.1M during the year.

Table 3 – MainePERS Fossil Fuel Exposures – Private Markets

Asset	Policy Target (A)	Portfolio Weight (B)	Estimated FF [% of (B)]	Estimated FF [\$M]	Weighted Exposure
Infrastructure					
2022*	10.0%	11.2%	36.5%	\$735.5	4.1%
2023	10.0%	12.2%	24.5%	\$565.4	3.0%
Private Equity					
2022	12.5%	21.1%	5.2%	\$197.3	1.1%
2023	12.5%	19.6%	4.3%	\$159.9	0.8%
Alternative Credit					
2022	10.0%	6.8%	1.8%	\$22.3	0.1%
2023	10.0%	8.2%	3.7%	\$57.3	0.3%
Natural Resources					
2022	5.0%	5.0%	0.8%	\$7.2	0.0%
2023	5.0%	5.2%	0.4%	\$4.3	0.0%
Real Estate					
2022	10.0%	10.5%	0.0%	\$0.0	0.0%
2023	10.0%	10.1%	0.0%	\$0.0	0.0%
Total Private Markets					
2022*	47.5%	54.5%	9.8%	\$962.3	5.3%
2023	47.5%	55.3%	7.6%	\$786.8	4.2%

Note: Totals shown in tables may not sum due to rounding.

* Corrected.

As shown above, the bulk of the decrease in the MainePERS’ fossil fuel exposure took place in the private market investments, where fossil fuel holdings fell from a (corrected) value of \$962.3M to \$786.8M, a reduction of \$175.5M. As discussed in the 2023 Divestment Report (Appendix I), MainePERS’ exposure to fossil fuels within private markets is expected to decrease over time due to the runoff of historical commitments to fossil fuel-focused strategies and the growth of infrastructure investment opportunities related to the energy transition.

MainePERS made its last private market commitments to investments with a fossil fuel-focus in 2017, and the capital invested in these strategies will be returned in the next several years as those investments wind down. Additionally, as the universe of potential infrastructure investments broadens to include more opportunities related to the energy transition, MainePERS expects its generalist managers will increasingly find these types of investments more attractive relative to fossil fuel investments. As a result, MainePERS continues to project the portfolio’s exposure to fossil fuels will decline by roughly one-third by 2026 relative to its level of exposure in 2022.



DIVESTMENT REPORT

Public Law 2021, c. 231

January 2023

Prepared by the Maine Public Employees Retirement System

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Appendices

- A. Maine Constitution, Article IX, Section 18
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I. EXECUTIVE SUMMARY

Public Law 2021, c. 231, An Act to Require the State to Divest Itself of Assets Invested in the Fossil Fuel Industry (Appendix B), became effective on October 18, 2021. This divestment statute (5 M.R.S. §1957) directs the Board of Trustees of the Maine Public Employees Retirement System (MainePERS) to refrain from future investment in fossil fuel companies and divest of any existing holdings by January 1, 2026, subject to the limitation that these actions be achieved “in accordance with sound investment criteria and consistent with fiduciary obligations.”

Article IX, Section 18, of the Maine Constitution (Appendix A) establishes a fiduciary duty to hold, invest, and disburse MainePERS pension trust funds solely in the best financial interest of the members as pension recipients. In fulfilling its fiduciary obligations, the Board appropriately relies on staff members and consultants with investment expertise.

The Board, based on investment staff and consultant recommendations, has adopted a passive, index-based approach to investing in the public markets as being in the best interests of members as pension recipients. For private market investments, the Board has adopted an approach to hire managers following due diligence that includes the manager’s approach to environmental, social, and governance issues, and then to rely upon the manager’s selection of portfolio investments as being in the best interest of members as pension recipients.

In October 2021, in accordance with sound investment criteria and consistent with fiduciary obligations, the Board of Trustees voted to continue its current approach to investing in the public and private markets while directing staff to explore the financial implications of alternative strategies to avoid fossil fuel investments. This included continuing discussions with MainePERS’ investment consultants and with asset managers who provide fossil fuel-free or climate-aware investment options, including the extent to which alternatives are available with comparable risk and return profiles and fees.

Additionally, in November 2021, the Board of Trustees approved a plan to engage a specialty consultant to assist the staff in a review of the portfolio’s exposure to fossil fuel and an evaluation of investment implications resulting from the divestment statute. A working group was formed to develop a request for proposals (RFP) for this engagement. This group consisted of staff, MainePERS’ general consultant -- Cambridge Associates, and several external investment professionals with public plan experience related to these issues. The working group held a series of meetings during January and February 2022 to develop an appropriate scope of work for the RFP. One meeting was used to provide stakeholders an opportunity for input. Six individuals offered oral testimony, and 25 individuals submitted written comments.

MainePERS issued the RFP (Appendix F) directly to 13 potential bidders and via public media in March 2022. Five responses were received by the deadline in April 2022. Following a review of the RFP responses MainePERS engaged NEPC, formerly New England Pension Consultants, in June 2022 for the below scope of work (Appendix G):

- A. Broad review of divestment and the climate change-related landscape;
- B. Identify and quantify the System’s portfolio holdings subject to divestment;

- C. Identify and quantify direct divestment costs; and
- D. Identify and quantify divestment impact on the portfolio.

NEPC delivered its report to the Board of Trustees in November 2022 (Appendix H). The report notes MainePERS' holdings of fossil fuel investments are both substantial at 7.63% and widespread, with a majority of asset classes containing fossil fuel exposure. Importantly, these exposures are not intentional, but rather arise as a result of investment decisions made in order to best balance the System's goals of generating returns while minimizing investment risks. Achieving and maintaining a fossil fuel-free portfolio by 2026 would require both disposing of significant existing investments as well as making fundamental changes to MainePERS' investment approach.

Subsequent to the receipt of the NEPC report, MainePERS sought advice from the Office of the Attorney General on how to interpret certain provisions of the fossil fuel and for-profit prison divestment statutes. The Office of the Attorney General issued a letter dated December 8, 2022, (Appendix D). The letter states, in part:

The subject statutes do not affect the Board's exercise of its fiduciary duties. And they do not require the Board to either cease investing in or divest such holdings unless sound investment criteria and fiduciary obligations require such actions. Both statutes specifically condition their directives on "accordance with sound investment criteria" and "consisten[cy] with fiduciary obligations." As such, they reiterate rather than modify the Board's fiduciary obligations as a trustee – both constitutional and statutory.

The letter also states:

The Board's focus should remain on adhering to sound investment criteria and fulfilling its fiduciary obligations. However, if the Board encounters a situation where the application of sound investment criteria and its fiduciary obligations neither favors nor disfavors either of two potential investment options, the Board shall pursue the option that more closely complies with the directives of [the divestment statutes].

The Board of Trustees are expected to modify Board Policy 2.1 (Appendix E), the System's Investment Policy Statement, to recognize the divestment statute, require annual divestment reporting, and provide guidance on investments that include exposure to fossil fuels.

The majority of MainePERS' fossil fuel exposure resides in its private market investments, concentrated within the infrastructure and private equity asset classes. It is worth noting that the last private market commitments to investments with a fossil fuel-focus occurred in 2017 and that the capital invested in these strategies should be returned in the next 3-4 years as these investments wind down. No further commitments to funds with a fossil fuel-focus are anticipated. As a result, MainePERS projects the portfolio's exposure to fossil fuels will decline by roughly one-third by 2026.

II. INTRODUCTION TO MAINEPERS

The Maine Public Employees Retirement System (MainePERS) is an incorporated public instrumentality of the state governed by a Board of Trustees pursuant to Maine law. Since 1942, MainePERS has joined with public employers to help their employees prepare for retirement. The System's active contributing members include teachers; state, county, and municipal employees; legislators; judges; and others. Upon retirement, our members receive monthly benefits from their respective defined benefit plans. The System also administers disability retirement, group life insurance, survivor services, and a tax-deferred retirement savings program known as MaineSTART. Management of these programs includes financial and investment administration, recordkeeping of members' work and compensation data, and administration of retirement and related services.

The defined benefit plans are the prevailing program administered by MainePERS. The basic defined benefit retirement plan funding equation provides that, over the long term, contributions plus investment earnings must be equal to benefit obligations. While investment market performance affects plan funding levels and funding requirements, it does not affect benefit obligations.

The Board of Trustees' management of MainePERS investments is guided by the System's investment policy. The policy states the Board's underlying investment objectives, sets out the investment strategies intended to realize the objectives, and establishes guidelines and criteria for implementation of the strategies.

The foundation of the investment policy is the mix of investment types in which assets are invested and the allocation of assets across asset classes. The Board is responsible for establishing the policy that serves as the framework for investment of the programs' assets. The Board employs in-house investment professionals as well as a general consultant to advise it on investment policy and asset class specialty consultants to advise it on specific investments.

The Board's choice of asset classes reflects its assessment of expected investment returns and the nature, level, and management of risk. The defined benefit programs' assets perform two functions: they collateralize the benefits owed to participants, and they provide investment earnings. All benefit payments must eventually be funded from a combination of contributions and investment earnings.

The return on invested contributions has historically supplied a significant amount of the benefit funding resources of defined benefit plans. In periods when the investment markets provide lower returns than expected, the resulting funding shortfall has historically been supplemented by a combination of increased contributions and investment market returns in other periods that exceed expectations. For this reason, the performance of the investment markets is a significant factor affecting the financial activities or position of the System, and the effects of market performance flow through to contribution requirements.

The recent two-decade low interest rate environment has affected the potential volatility of employer contributions. This is because low interest rates mean that the fund is no longer able to earn attractive returns from relatively safer fixed-income assets and as a result is more reliant on earnings from riskier assets, such as equities. As interest rates have fallen and to help maintain contribution stability, the trust fund has decreased its earnings assumption by 1.5% (from 8% to 6.5%) and shifted assets away from fixed-income. At the same time the trust fund has increased diversification by expanding its asset allocation to include a number of alternative asset classes.

III. DIVESTMENT LEGISLATION

The 130th Legislature enacted Public Law 2021, c. 231, An Act to Require the State to Divest Itself of Assets Invested in the Fossil Fuel Industry, which became effective in October of 2021. The divestment statute requires MainePERS to refrain from certain types of investments and to divest of any existing holdings of these investments to the extent doing so would be “in accordance with sound investment criteria and consistent with fiduciary obligations.” The statute includes an exception for de minimis exposure and sets a January 1, 2026 target for completing divestment.

The investments covered by the divestment statute are “stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company.” PL 2021, c. 231, § 3. “Fossil fuel company” is defined as any company that:

- Is among the 200 publicly traded companies with the largest fossil fuel reserves;
- Is among the 30 largest public company owners in the world of coal-fired power plants;
- Has as its core business the construction or operation of fossil fuel infrastructure (e.g., wells, pipelines, refineries, power plants, storage tanks, export terminals);
- Has as its core business the exploration, extraction, refining, processing or distribution of fossil fuels; or
- Receives more than 50% of its gross revenues from companies meeting the above definitions.

IV. LEGAL AND POLICY FRAMEWORK

Constitutional, Statutory, and Regulatory Context

The Maine Constitution protects the retirement benefit of MainePERS members by establishing a fiduciary duty to hold, invest, and disburse pension trust funds solely in the best financial interest of members as pension recipients. Article IX, Section 18, of the Constitution (Appendix A) states:

All of the assets, and proceeds or income therefrom, of the Maine State Retirement System or any successor system and all contributions and payments made to the system to provide for retirement and related benefits shall be held,

invested or disbursed as in trust for the exclusive purpose of providing for such benefits and shall not be encumbered for, or diverted to, other purposes.

This “exclusive benefit rule” is also reflected in the Maine Uniform Trust Code, which applies to the MainePERS Board of Trustees and states, “A trustee shall administer the trust solely in the interests of the beneficiaries.” *18-B M.R.S. § 802(1)*; see also *5 M.R.S. § 17153(3)*. The exclusive benefit rule is further reflected in the federal statutes and regulations that qualify MainePERS retirement plans for federal tax deferment. Under federal law, qualified retirement fund assets must not be “used for, or diverted to purposes other than the exclusive benefit of [the] employees or their beneficiaries.” *26 U.S.C. § 401(a)(2)*. The “phrase ‘purposes other than for the exclusive benefit of [the] employees or their beneficiaries’ includes all objects or aims not solely designed for the proper satisfaction of all liabilities to employees or their beneficiaries covered by the trust.” *26 C.F.R. § 1.401-2(a)(3)*.

Additionally, the MainePERS Board of Trustees must comply with the Maine Uniform Prudent Investor Act, which requires the Board to “invest and manage trust assets, as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the trust.” *18-B M.R.S. § 902(1)*. The general provisions of Title 5, Part 20, Maine Public Employees Retirement System, lays out these purposes, terms, distribution requirements and other circumstances of the trust administered by the Board, and the findings declare “The Legislature finds that the State owes a great debt to its retired employees for their years of faithful and productive service. Part of that debt is repaid by the benefits provided to retirees...” through the retirement programs administered by MainePERS. *5 M.R.S. § 17151*.

Fiduciary Duty of Trustees

As noted above, the MainePERS Board of Trustees owes fiduciary duties to MainePERS’ members, retirees, and beneficiaries.

First, the Board owes a duty of loyalty – to follow the exclusive benefit rule established in the Maine Constitution by acting solely in the interests of the members, retirees, and beneficiaries as recipients of retirement or related benefits. This duty includes not using the Board’s position of trust for personal gain or to advance other causes.

Second, the Board owes a duty of prudence. This requires the exercise of reasonable care, skill, and caution. In making investment decisions, this requires considering the portfolio as a whole, the role each investment plays in the portfolio, and diversification. See *18-B M.R.S. §§ 804, 902, 903*. Additionally, the Board “may incur only costs that are reasonable in relation to the trust property, the purposes of the trust and the skills of the” Board. *18-B M.R.S. § 805*.

The fossil fuel divestment statute does not alter these fiduciary duties. Analyzing this and the for-profit prison divestment statute, the Attorney General’s Office explains:

The subject statutes do not affect the Board’s exercise of its fiduciary duties. And they do not require the Board to either cease investing in or divest such holdings

unless sound investment criteria and fiduciary obligations require such actions. Both statutes specifically condition their directives on “accordance with sound investment criteria” and “consisten[cy] with fiduciary obligations.” As such, they reiterate rather than modify the Board’s fiduciary obligations as a trustee – both constitutional and statutory.

The Attorney General’s Office further explains:

The Board’s focus should remain on adhering to sound investment criteria and fulfilling its fiduciary obligations. However, if the Board encounters a situation where the application of sound investment criteria and its fiduciary obligations neither favors nor disfavors either of two potential investment options, the Board shall pursue the option that more closely complies with the directives of [the divestment statutes].

(Appendix D). This analysis echoes that provided by the Attorney General to the Joint Standing Committee on Labor and Housing when the bills that became the divestment statutes were under consideration. (Appendix C).

V. INVESTMENTS AT MAINEPERS

Investment Policy Statement

The Board’s Investment Policy Statement (Policy) directs staff in the investment of trust assets, by spelling out both high-level goals and specific implementation guidelines (Appendix E).

As spelled out at the start of the Policy, all investments are made consistent with the need to balance two competing objectives:

- Generating investment returns (to ensure growth of the trust funds); and
- Minimizing investment risks (loss of capital and cash flow shortfalls);

while maintaining the volatility of contribution rates and the plan’s funded status at acceptable levels. As the Policy notes, these two goals are in opposition – generating adequate returns requires constructing a portfolio that exposes trust assets to investment risk.

The Policy defines a strategic asset allocation specifying and defining the asset classes to be invested in and provides target portfolio weights for each asset class. The Policy acknowledges that these choices are the primary determinants of the level of investment risk contained in the System’s portfolio.

The Policy also provides implementation guidance to investment staff in a number of key areas. Specifically, the Policy:

- Defines each asset class and requires that individual investments be consistent with these definitions.
- Identifies benchmarks for each asset class and specifies that asset class performance be measured against these benchmarks.
- Directs that a passive approach be taken in public market equity investments.
- Requires that investments be made consistent with the Board’s Environmental, Social and Governance Policy and Engagement Policy.
- Specifies high-level processes used to select and monitor individual managers.
- Discusses the use of derivatives, leverage, hedging, and securities lending.

Investment Policy Design

The System’s strategic asset allocation spans a number of asset classes:

	<u>Policy Weight</u>
Public Market Assets	
Domestic Equity	19.0%
International Equity	11.0%
Total Public Equity*	<u>30.0%</u>
Traditional Credit	5.0%
US Gov. Securities	<u>10.0%</u>
Total Public Markets	45.0%
Risk Diversifiers	7.5%
Private Market Assets	
Infrastructure	10.0%
Private Equity	12.5%
Alternative Credit	10.0%
Natural Resources	5.0%
Real Estate	<u>10.0%</u>
Total Private Markets	47.5%

**Domestic Equity and International Equity policy proportions are based on floating MSCI ACWI weights*

Investment implementation varies across asset classes. In broad terms, MainePERS employs a passive “buy the market” approach for its investments in public markets where the likelihood of

generating outperformance is low. In contrast, the System uses an active “beat the market” approach for other asset classes, where it is reasonable to believe that an active approach will add value. Brief descriptions of each asset class and rationale for the choice of investment approach are discussed below.

Public Market Investments

Public market investments span three distinct asset classes:

- Public Equity: 30% target allocation
- US Government Securities: 10% target allocation
- Traditional Credit: 5% target allocation

Each of these asset classes play a different role in the portfolio. Public Equities are “growth” assets that involve ownership of shares in a business. These are riskier investments and expected to produce commensurately higher returns, substantially through price appreciation. Their values are volatile and annual fluctuations in excess of 20% are to be expected.

Traditional Credit assets involve the lending of capital in return for contractual interest payments and return of capital. While these investments are exposed to the risk that borrowers will default, they are less risky than equity investments and are expected to earn lower returns. US Government Securities are the least risky of all asset classes and are viewed as having no default risk. This asset class generally benefits from a “flight to safety” when investors exit other asset classes due to a perceived increase in the risks of those asset classes. As such, this asset class is expected to serve MainePERS as a source of liquidity, if needed, in extreme market conditions.

Investment implementation within these asset classes is guided by three foundational principles:

- **Efficiency:** Public markets are generally efficient, with prices fairly reflecting investment risks.
- **Diversification:** Broad diversification allows exposure to the full spectrum of return sources and reduces exposure to uncompensated risks.
- **Costs:** Investment costs matter, and as a long term investor small cost savings will compound meaningfully over time. For example, the annual return difference between \$1B invested at 10% versus 9.9% is \$1M. However, over 10 years a portfolio invested at 10% will be worth \$23M more than one invested at 9.9%.

Based on these views, MainePERS invests in public securities on a passive basis, benchmarked to broad market indices. MainePERS does not pay managers to attempt to beat the market by choosing securities or sectors to over- or under-weight. Costs are therefore extremely low (management fees average around 0.011% annually), and these investments require minimal staff oversight. This small allocation of MainePERS resources is consistent with the small likelihood of adding investment value by taking an active investment approach in public market asset classes, as discussed below.

Data Supporting Public Markets Investment Methodology

A substantial body of evidence provides strong support for MainePERS' low cost passive index-based investment approach for public markets. For example, S&P Dow Jones Indices measures the performance of active managers relative to their benchmarks on an annual basis. The results of this analysis are contained in their publicly available SPIVA (S&P Indices Versus Active) report. The most recent SPIVA study as of June 30, 2022, shows that over 93% of actively managed domestic (US) funds underperformed the S&P 1500 Composite over the trailing 20 years. Results are similar outside the US, where they again find that over 93% of actively managed funds underperform a broad market index (the S&P 700) over a 20-year period.

Risk Diversifiers

The System's strategic asset allocation specifies a target weight of 7.5% for the Risk Diversifiers asset class. Investments in this asset class are made via private funds employing active strategies to invest in assets such as public stocks, bonds, and commodities. These strategies are expected to have little correlation to public markets (i.e., are just as likely to produce gains when public markets are down as they are to produce gains when public markets rise) and are intended to provide diversification away from growth assets. The principles guiding investment implementation within the Risk Diversifiers are:

- **Diversification:** Diversification across strategy types and managers
- **Complexity:** MainePERS devotes appropriate resources (staff & consultants) to develop the ability to understand this asset class and to identify and invest with top managers in order to meet the goals of the asset class

These strategies are highly dependent upon manager skill and require close monitoring on the part of MainePERS investment staff. Investment management fees in this actively managed asset class average 1.25% per year.

Private Market Investments

Private market investments span five asset classes:

- Alternative Credit: 10% target allocation
- Infrastructure: 10% target allocation
- Natural Resources: 5% target allocation
- Private Equity: 12.5% target allocation
- Real Estate: 10% target allocation

While these asset classes play different roles in the overall portfolio, the below set of common core principles guide the System's investments in private market assets:

- **Diversification:**
 - Across asset classes to provide exposure to a broad spectrum of return sources,
 - Across managers within asset classes to avoid undue concentration, and
 - Over time to avoid concentration of investments in any given year;
- **Efficiency:** Private markets are generally inefficient, and MainePERS is able to identify and invest with managers that are able to source and invest in opportunities that exploit inefficiencies;
- **Illiquidity Premium:** A return premium exists for illiquid assets, and as a patient long-term investor MainePERS is able to earn excess returns by investing in illiquid assets as compared to public markets; and
- **Complexity:** MainePERS devotes appropriate resources (staff & consultants) to develop the ability to understand this asset class and to identify and invest with top managers in order to meet the goals of the asset class.

Based on these principles, MainePERS commits capital as a limited partner to long-term private investment funds. The general partners (GPs) of these funds agree to serve as fiduciaries to MainePERS, and have wide discretion in the sourcing, managing, creating value, and timing of the acquisition and disposition of investments. MainePERS typically partners with managers pursuing a generalist investment approach in their funds, which allows the GP to direct capital into industries and sectors based on what it perceives as the most attractive investments based on current market conditions and the long-term opportunity set. Outcomes are driven by GP skill, and there is wide dispersion in performance across the universe of private market managers. MainePERS investment staff devote the majority of their time to the management of these asset classes. Annual management fees are high across the private market assets classes and average nearly 1.2%.

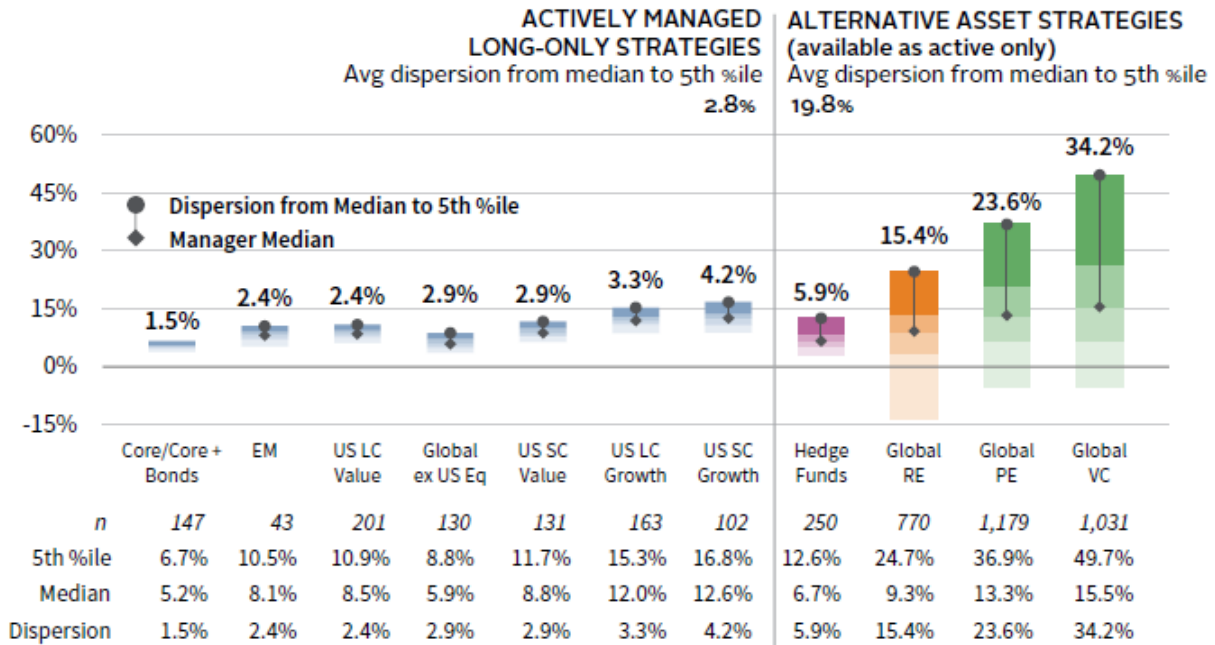
Data Supporting Private Market Investment Methodology

MainePERS “active” private market investment approach is also strongly supported by data. In contrast to public markets, where evidence supports a low cost, passive index-based approach, investing in private market assets is very different for several key reasons.

First, there is no such thing as a passive approach to private market investing. Unlike public markets, private market investors cannot “buy the market.” In addition, the dispersion of returns for alternative asset managers is much wider than for public markets managers. For example, a recent study by Cambridge Associates documents that differences in returns between a median manager and one in the 5th percentile is 1.5% for core bond managers, 2-4% for public equity managers, and averages nearly 20% for strategies involving alternative assets, as shown below.

Average Annual Manager Returns by Asset Class

January 1, 2006 – December 31, 2020



Source: Cambridge Associates LLC.

This means that the sourcing, underwriting, due diligence, and selection of alternative asset managers is the primary key to achieving attractive long-term rates of returns in those asset classes. This is a labor-intensive process that requires a skilled and dedicated team. MainePERS has deliberately focused its' investment team's efforts on these alternative asset classes, where there is the best risk-return potential from active manager selection.

VI. IMPACTS OF DIVESTMENT

As shown in NEPC's report (Appendix H), MainePERS' holdings of fossil fuel investments are both substantial at 7.63% and widespread, with a majority of asset classes containing fossil fuel exposure. Importantly, these exposures are not intentional, but rather arise as a result of investment decisions made in order to best balance the System's goals of generating returns while minimizing investment risks. Achieving and maintaining a fossil fuel-free portfolio by 2026 would require both disposing of significant existing investments as well as making fundamental changes to MainePERS' investment approach, as discussed below.

Initial One-time Costs Associated with Divestment

Public Market Assets

Fossil fuel exposures in the public market portion of the portfolio are shown below.

Asset Exposure	Portfolio Allocation (\$M)	Total Number of Holdings	Number of Holdings Tagged for Divestment	Fossil Fuel Exposure (\$M)	Private Prison Exposure (\$M)	Source
Russell 1000	\$2,491.4	1,033	69	\$192.6	\$0.0	MSCI ESG Manager
Russell 2000	\$171.5	1,978	97	\$13.1	\$0.2	MSCI ESG Manager
ACWI ex US	\$1,755.2	2,371	218	\$198.7	\$0.0	MSCI ESG Manager
Traditional Credit	\$1,029.3	14,355	913	\$41.0	\$0.0	MSCI ESG Manager
TOTAL				\$445.4	\$0.2	

The System holds its Russell 1000 investments directly, in a Separately Managed Account (SMA), and these holdings can be sold at will. Removing fossil fuel exposure from this portion of the portfolio would incur transactions costs associated with the sale and reinvestment of shareholdings valued at \$192.6M.

Investments in the other public market asset classes shown above are made via investments in commingled funds. In these cases, divestment would require exiting these commingled vehicles and redeploying capital into SMAs where the capital could be directly invested into the non-fossil fuel constituents of each benchmark index. In addition to the transactions costs associated with liquidating and then redeploying capital, SMA creation involves custodial and legal costs, in particular for those accounts holding non-US assets.

Private Market Assets

The System's private market investments generally consist of interests in fixed-life private partnerships. While these interests can be transferred, their illiquid nature requires a lengthy sales process and transactions typically occur at a discount to Net Asset Value (NAV). The below table summarizes the System's current holdings of private market investments containing fossil fuel exposure and projects that these existing exposures will drop by nearly two thirds over the next 3 years as funds dispose of investments and return capital.

	Projected # of Funds with Exposure	Projected FF Exposure (\$M)	Projected Total NAV of FF Funds (\$M)
Current	58	\$930.0	\$2,486.5
12/31/2023	52	\$560.9	\$1,929.2
12/31/2024	50	\$441.7	\$1,548.9
12/31/2025	48	\$327.2	\$1,166.2

Complete removal of fossil fuel exposure would require MainePERS to sell its entire interest in any private market fund containing a fossil fuel asset. Based on indicative quotes obtained by NEPC, the System could expect to incur discounts on the sale of its partnership interests ranging from 10% to 60% depending on the asset class and fund characteristics. This suggests a minimum discount of over \$100M, calculated as a 10% discount applied to a projected year-end 2025 net asset value of \$1,166.2M, to remove existing fossil fuel exposure from the System's private market investments by 2026, and substantially more if divestment were to occur sooner. The System would also incur substantial legal and other costs associated with the transfer of partnership interests.

Implications for Investment Methodology and Ongoing Costs

Public Market Assets

As discussed above, MainePERS' approach to investing in public market assets is guided by three foundational principles: market efficiency, diversification, and costs. Excluding fossil fuel securities from public market investments raises issues related to each of these principles.

As a reminder, MainePERS takes a passive "buy the market" approach when investing in public market asset classes, which generally are viewed as efficient. This approach is guided by the evidence that over the long-term passive approaches will consistently outperform active strategies that select specific securities or sectors to over- or underweight. MainePERS would be precluded from employing its current evidence-based approach to public market investing if it were to exclude fossil fuel assets from its public market holdings. As shown above, MainePERS has \$445M in fossil fuel exposure across its public market asset classes.

Relatedly, holding less than the broad market portfolio necessarily results in a lower level of diversification. Diversification is one of the few true "free lunches" available in investments. Broadly speaking, diversification allows an investor to reduce risk without sacrificing return simply by constructing a portfolio with capital spread over a large number of assets. Divestment would necessarily reduce the level of diversification in the MainePERS portfolio, thereby exposing MainePERS to a higher level of investment risk than it would otherwise bear.

The final issue concerns costs – the MainePERS approach is consistent with its general fiduciary duty to manage expenses in a prudent manner. Investment management fees across the System's public market investments are very low. MainePERS achieves these low investment costs in large part due to structural choices made with respect to investment vehicles. As noted above, MainePERS holds public market assets in both SMAs and commingled funds. Investment via commingled funds allows MainePERS to benefit from economies of scale created via pooling capital with other institutional investors.

In FY22 MainePERS paid approximately \$900,000 in management fees on an average of \$8.1B of public market assets, or 0.011% (1.1 basis point). As NEPC notes, management fees for customized strategies avoiding fossil fuel investments are likely to be 1-3 basis points higher. In addition to this doubling (or more) of management fees, MainePERS would face higher costs for

portfolio servicing (e.g., proxy advisor) and transactions, costs associated with additional staffing needs, as well as ongoing costs for data and portfolio screening.

Private Market Assets

MainePERS’ investment policy calls for investing 47.5% of assets across five private market asset classes, and investment staff devote a majority of their time to the oversight of these asset classes. The decision to invest in private markets is driven by key principles related to efficiency, illiquidity, and complexity. As noted above, MainePERS considers private markets to be inefficient, meaning that skilled managers must be retained to identify, invest, and manage assets that will provide returns that more than compensate for the risks being taken. Investments in these markets are illiquid, and as such carry an “illiquidity premium” providing long-term investors the ability to earn higher returns on private market investments than on public market investments of comparable risk. Finally, MainePERS recognizes that private market investments are complex and that resources must be devoted both internally and externally in order to successfully invest in these asset classes.

The majority of MainePERS’ fossil fuel exposure resides in its private market investments. As shown below, this exposure is concentrated within the Infrastructure and Private Equity asset classes, while Private Credit and Natural Resources contain small exposures, and Real Estate currently has no exposure.

Asset Exposure	Portfolio Allocation (\$M)	Total Number of Funds	Number of Funds Tagged for Divestment	Fossil Fuel Exposure (\$M)	Weighted Exposure	NAV of Funds with FF Exposure (\$M)
Infrastructure	\$2,017.3	49	25	\$703.2	3.90%	\$1,355.4
Private Equity	\$3,793.5	149	22	\$197.3	1.09%	\$648.7
Private Credit	\$1,219.0	45	8	\$22.3	0.12%	\$455.7
Natural Resources	\$902.9	16	3	\$7.2	0.04%	\$26.7
Real Estate	\$1,884.6	43	0	\$0	0%	\$0
TOTAL PRIVATE MARKETS	\$9,817.3	302	58	\$930.0	5.16%	\$2,486.5

The heavy exposure within Infrastructure exists for two reasons. First, the System historically made commitments to specialized funds having a focus on investments involving fossil fuel distribution and power generation. It is worth noting that 2015 marked the last commitment to such specialized infrastructure funds, that remaining capital invested in these specialized funds should be returned over the next 3-4 years, and that no further commitments to funds with a fossil fuel-focus are anticipated. Second, MainePERS holds “generalist” infrastructure funds, where investments are sourced from a variety of sectors such as transportation, telecommunications, power generation and transmission, and social infrastructure such as

hospitals and electric vehicle charging stations. While these commitments are likely to lead to some fossil fuel exposure, fossil fuel investments are unlikely to represent a majority of any single fund's investments.

Fossil fuel exposure within Private Equity totals \$197M. Nearly \$150M of this amount arises from funds managed by a single GP having a specific focus on fossil fuel exploration, production, and distribution. Investment returns on these "pure play" funds may be heavily influenced by (globally-determined) fossil fuel prices, which can easily negate the value expected to be added by the manager's skill in sourcing and managing assets. MainePERS last committed to these fossil fuel-focused private equity funds in 2017. The \$150M invested in these funds is expected to be returned over the next 3-4 years as funds liquidate existing investments, and no further fossil fuel-focused private equity investments are anticipated.

As discussed earlier, MainePERS' private market investments take the form of interests in private partnerships. MainePERS participates in these investments as a limited partner, while the partnership is managed by the GP. The GP has wide discretion concerning the types and timing of investments subject to broad limits specified in partnership documents. This point is crucial in understanding the investment policy changes required in order to achieve and maintain a fossil fuel-free portfolio. While the above table shows that only 58 out of 302 individual private market investments currently contain fossil fuel exposure, it is important to note that essentially all of MainePERS' private investment funds have the latitude to make fossil fuel investments. This flexibility is by design – MainePERS' private market investments intentionally provide GPs with the ability to devote capital to what they see as the most attractive investment opportunities.

VII. Update to Investment Policy Statement

Trustees are expected in early 2023 to modify Board Policy 2.1, the System's Investment Policy Statement, to recognize the divestment statutes, require annual divestment reporting, and provide guidance on investments that include exposure to fossil fuels as follows:

The System may invest in strategies providing managers with broad discretion in the selection of investments. The potential for fossil fuel or for-profit prison investment must be disclosed to the Board prior to the Board's approval of a strategy. Disclosures will include a description of the expected role of such investments in the proposed strategy and discussion of the process leading to the selection of the strategy.

On an annual basis, the Board will be provided with a report summarizing the System's fossil fuel and for-profit prison investments. This report will include a discussion of the actual and expected changes in these exposures, and analysis of these exposures within the context of the divestment statutes, 5 M.R.S. §§ 1957 and 1958.

APPENDICES

- A. Maine Constitution, Article IX, Section 18
- B. Divestment Legislation, Public Law 2021, c. 231
- C. Letter from Attorney General Aaron Frey to the Joint Standing Committee on Labor and Housing, April 9, 2021
- D. Letter from Assistant Attorney General Andrew Black to MainePERS, December 8, 2022
- E. MainePERS Governance Manual, 2.1 Investment Policy Statement
- F. Request for Proposal 2022-03, Divestment Consulting Services
- G. NEPC Divestment Consulting Services Proposal, April 2022
- H. NEPC Divestment Memo, November 2022

Excerpt from the Constitution of the State of Maine

Article IX.

General Provisions.

Section 18. Limitation on use of funds of the Maine State Retirement System. All of the assets, and proceeds or income therefrom, of the Maine State Retirement System or any successor system and all contributions and payments made to the system to provide for retirement and related benefits shall be held, invested or disbursed as in trust for the exclusive purpose of providing for such benefits and shall not be encumbered for, or diverted to, other purposes. Funds appropriated by the Legislature for the Maine State Retirement System are assets of the system and may not be diverted or deappropriated by any subsequent action.

APPROVED
JUNE 16, 2021
BY GOVERNOR

CHAPTER
231
PUBLIC LAW

STATE OF MAINE

IN THE YEAR OF OUR LORD
TWO THOUSAND TWENTY-ONE

H.P. 65 - L.D. 99

An Act To Require the State To Divest Itself of Assets Invested in the Fossil Fuel Industry

Be it enacted by the People of the State of Maine as follows:

Sec. 1. 5 MRSA §135, as amended by PL 2005, c. 386, Pt. CC, §2 and PL 2013, c. 16, §10, is further amended by adding at the end a new paragraph to read:

The Treasurer of State may not invest in any prime commercial paper or corporate bonds issued by a fossil fuel company, as defined in section 1957, subsection 1, paragraph C.

Sec. 2. 5 MRSA §138, as amended by PL 2001, c. 44, §11 and affected by §14, is further amended by adding at the end a new paragraph to read:

The Treasurer of State shall review the extent to which the assets of any permanent funds held in trust by the State are invested in the stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company, as defined in section 1957, subsection 1, paragraph C. The Treasurer of State shall, in accordance with sound investment criteria and consistent with fiduciary obligations, divest any such holdings and may not invest any assets in any such stocks, securities or other obligations. Divestment pursuant to this paragraph must be complete by January 1, 2026. Nothing in this paragraph precludes de minimis exposure of any permanent funds held in trust by the State to the stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company.

Sec. 3. 5 MRSA §1957 is enacted to read:

§1957. Limitation on investment in fossil fuel companies; divestment

1. Definitions. As used in this section, unless the context otherwise indicates, the following terms have the following meanings.

A. "Board" means the Board of Trustees of the Maine Public Employees Retirement System.

B. "Fossil fuel" means coal, petroleum, natural gas or any derivative of coal, petroleum or natural gas that is used for fuel.

C. "Fossil fuel company" means any company that:

(1) Is among the 200 publicly traded companies with the largest fossil fuel reserves in the world;

(2) Is among the 30 largest public company owners in the world of coal-fired power plants;

(3) Has as its core business the construction or operation of fossil fuel infrastructure;

(4) Has as its core business the exploration, extraction, refining, processing or distribution of fossil fuels; or

(5) Receives more than 50% of its gross revenue from companies that meet the definition under subparagraph (1), (2), (3) or (4).

D. "Fossil fuel infrastructure" means oil or gas wells, oil or gas pipelines and refineries; oil, coal or gas-fired power plants; oil and gas storage tanks; fossil fuel export terminals; and any other infrastructure used exclusively for fossil fuels.

2. Limitation on investment in fossil fuel company. The board, in accordance with sound investment criteria and consistent with fiduciary obligations, may not invest the assets of any state pension or annuity fund in the stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company. Nothing in this subsection precludes de minimis exposure of any funds held by the board to the stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company.

3. Review and divestment of assets. The board shall review the extent to which the assets of any state pension or annuity fund are invested in the stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company. The board shall, in accordance with sound investment criteria and consistent with fiduciary obligations, divest any such holdings. Divestment pursuant to this subsection must be complete by January 1, 2026. Nothing in this subsection precludes de minimis exposure of any funds held by the board to the stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company.

4. Post on website. On a quarterly basis, the board shall post on the publicly accessible website of the Maine Public Employees Retirement System information detailing all its holdings in the public market and private equity investments.

5. Annual report. Beginning January 1, 2022 and annually thereafter, the board shall issue a report reviewing its environmental, social and governance investment policy. The report must disclose commonly available environmental performance metrics on the environmental effects of the board's investments.

Sec. 4. Report to Legislature. The Treasurer of State and the Board of Trustees of the Maine Public Employees Retirement System shall report annually to the joint standing committee of the Legislature having jurisdiction over retirement matters by January 1, 2023, 2024 and 2025 regarding the progress of divestment under and the implementation of the Maine Revised Statutes, Title 5, sections 138 and 1957. The Treasurer of State and the Board of Trustees of the Maine Public Employees Retirement

System shall make a final report to the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs by January 1, 2026 regarding completion of the divestment pursuant to this section.

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April 9, 2021

The Honorable Craig Hickman, Senate Chair
The Honorable Michael Sylvester, House Chair
Joint Standing Committee on Labor and Housing
Cross Building, Room 202
Augusta, ME 04333

Re: LD 99, *An Act to Require the State to Divest Itself of Assets Invested in the Fossil Fuel Industry*
LD 319, *An Act to Promote Socially Responsible Investing by the Maine Public Employees Retirement System by Prohibiting Investment in the Fossil Fuel Industry or For-profit Prisons*

Dear Senator Hickman and Representative Sylvester:

Thank you for your letter of March 9, 2021 on behalf of the Joint Standing Committee on Labor and Housing regarding LD 99 and LD 319 of the 130th Legislature. Your letter poses two questions:

1. Whether LD 99 and LD 319 as drafted are contrary to the Maine Constitution; and
2. Whether the fiduciary responsibility in the Maine Constitution requiring MainePERS to get the most optimal return for members creates a constitutional issue that would prohibit the Maine Legislature from requesting MainePERS to get the most optimal return for members within specific parameters set by the Legislature.

The short answer to both questions is "yes." Enactment of a statute will not amend constitutional mandates. Article IX, Section 18 of the Maine Constitution reads as follows:

Section 18. Limitation on use of funds of Maine State Retirement System. All of the assets, and proceeds or income therefrom, of the Maine State Retirement System or any successor system and all contributions and payments made to the system to provide for retirement and related benefits shall be held, invested or disbursed as in trust for the exclusive purpose of providing for such benefits and

shall not be encumbered for, or diverted to, other purposes. Funds appropriated by the Legislature for the Maine State Retirement System are assets of the system and may not be diverted or deappropriated by any subsequent action.

The mandate that all MainePERS “assets be held, invested or disbursed as in trust for the exclusive purpose of providing for [retirement and related] benefits” effectively prevents the Legislature from dictating how these funds may be invested. By requiring the assets to be held “as in trust,” the Constitution creates the legal framework under which these funds are to be held and managed. Property held in trust is managed by a trustee who is subject to fiduciary duties. The Constitution also defines both the purpose of the fund management and to whom those fiduciary duties run, that is, for retirement and related benefits for MainePERS beneficiaries.

As a fiduciary of a pension trust, the MainePERS Board of Trustees (“the Trustees”) has a duty of loyalty to administer the trust solely in the interest of the beneficiaries and for the articulated purpose of the trust – providing retirement and related benefits. A trustee’s duty of loyalty is a fundamental principle of common law reflected in the Restatement (Third) of Trusts,¹ the Maine Uniform Trust Code,² and the Employee Retirement Income Security Act of 1974 (“ERISA”).³ The constitutional intent is clear. By requiring the funds be held as in trust for the exclusive purpose of providing retirement benefits, the Constitution is mandating that the Trustees manage these funds solely in the best interest of MainePERS members as pension recipients.

As drafted, both LD 99 and LD 319 would: (1) prohibit the Trustees from acquiring assets in certain industries;⁴ and (2) require the Trustees to divest of any currently held assets in those industries “in accordance with sound investment criteria and consistent with the board’s fiduciary obligations.” The first requirement conflicts with the constitutional mandate because it requires the Trustees to refrain from certain investment activity regardless of whether it would be in the best interests of the beneficiaries.⁵ The second requirement, although arguably not in conflict with the Trustees’ fiduciary duties, is essentially hollow. Unless a failure to divest an asset would be a

¹ “Except as otherwise provided in the terms of the trust, a trustee has a duty to administer the trust solely in the interest of the beneficiaries.” Restatement (Third) of Trusts § 78 (2007).

² “A trustee shall administer the trust solely in the interests of the beneficiaries.” 18-B M.R.S. § 802(1).

³ “A fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries and (A) for the exclusive purpose of (i) providing benefits to participants and their beneficiaries and (ii) defraying reasonable expenses of administering the plan.” 29 U.S.C. § 1003(a)(1). “[A]t the heart of the fiduciary relationship is the duty of complete and undivided loyalty to the beneficiaries of the trust.” *Donovan v. Mazzola*, 716 F.2d 1226, 1238 (9th Cir. 1983) (quoting *Freund v. Marshall & Ilsley Bank*, 485 F. Supp. 629, 639 (W.D. Wis. 1979)).

⁴ LD 99 would prohibit investment “in any stocks or other securities of any corporation or company within in the fossil fuel industry.” LD 319 would prohibit investment “in any stocks or other securities of any corporation or company within the fossil fuel industry or any corporation or company that owns or operates prisons for profit.”

⁵ One New Hampshire case appears to conflict with this conclusion because the court concluded that a provision in the New Hampshire Constitution similar to that of Maine’s did not render New Hampshire’s Sudan Divestment Act unconstitutional. *Bd. of Trustees of N.H. Judicial Ret. Plan v. Sec’y of State*, 7 A.3d 1166, 1174 (N.H. 2010). In that case, the court reached its result by construing the language in the underlying ballot initiative, which did not contain the material provisions found in either the New Hampshire or Maine Constitutions. *Id.* at 1173. The case was remanded to the trial court “to determine whether the Act impermissibly interferes with the trustee’s statutory or common law fiduciary duties.” *Id.* at 1174. Before the trial court ruled on this issue, the New Hampshire Legislature repealed the Act, purportedly because of the high cost of compliance with the Act’s mandates. 2011 N.H. Laws ch. 53:1 (eff. May 9, 2011).

breach of the Trustees' existing fiduciary duties (i.e., not in best interest of the members), any attempt to enforce the statutory requirement to divest would be meritless.

On the other hand, a resolution encouraging the Trustees to consider certain non-pecuniary factors (e.g., environmental impact) when making investment decisions may be helpful to the Trustees. Such a resolution may help insulate the Trustees from lawsuits alleging breach of fiduciary duty if the Trustees used such a non-pecuniary factor as a "tiebreaker" when choosing between investment alternatives of comparable risk and return. Although ERISA is not applicable to MainePERS, regulations recently adopted by the U.S. Department of Labor pertaining to ERISA plans indicate that using such factors for tiebreakers would not be inconsistent with a trustee's duty of loyalty.⁶

Although this letter is not a formal Attorney General Opinion pursuant to 5 M.R.S. § 195, I hope it will be helpful to you in the Joint Committee's work sessions.

Sincerely,



Aaron M. Frey
Attorney General

cc. Sandy Matheson, MainePERS Executive Director
Henry E. M. Beck, Esq., State Treasurer and Member, MainePERS Board of Trustees
Members, Joint Standing Committee on Labor and Housing

⁶ 29 C.F.R. § 2550.404(a-1)(c)(2) reads as follows:

Notwithstanding the [pecuniary basis only] requirements of paragraph (c)(1) of this section, when choosing between or among investment alternatives that the plan fiduciary is unable to distinguish on the basis of pecuniary factors alone, the fiduciary may use non-pecuniary factors as the deciding factor in the investment decision provided that the fiduciary documents:

- (i) Why pecuniary factors were not sufficient to select the investment or investment course of action;
- (ii) How the selected investment compares to the alternative investments with regard to the factors listed in paragraphs (b)(2)(ii)(A) through (C) of this section; and
- (iii) How the chosen non-pecuniary factor or factors are consistent with the interests of participants and beneficiaries in their retirement income or financial benefits under the plan.

Although this regulation became effective on January 12, 2021, the Department of Labor issued an enforcement statement on March 10, 2021, stating that until further notice it would not enforce the new regulation.

AARON M. FREY
ATTORNEY GENERAL



STATE OF MAINE
OFFICE OF THE ATTORNEY GENERAL
6 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0006

TEL: (207) 626-8800
TTY USERS CALL MAINE RELAY 711

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December 8, 2022*

Dr. Rebecca M. Wyke
MainePERS Chief Executive Officer
P.O. Box 349
Augusta, ME 04332-0349

Dear Dr. Wyke,

You asked this Office for advice on how to interpret certain provisions of 5 M.R.S. §§ 1957 and 1958. Together, these statutes direct the Board of Trustees (“the Board”) of the Maine Public Employees Retirement System (“the System”) to (1) cease future investment in fossil fuel companies and for-profit prisons and (2) divest any such current holdings by January 1, 2026. Notably, these directives are subject to a limitation that they be accomplished “in accordance with sound investment criteria and consistent with fiduciary obligations.”¹

As I understand your request, your concerns are whether and to what extent these statutes may affect the Board’s exercise of its fiduciary duties and whether and to what extent the Board must adhere to the directives if ceasing to invest or divesting would be inconsistent with sound investment criteria or fiduciary obligations, such as the duty of loyalty or the prudent investor rule.

The subject statutes do not affect the Board’s exercise of its fiduciary duties. And they do not require the Board to either cease investing in or divest such holdings unless sound investment criteria and fiduciary obligations require such actions. Both statutes specifically condition their directives on “accordance with sound investment criteria” and “consisten[cy] with fiduciary obligations.” As such, they reiterate rather than modify the Board’s fiduciary obligations as a trustee—both constitutional² and statutory.³

* This version corrects a typographical error that appeared in the original letter.

¹ As an example, section 1957(2) reads in pertinent part: “The board, *in accordance with sound investment criteria and consistent with fiduciary obligations*, may not invest the assets of any state pension or annuity fund in the stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company.” 5 M.R.S. § 1957(2) (emphasis added). Sections 1957(3) and 1958(2) and (3) contain the same emphasized language.

² All the assets of the System “shall be held, invested or disbursed as in trust for the exclusive purpose of providing [retirement and related] benefits.” Me. Const. art. IX, §18.

³ “The members of the board shall be the trustees of the several funds created by this Part [20 of Title 5].” 5 M.R.S. §17153(2). “The board may cause the funds created by this Part to be invested and reinvested in accordance with

Chiefly relevant in this context are the Board's duty of loyalty and its obligation to adhere to the prudent investor rule. Its duty of loyalty requires it to "administer the trust solely in the interests of the beneficiaries."⁴ The prudent investor rule requires it to "invest and manage trust assets, as a prudent investor would"⁵ and evaluate and make investment decisions "as part of an overall investment strategy having risk and return objectives reasonably suited to the trust."⁶ If adherence to sound investment criteria and fiduciary obligations prevents achievement of the investment and divestiture objectives of sections 1957 and 1958, failure to achieve those objectives is not a violation of the directives in those statutes. In short, the Board's focus should remain on adhering to sound investment criteria and fulfilling its fiduciary obligations. However, if the Board encounters a situation where the application of sound investment criteria and its fiduciary obligations neither favors nor disfavors either of two potential investment options, the Board shall pursue the option that more closely complies with the directives of sections 1957 and 1958.

Although this is not a formal Attorney General Opinion pursuant to 5 M.R.S. § 195, I hope it is of assistance to you.

Sincerely,



Andrew L. Black
Assistant Attorney General
Chief, PFR Division

cc: Aaron M. Frey, Attorney General

the standards defined in Title 18-B, sections 802 to 807 and chapter 9," 5 M.R.S. §17153(3), which provisions of the Maine Uniform Trust Code (sections 802 to 807) delineate the fiduciary duties of trustees and provisions of the Maine Uniform Prudent Investor Act (chapter 9) require adherence to the prudent investor rule.

⁴ 18-B M.R.S. § 802(1).

⁵ 18-B M.R.S. § 902(1).

⁶ 18-B M.R.S. § 902(2).

Board Responsibilities – Investment Policy for Defined Benefit Plans

2.1 – Investment Policy Statement

Date Adopted: June 9, 2016

Date Amended: November 10, 2016; May 11, 2017; June 8, 2017; September 14, 2017; December 14, 2017; November 12, 2020; January 14, 2021; May 12, 2022

Policy

The Board of Trustees of the Maine Public Employees Retirement System is authorized and responsible for administering defined benefit retirement programs at the State and local levels. The Board carries out this responsibility by adopting investment objectives and establishing an investment program through which the policy is implemented. In the case of conflicts, this policy statement supersedes previous policies and actions by the Board.

This policy covers the investment management of the assets of the following defined benefit programs administered by the Board:

- Legislative Retirement Program;
- Judicial Retirement Program;
- State Employee and Teacher Retirement Program, which includes State employees and public school members; and
- Participating Local District Retirement Program, which includes retirement plans of withdrawn participating local districts and the Consolidated Plan for Participating Local Districts.

Collectively, the assets of these programs are referred to as the DB Plan Assets. Statutes allow for the pooling of the DB Plan Assets for the purpose of investment. Pooling provides significant efficiencies. Because the relevant characteristics of the DB plans are sufficiently similar, all the DB Plan Assets are pooled for investment.

Statutory/Legal Provisions

- Me. Const. art. IX, § 18.
- 5 M.R.S. §§ 17102, 17103, 17435; 18-B M.R.S. § 801, et seq. (Maine Uniform Trust Code); 18-B M.R.S. § 901, et seq. (Maine Uniform Prudent Investor Act).
- 5 M.R.S. §§ 17153(4).
- Restatement (Third) of Trusts § 78(1) (2007) (the “sole interest rule”).
- Restatement (Third) of Trusts formally permits, and in some cases requires, the delegation of investment decisions from trustees to internal staff or external agents with the necessary skills and knowledge.
- The Employee Retirement Income Security Act (“ERISA”), codified at 29 U.S.C. § 1002, et seq., provides a description of the standard of care that applies to trustees of private

sector retirement plans. Although the System as a public retirement plan is not specifically governed by the fiduciary duty standard set forth in ERISA, courts will often consider the standard set forth in ERISA when addressing public pension plan issues. Under ERISA, a fiduciary must act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person (expert) acting in a like capacity would act. This statutory standard is derived from the common law of trusts, which is applicable in the State of Maine.

Resources

The Board of Trustees implements this investment policy in coordination with:

- in-house investment professionals (the “Investment Team”), with experience, authority and responsibility to implement the investment policy and administer investment operations;
- consultants, with appropriate expertise, to assist the Board and the Investment Team;
- investment managers, selected individually and collectively to reflect and implement the investment policy, having full discretion within policy and contractual limits to manage assets allocated to them;
- custodians qualified to carry out recordkeeping, reporting, measurement and custodial functions; and
- other advisors that the Board deems appropriate and necessary

The Investment Team shall oversee the processes by which Custodians, Consultants, and other Advisors are hired, evaluated, and terminated, and shall work with the General Counsel on the terms of contracts of engagement.

At least every five years, the Investment Team will evaluate the performance and contract terms of all such service providers and make a recommendation to the Board as to whether or not a search process for new providers and/or renegotiation of terms be initiated.

Investment Objectives

MainePERS’ investment objectives balance the System’s twin goals of generating investment returns (to ensure growth of the trust funds) and minimizing investment risks (loss of capital and cash flow shortfalls). The Board recognizes and accepts that these goals are in opposition, and that a trade-off exists between expected risk and return. The Board balances these goals by seeking to optimize portfolio returns consistent with an established targeted portfolio risk level. Additionally, by optimizing investment returns on trust assets, rather than attempting to maximize them, the Board seeks to maintain contribution rate and funding level volatility at acceptable levels that have been determined from time to time during strategic asset allocation planning and asset/liability reviews.

Strategic Asset Allocation and Rebalancing

The Investment Team and Board consultants shall annually review long-term capital market expectations and existing asset class allocations with Trustees. The Board shall review, and when strategically appropriate, approve recommended changes to the existing strategic asset classes, target weights, and ranges for implementation by the Investment Team. (See Appendix 1)

The specified policy weight ranges define minimum and maximum acceptable weights for each asset class. (See Appendix 2) The Investment Team shall maintain asset class weights within target ranges, subject to considerations such as transactions costs and the unique characteristics of private market investments, by reallocating capital within existing strategies and investments. The Investment Team will provide Trustees with reports showing the fund's current asset allocation at least monthly, and report on rebalancing activity quarterly.

Portfolio Risk Management

The primary method of controlling risk shall be the selection of the strategic asset allocation and asset class target weights within the allocation. (See Appendix 1) Combined with long term capital market expectations, these policy weights define a portfolio with a specific level of risk.

The Chief Investment Officer shall develop a risk strategy for managing assets within the Board approved strategic asset allocation. The risk strategy will specify practices and procedures for the measurement and management of portfolio risk, including the provision of a portfolio risk report to the Board at least quarterly. (See Appendix 3)

Nothing in the risk strategy shall override the Asset Classes, Policy Weights and Ranges described in Appendix 1.

Performance Objectives and Benchmarks

The Board acknowledges that benchmarks provide insight into fund and asset class performance, but are not necessarily guides for changing asset allocations or fund managers. The rate of return earned by fund assets will be measured against a policy benchmark comprised of the asset class benchmarks. (See Appendix 4) Returns earned by individual managers will be compared with a benchmark index appropriate to each manager's investment approach.

For performance evaluation purposes, all rates of return will be measured net of the deduction of investment management fees.

During a period of transition from one asset allocation to another, certain transitional allocations to appropriate benchmarks are permitted.

Investment Implementation

The Investment Team shall implement the investment policy, subject to Board guidelines:

- Exposure to publicly traded equity securities is expected to be obtained passively and with weightings substantially similar to those of the benchmarks specified in Appendix 4. Any exceptions must be approved by the Board.
- Investments within each Asset Class should be consistent with the Asset Class definitions provided in Appendix 1.

Environmental, Social, and Governance; Engagement

In performing due diligence and monitoring activities, the Board and the Investment Team shall comply with Board Policy 2.6, Environmental, Social and Governance Policy; and Board Policy 2.7, Engagement.

Investment Manager Selection and Allocation Process

MainePERS invests through external investment managers, who are charged to act as fiduciaries, and allocates fund assets among them in accordance with the strategic asset allocation. The Investment Team identifies, performs due diligence on, and recommends investment managers and allocations to the Board. The Investment Team also monitors performance and recommends retention and termination decisions to the Board. The Board retains final authority for manager selection, retention and termination decisions.

Managers are selected and retained on the basis of an evaluation that establishes sufficient confidence that the manager will improve the return and risk of the investment program. If and when the Investment Team and/or consultant(s) identify an investment manager that they believe will improve the investment program, the Investment Team will make a recommendation to the Board of Trustees that the manager be hired. This recommendation will be accompanied by an opinion by the investment consultant on this recommendation. The Board retains the final authority to accept or reject such recommendations.

The Investment Team will prepare and present to the Board of Trustees selection criteria they deem pertinent for each manager search and recommendation to hire. The Investment Team will provide the Board with all the necessary information and analysis to enable an informed decision. The Board may choose to interview the recommended manager or they may rely on the Investment Team to conduct interviews.

Derivatives

In general, the use of derivatives is permitted provided that the purpose of the derivative is to achieve an investment objective at lower cost and/or risk than would be the case with direct investments in the underlying securities. The System may also invest in strategies which use derivatives to obtain leverage. In all such cases, the use of derivatives must be disclosed to the

Board prior to the Board's approval, and the strategy must be structured so as to limit System liability to the amount committed to the strategy.

Leverage

The System may invest in strategies in which managers have discretion to use leverage. The use of leverage in any strategy must be disclosed to the Board prior to the Board's approval, and the strategy must be structured so as to limit System liability to the amount committed to the strategy.

Hedging

The Board has reviewed the benefits and risks associated with foreign currency exposures. As a general rule the Board has chosen not to hedge currency at the portfolio level. Unless otherwise directed asset managers will have discretion to hedge investments under their management as they deem most beneficial to their mandate.

Transaction Costs and Brokerage

The Board of Trustees expects investment managers, in their capacity as fiduciaries, to manage transaction costs in the best interests of the System as an investor. To enable the managers to fulfill this fiduciary duty, it is the Board's policy not to be party to directed brokerage programs.

Securities Lending

The System may participate in a securities lending program either directly through its separately managed portfolios or indirectly through its investments in pooled vehicles. In each case, the securities lending program must focus on low risk, as opposed to maximization of returns. All DB Plan Assets are available for securities lending.

Monitoring

The Board relies on the Investment Team and the investment consultant(s) to continuously monitor the investment program and to report to the Board as outlined below.

- the Investment Team and investment consultant(s) provide comprehensive periodic reports on the entire investment program, including asset allocation, performance of each component relative to benchmarks, attribution analysis, and commentary.
- the Investment Team and investment consultant(s) monitor changes and developments at investment managers and at custodian(s) on an ongoing basis and report significant changes or events with recommended actions as needed.

Emergency Measures

Immediate action may be taken beyond the bounds of this policy under extraordinary circumstances and in order to preserve the best interests of the plans' participants by unanimous decision of the following:

- The Chair, or in the Chair's absence, Vice Chair of the Board
- The Chief Executive Officer, or in the Chief Executive Officer's absence, the Chief Operating Officer and General Counsel
- The Chief Investment Officer, or in the Chief Investment Officer's absence, Deputy Chief Investment Officer, or in the absence of both of them, the general investment consultant

Any such action must be reported to the Board of Trustees at the earliest opportunity.

Board Responsibilities – Investment Policy

Appendix 1: Asset Classes, Policy Weights and Ranges

Date Adopted: June 9, 2016

Date Amended: June 8, 2017; September 14, 2017; January 14, 2021; May 12, 2022

The System's assets are invested across nine Asset Classes that play four distinct Roles in the overall Fund. The Trustees define these Roles and Asset Classes and set target policy weights and ranges below.

	Weights		
	Minimum	Policy	Maximum
GROWTH	35%	42.5%	55%
Public Equity	20%	30%	40%
Private Equity	5%	12.5%	20%
RISK DIVERSIFIERS	0%	7.5%	12.5%
HARD ASSETS	15%	25%	35%
Real Estate	5%	10%	15%
Infrastructure	5%	10%	15%
Natural Resources	0%	5%	10%
CREDIT	5%	15%	20%
Traditional Credit	0%	5%	10%
Alternative Credit	0%	10%	15%
MONETARY HEDGE	5%	10%	15%
US Government Securities	5%	10%	15%
Cash	0%	0%	10%

Asset Class Definitions

The below Asset Class definitions are simplified and are intended to convey the general characteristics of investments held within each class. Some investment strategies involve assets and securities that span multiple asset classes.

Public Equity

Investments in publicly-traded shares of companies. May include different classes of common stock, shares of REITs, and MLPs.

Private Equity

Investments in non-publicly traded shares of companies. Investments are typically made via private limited partnerships, and may include both equity and debt securities.

Risk Diversifiers

Investments typically made through private funds that generally invest in listed assets such as stocks, bonds, and commodities, via strategies that are expected to have little correlation with declining or rising stock markets.

Real Estate

Investments providing direct exposure Real Estate, including investments through private funds.

Infrastructure

Investments typically made through private funds that generally invest in assets that meet most or all of the following criteria: provide essential public services, possess monopoly-like characteristics, provide long term contracted cash flows, and bear limited volumetric and price risk.

Natural Resources

Investments in private funds that generally invest in businesses focused on natural resources such as timberland, agriculture, and mining. Private energy investments will generally be included in Private Equity, rather than Natural Resources.

Traditional Credit

Investments in investment-grade debt instruments that are not issued by the U.S. Government. Such debt may or may not be registered for sale to the general public.

Alternative Credit

Investments in debt instruments issued by non-investment grade and unrated entities. This may include, but is not limited to high yield debt, bank loans, structured debt, and asset-backed debt. Alternative credit investments are expected to pay or accrue periodic interest and to return principal at maturity. Distressed debt and other debt or yield-oriented securities that include equity-like exposures are considered Private Equity, not Alternative Credit.

Monetary Hedges

Investments in debt instruments issued by the U.S. Government, including nominal Treasury securities and Treasury Inflation Protected Securities (TIPS), held in approximately equal proportions.

Roles in the Overall Fund

Each of the above asset classes fills a specific Role in the overall portfolio. These Roles are defined below.

Growth Assets

Growth Assets are intended to reduce the system's funding needs in the long term by appreciating in value. Growth Assets possess inherently higher expected returns than other asset classes. Growth Assets also have higher expected volatility than other asset classes, and are expected to increase funding volatility in the short run.

Risk Diversifiers

Risk Diversifiers are investments that primarily derive their return from alpha (or active manager skill) as opposed to market directionality. Risk Diversifiers are expected to provide significant risk diversification benefits away from Growth Assets.

Hard Assets

Investments in the Hard Assets category provide exposure to long-lived "real" assets, such as real estate, timber, agricultural, and infrastructure assets. Expected return levels of Hard Assets are lower than those of Growth Assets, and a substantial portion of such returns is expected to come from ongoing cash flows. Hard Assets are expected to provide inflation protection, to have low correlation with Growth Assets, and to provide diversification benefits.

Credit Assets

Credit investments provide capital to end-users via loans and the purchase of debt securities. Such investments provide for contractual returns (interest) and repayment of principal. Credit investments possess lower risk and expected returns than equity investments, but have higher risk and expected returns than monetary hedges. Credit investments are expected to provide diversification away from Growth Assets.

Monetary Hedges

The role of Monetary Hedges in the portfolio is to provide liquidity and a safe harbor in times of turbulence. These investments are cash and obligations of the U.S. Government, and are considered to be free of default risk.

Board Responsibilities – Investment Policy

Appendix 2: Rebalancing

Date Adopted: June 9, 2016

Date Amended: May 12, 2022; July 14, 2022

The Board has set target weights for each Asset Class and Role in Portfolio category in Appendix 1, and delegates the management of asset class allocation to the Investment Team. The Investment Team is expected to maintain asset class weights near target, subject to considerations such as transactions costs and the unique funding and liquidity characteristics of private market investments.

To this end, the Team is permitted to reallocate capital within existing strategies and investments for rebalancing purposes. The Investment Team is expected to consider both Role in Portfolio and Asset Class policy weights when rebalancing. The Team will provide Trustees with reports showing the Fund's current asset allocation at least monthly, and report on rebalancing activity at least quarterly.

In the specific case of the System's Risk Diversifier allocation, the Investment Team is permitted to rebalance across existing managers and strategies, consistent with the goal of maintaining diversification within the allocation. Rebalancing activity will be reported to Trustees at least quarterly.

Board Responsibilities – Investment Policy

Appendix 3: Risk Strategy

Date Adopted: June 9, 2016

Date Amended: New

While this Risk Strategy is in development the Chief Investment Officer shall rely on the Strategic Asset Allocation and Rebalancing provisions of this policy to manage the Fund's risk.

The Investment Team and the Board believe that this approach will deliver an appropriate expected return with commensurate risk over a long term horizon. However they also recognize that the portfolio's realized risk will vary over time which may result in periods during which the fund bears substantially higher risk than the System initially targeted.

In an effort to achieve more stable (less volatile) returns, the Investment Team will seek to develop management tools and practices that they believe will be better able to keep the fund's risk in an acceptable range.

This Risk Strategy shall be updated from time to time by the Trustees to reflect recommendations developed by the Chief Investment Officer.

Nothing in the Risk Strategy shall override the Asset Classes, Policy Weights and Ranges described in Appendix 1.

Board Responsibilities – Investment Policy

Appendix 4: Policy Benchmarks

Date Adopted: June 9, 2016

Date Amended: June 8, 2017, January 14, 2021, May 12, 2022

Asset	Benchmark	Weight
Total Public Equity	Russell 3000 & MSCI ACWI ex-USA, based on ACWI weights	30%
Private Equity	Russell 3000 + 3%	12.5%
Diversifiers	0.3 Beta MSCI ACWI	7.5%
Real Estate	NCREIF Property (lagged one quarter)	10%
Infrastructure	CA Infrastructure Median	10%
Natural Resources	CA Natural Resources Median	5%
Traditional Credit	Barclays US Aggregate, ex Treasury	5%
Alternative Credit	50% BAML US HY II + 50% S&P/LSTA US Leveraged Loan Index	10%
U.S. Government Securities	50% Bloomberg Barclays U.S. Government Bond Market Index + 50% Bloomberg U.S. TIPS Index	10%

Board Responsibilities – Investment Policy

Appendix 4: Co-Investment

Date Adopted: June 9, 2016

Date Amended: June 8, 2017; January 14, 2021; May 12, 2022

Co-investments are permitted within private market asset classes, subject to the below guidelines.

Target Allocation	7.5% of total Fund. This target is a subset of the total 47.5% allocation to private market asset classes, and is not in addition to that allocation.
Asset Classes	Co-investment may be made in each of the private market asset classes.
Discretion	Investment Team has discretion to make co-investments, in conjunction with the asset class consultant.
Signatories	The Chief Executive Officer, Chief Investment Officer, and General Counsel are authorized as signatories to execute documents in connection with co-investments.
Permissible Partners	Unless otherwise authorized, co-investments will only be made alongside Funds in which the System is a current investor.
Size Limits	Unless otherwise authorized, maximum of \$25m invested into any single co-investment. Unless otherwise authorized, maximum of \$200m aggregate co-investment in a single asset class with any single General Partner. The Investment Team will provide additional co-investment portfolio reporting to Trustees for those General Partners with more than \$100m of aggregate co-investment in any single asset class.

**Maine Public Employees Retirement System
Request for Proposals 2022-03
Divestment Consulting Services**

1. **About:** The Maine Public Employees Retirement System (MainePERS) is a quasi-governmental agency operating in Augusta and Portland, Maine. For more information about MainePERS please visit our website at www.maineopers.org.
2. **Scope:** The objective of this Request for Proposals (“RFP”) is for MainePERS to procure consulting services from one or more qualified firms to assist MainePERS as it evaluates divestment of certain fossil fuel and private prison assets as specified in Maine statutes, Public Laws 2021, chapters 231 and 234, copies of which may be found at Attachment A.
3. **Definition of Parties:** Respondents to this Request for Proposal (RFP) will hereinafter be referred to as “Bidders” and each Bidder to whom a contract is awarded will hereinafter be referred to as the “Contractor.”
4. **Description of Requirements:** Attachment B describes the products and/or services to be provided by the Contractor to MainePERS pursuant to this RFP.
5. **Terms of Contract:** The Contractor will be required to enter into MainePERS’ standard contract, a copy of which may be found at Attachment C.
6. **Insurance:** For the duration of the contract, the Contractor will be required to procure, maintain, and provide proof of a liability policy encompassing the services described in this RFP with liability coverage of at least \$2,000,000 to protect the Contractor and MainePERS from suits, along with workers’ compensation insurance as required by law.
7. **Qualifications:** Each Bidder must demonstrate a minimum of five years of experience in the business of providing the services and products described in this RFP and have access to appropriate resources to perform as necessary to meet the obligations of this RFP.
8. **Substantive Questions:** All substantive questions must be voiced during the Bidders’ Conference (see below) or submitted in writing via e-mail to RFP@maineopers.org no later than 5:00 p.m. EDT on April 11, 2022. We anticipate issuing answers to substantive questions on or before April 15, 2022.
9. **Bidders’ Conference:** A mandatory Bidders’ conference call for this RFP will be held at 1:00 p.m. EDT on April 11, 2022. Participants are asked to register in advance for this call by calling (207) 512-3292 no later than April 8, 2022. A Bidder who fails to register by the time of the call may not participate in the call. During the conference call, questions may be asked regarding the RFP. MainePERS may provide answers to questions at that time or provide a written response. All participants in the Bidders’ conference will receive a copy of any written response to questions.
10. **Evaluation Committee:** An Evaluation Committee will review, evaluate and score all proposals. The Evaluation Committee may include or be advised by MainePERS’ general investment consultant, Cambridge Associates, LLC. Following a preliminary review of all proposals submitted by the deadline, the Evaluation Committee may or may not interview those Bidders whose proposals have received the highest scores. The interview would be an opportunity for a Bidder to respond to questions and to clarify its proposal. It will not be an opportunity for the Bidder to submit new information not included in the proposal. If

interviews of the top-scoring Bidders are conducted, the Evaluation Committee will conduct a post-interview review of the proposals and any further clarification as conveyed through the interview process. Bids will be evaluated using the following weighted criteria:

CRITERIA	WEIGHT
Firm's Experience	25%
Experience and Qualifications of Team Members	25%
Quality of Proposal (Depth, Rigor, Consistency with Work Specifications)	25%
Price	25%

11. **Proposal Package:** Proposals must be submitted by email and include the following:

- a. Transmittal email which shall include:
 - i. Name and address of the Bidder;
 - ii. Name, title, telephone number, and email address of the contact person for the Bidder;
 - iii. A statement that the proposal is in response to this Request for Proposal; and
 - iv. The Bidder's federal tax I.D. number.

- b. As an attachment to the transmittal email, a PDF file containing the substance of the proposal, including the following mandatory items:
 - i. An executive summary of the proposal;
 - ii. A description of the Bidder's business; a summary of the Bidder's experience (including any experience with MainePERS); answers to the questions contained in Attachment D; any other information that the Bidder believes is material to its qualifications; and at least three recent references for whom the Bidder has provided similar services; and
 - iii. A statement that all provisions of Attachment C are acceptable or specifically state any objections to any provisions.

- c. All proposals are due no later than 2:00 p.m. EDT on April 29, 2022. Only proposals received as of 2:00 p.m. will be considered. Proposals must be submitted by email to RFP@mainepers.org. Mailed, faxed, or hand delivered proposals will not be considered. Bidders will receive an email acknowledging receipt of their proposal. A Bidder who has submitted a proposal and not received an acknowledgment should call (207) 512-3292.

12. **Freedom of Access:** Proposals and any other communications received from Bidders are subject to Maine's Freedom of Access law, 1 M.R.S. ch. 13. If a Bidder believes that a portion of its proposal is exempt from public disclosure under that law, the Bidder must specifically identify that portion and the exemption. Blanket designation of an entire proposal as confidential would be ineffective.

13. **Award:** MainePERS intends to award a contract to one or more Bidders who receive the highest scores following the final review.

14. **Award Notification:** All Bidders will be notified of the award decision in writing. MainePERS will initiate contract negotiations with the selected Bidder. Should MainePERS be unable to reach an acceptable contract agreement with a selected Bidder, MainePERS

reserves the right to withdraw the award to that Bidder and to make an award in favor of another Bidder based on the scoring.

15. **Rights of MainePERS**: The Request for Proposal does not commit MainePERS to award a contract. MainePERS reserves the right to accept or reject any or all proposals received. MainePERS reserves the right not to check any or all references. MainePERS has the right to interview any or all Bidders after the RFP deadline. MainePERS may also cancel or amend this Request for Proposal in part or in its entirety.
16. **Timeline for this RFP**: MainePERS has developed the following list of key events related to this RFP. All dates are subject to change at the discretion of MainePERS.

EVENT	DATE
RFP Issued	March 21, 2022
Register for Bidders' Conference	April 8, 2022
Bidders' Conference	April 11, 2022
Deadline for Questions	April 11, 2022
Questions Answered	April 15, 2022
Proposal Due Date	April 29, 2022
Evaluation of Proposals	May 2-13, 2022
Execution of Contract	May 31, 2022
Contract Start Date	June 1, 2022

STATE OF MAINE

IN THE YEAR OF OUR LORD
TWO THOUSAND TWENTY-ONE

H.P. 65 - L.D. 99

An Act To Require the State To Divest Itself of Assets Invested in the Fossil Fuel Industry

Be it enacted by the People of the State of Maine as follows:

Sec. 1. 5 MRSA §135, as amended by PL 2005, c. 386, Pt. CC, §2 and PL 2013, c. 16, §10, is further amended by adding at the end a new paragraph to read:

The Treasurer of State may not invest in any prime commercial paper or corporate bonds issued by a fossil fuel company, as defined in section 1957, subsection 1, paragraph C.

Sec. 2. 5 MRSA §138, as amended by PL 2001, c. 44, §11 and affected by §14, is further amended by adding at the end a new paragraph to read:

The Treasurer of State shall review the extent to which the assets of any permanent funds held in trust by the State are invested in the stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company, as defined in section 1957, subsection 1, paragraph C. The Treasurer of State shall, in accordance with sound investment criteria and consistent with fiduciary obligations, divest any such holdings and may not invest any assets in any such stocks, securities or other obligations. Divestment pursuant to this paragraph must be complete by January 1, 2026. Nothing in this paragraph precludes de minimis exposure of any permanent funds held in trust by the State to the stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company.

Sec. 3. 5 MRSA §1957 is enacted to read:

§1957. Limitation on investment in fossil fuel companies; divestment

1. Definitions. As used in this section, unless the context otherwise indicates, the following terms have the following meanings.

A. "Board" means the Board of Trustees of the Maine Public Employees Retirement System.

B. "Fossil fuel" means coal, petroleum, natural gas or any derivative of coal, petroleum or natural gas that is used for fuel.

C. "Fossil fuel company" means any company that:

(1) Is among the 200 publicly traded companies with the largest fossil fuel reserves in the world;

(2) Is among the 30 largest public company owners in the world of coal-fired power plants;

(3) Has as its core business the construction or operation of fossil fuel infrastructure;

(4) Has as its core business the exploration, extraction, refining, processing or distribution of fossil fuels; or

(5) Receives more than 50% of its gross revenue from companies that meet the definition under subparagraph (1), (2), (3) or (4).

D. "Fossil fuel infrastructure" means oil or gas wells, oil or gas pipelines and refineries; oil, coal or gas-fired power plants; oil and gas storage tanks; fossil fuel export terminals; and any other infrastructure used exclusively for fossil fuels.

2. Limitation on investment in fossil fuel company. The board, in accordance with sound investment criteria and consistent with fiduciary obligations, may not invest the assets of any state pension or annuity fund in the stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company. Nothing in this subsection precludes de minimis exposure of any funds held by the board to the stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company.

3. Review and divestment of assets. The board shall review the extent to which the assets of any state pension or annuity fund are invested in the stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company. The board shall, in accordance with sound investment criteria and consistent with fiduciary obligations, divest any such holdings. Divestment pursuant to this subsection must be complete by January 1, 2026. Nothing in this subsection precludes de minimis exposure of any funds held by the board to the stocks, securities or other obligations of any fossil fuel company or any subsidiary, affiliate or parent of any fossil fuel company.

4. Post on website. On a quarterly basis, the board shall post on the publicly accessible website of the Maine Public Employees Retirement System information detailing all its holdings in the public market and private equity investments.

5. Annual report. Beginning January 1, 2022 and annually thereafter, the board shall issue a report reviewing its environmental, social and governance investment policy. The report must disclose commonly available environmental performance metrics on the environmental effects of the board's investments.

Sec. 4. Report to Legislature. The Treasurer of State and the Board of Trustees of the Maine Public Employees Retirement System shall report annually to the joint standing committee of the Legislature having jurisdiction over retirement matters by January 1, 2023, 2024 and 2025 regarding the progress of divestment under and the implementation of the Maine Revised Statutes, Title 5, sections 138 and 1957. The Treasurer of State and the Board of Trustees of the Maine Public Employees Retirement

System shall make a final report to the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs by January 1, 2026 regarding completion of the divestment pursuant to this section.

STATE OF MAINE

—
IN THE YEAR OF OUR LORD
TWO THOUSAND TWENTY-ONE

—
H.P. 223 - L.D. 319

An Act To Promote Socially Responsible Investing by the Maine Public Employees Retirement System by Prohibiting Investment in For-profit Prisons

Be it enacted by the People of the State of Maine as follows:

Sec. 1. 5 MRSA §138, as amended by PL 2001, c. 44, §11 and affected by §14, is further amended by adding at the end a new paragraph to read:

The Treasurer of State shall review the extent to which the assets of any permanent funds held in trust by the State are invested in the stocks, securities or other obligations of any corporation or company or any subsidiary, affiliate or parent of any company that owns or operates prisons for profit. The Treasurer of State shall, in accordance with sound investment criteria and consistent with fiduciary obligations, divest any such holdings and may not invest any assets in any such stocks, securities or other obligations. Nothing in this section precludes de minimis exposure of any permanent funds held in trust by the State to the stocks, securities or other obligations of any corporation or company or any subsidiary, affiliate or parent of any company that owns or operates prisons for profit.

Sec. 2. 5 MRSA §1957 is enacted to read:

§1957. For-profit prisons

1. Definitions. For the purposes of this section, unless the context otherwise indicates, the following terms have the following meanings.

A. "Board" has the same meaning as in section 17001, subsection 7.

B. "Retirement system" means the Maine Public Employees Retirement System.

2. Board may not invest. The board, in accordance with sound investment criteria and consistent with fiduciary obligations, may not invest the assets of the retirement system in any stocks or other securities of any corporation or company that owns or operates prisons for profit. Nothing in this subsection precludes de minimis exposure of any funds held by the board to the stocks, securities or other obligations of any corporation or company that owns or operates prisons for profit.

3. Board to divest. The board shall review the extent to which the assets of the retirement system are invested in any stocks or other securities of any corporation or company that owns or operates prisons for profit. The board shall, in accordance with sound investment criteria and consistent with fiduciary obligations, divest any such holdings. Nothing in this subsection precludes de minimis exposure of any funds held by the board to the stocks, securities or other obligations of any corporation or company that owns or operates prisons for profit.

Sec. 3. Policy review. The Board of Trustees of the Maine Public Employees Retirement System shall review its "Environmental, Social and Governance Policy" adopted January 8, 2015 and shall make any changes necessary to its policy to conform to the requirements of the Maine Revised Statutes, Title 5, section 1957. The board shall submit its report of the review of the policy and any amendments adopted by the board to the Joint Standing Committee on Labor and Housing by January 1, 2022.

Attachment B
Specifications of Work to be Performed
and Products to be Provided

Maine Public Employees Retirement System seeks a consultant to assist the System as it evaluates divestment of certain assets as specified in Maine statutes PL2021 c. 231 and PL2021 c. 234.

MainePERS views the evaluation of divestment as the necessary first step in the process of complying with legislation, and further RFPs are expected for any subsequent steps arising from the results of this RFP.

The evaluation of divestment is expected to include, but need not be limited to, the below items. All work must be documented for the System in a comprehensive and detailed manner. The consultant will prepare a written report for delivery no later than November 1, 2022.

A. Broad review of divestment and the climate change-related risk landscape

Aspects of this should include, but need not be limited to:

1. A broad overview of climate change-related legal and regulatory trends, both in the U.S. and globally.
2. A summary of key climate change-related investment risks and their implications for institutional investors.
3. A summary of peer U.S. public pension funds' experiences with divestment, including discussion of type of divestment (e.g., fossil fuel, firearms, etc.) and whether or not divestment was legislatively mandated.

B. Identify and quantify the System's portfolio holdings subject to divestment

For public market holdings this should include:

1. Development of a clear and repeatable methodology for identifying exposures to companies that are subject to divestment based on legislative definitions. This should include identification of any required data sources.
2. Identification of MainePERS holdings of securities subject to divestment, classified and aggregated by:
 - a. Asset class & holding structure type (e.g., Domestic Equity SMA, or corporate bonds held in commingled funds)
 - b. Sector / Industry / Sub-Industry using the Global Industry Classification Standard (GICS) taxonomy
 - c. Fossil fuel type(s) (i.e., oil, natural gas, thermal coal, etc.)
 - d. Relevant legislation (231 or 234) and specific legislative definition(s) (e.g., C(1) or C(2), etc.)

MainePERS will identify and provide to the winning bidder information regarding private market portfolio holdings that are subject to divestment.

C. Identify and quantify direct divestment costs

In this section the consultant will, for all portfolio assets subject to divestment:

1. Identify the types of potential direct costs and/or cost savings that may be associated with divestment, develop estimates of these, and summarize costs/cost savings by category and asset class. These should include, but need not be limited to:
 - a. Transaction costs related to divestment of existing public holdings
 - b. Secondary market pricing, legal expenses, and any reputational considerations associated with seeking to exit from private closed-end funds
 - c. Potential servicing costs/cost savings arising from changes in investment structures and management agreements, including proxy and custodial services
 - d. Other potential ongoing costs or cost savings (e.g., changes in data and compliance resources required to monitor holdings, etc.)

D. Identify and quantify divestment impact on portfolio

This section should employ various measures and methodologies to provide MainePERS with an evaluation of the impact of divestment on the System's portfolio. Components should include:

1. Identify and explain measures and methodologies that can be used to analyze the impact of divestment on the System's investment portfolio.
2. Compute and discuss these measures.
 - a. This initial phase of the impact analysis should assume that any proceeds from divestment will be re-invested ratably across the remaining asset classes in the current portfolio.

Attachment C
DIVESTMENT CONSULTING SERVICES AGREEMENT

THIS DIVESTMENT CONSULTING SERVICES AGREEMENT (“Agreement”) is made this 1st day of June 2022, by and between the MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM (“MainePERS”) and _____ (the “Contractor”).

NOW, THEREFORE, MainePERS and the Contractor hereby agree as follows:

Section 1 SERVICES OF THE CONTRACTOR

- 1.1 Scope of Services. The Contractor shall furnish services as requested by MainePERS and as set forth in the Divestment Consulting Services Request for Proposals, Number 2022-003, issued March 21, 2022, (“RFP”) and the Contractor’s proposal in response to the RFP, which are incorporated herein by reference and portions of which are attached hereto as Exhibits 1 and 2, respectively. To the extent that there is a conflict among the body of this Agreement and the exhibits, the body of this Agreement shall take priority.
- 1.2 Compliance with Law. The Contractor warrants and represents that it will comply with all governmental ordinances, laws and regulations. This Agreement shall be governed in all respects by the laws, statutes and regulations of the United States of America and the State of Maine. Any judicial proceeding brought by one party against the other party shall be brought in the courts of the State of Maine.
- 1.3 Licenses, Permits, and Fees. The Contractor shall obtain, at its sole cost and expense, such licenses, permits and approvals as may be required by law for the performance of the services required by this Agreement.
- 1.4 Insurance. The Contractor shall keep in force insurance as specified in the RFP. Prior to the execution of this Agreement, and subsequently at the request of MainePERS, the Contractor shall furnish MainePERS with written or photocopied verification of the existence of such insurance.

Section 2 COMPENSATION

- 2.1 Contract Pricing. [To be filled in.]
- 2.2 Method of Payment. [Payment terms to be filled in.] Invoices and all other billing communications should be directed to:

Maine Public Employees Retirement System
Accounts Payable
P.O. Box 349
Augusta, ME 04332-0349
accounting@mainepers.org
(207) 512-3117

- 2.3 Independent Contractor. In the performance of this Agreement, the parties hereto agree that the Contractor, and any agents and employees of the Contractor, shall act in the

capacity of an independent contractor and not as officers or employees or agents of MainePERS.

Section 3 COORDINATION OF WORK

3.1 Agreement Administrator. James A. Bennett hereby is designated to be the MainePERS Agreement Administrator during the term of this Agreement ("Agreement Administrator"). MainePERS shall have the right to designate another Agreement Administrator upon written notice to the Contractor. All correspondence and related submission from the Contractor shall be submitted to:

James A, Bennett
Chief Investment Officer
Maine Public Employees Retirement System
P.O. Box 349
Augusta, ME 04332-0349

3.2 Amendments. This Agreement may be modified, amended, changed, added to or subtracted from by the mutual consent of the parties hereto, if such amendment or change is in written form and executed with the same formalities as this Agreement and attached to the original Agreement to maintain continuity.

3.3 Assignment. The Contractor shall not assign or subcontract the whole or any part of this Agreement without the prior written consent of MainePERS, and any attempt to so assign or subcontract shall be invalid. No assignment shall relieve the Contractor of its obligations hereunder. This Agreement will be binding upon the Contractor's successors and permitted assignees.

Section 4 TERM

4.1 Term. Unless earlier terminated by MainePERS in accordance with subsection 4.2 below, the term for this Contract shall begin on June 1, 2022, and shall continue through December 31, 2022, except that subsections 5.5, 5.8, 5.9, and 5.10 below shall survive.

4.2 Termination. MainePERS may terminate this agreement for any reason by giving the Contractor at least 30-days written notice of termination.

Section 5 MISCELLANEOUS PROVISIONS

5.1 Conflicts of Interest. The Contractor shall not engage any Trustee or employee of MainePERS in a position that would constitute a violation of 17 M.R.S. § 3104.

5.2 Background Checks. The Contractor shall perform a criminal background check on all of its employees who perform work on MainePERS' property. The Contractor's employees performing work on MainePERS' property must not have been convicted of a felony or any crime involving theft. A list of employees authorized to work on MainePERS' property and the results of their background checks shall be provided to MainePERS by the Contractor upon request.

5.3 ID Badges. While on MainePERS' property, all employees of the Contractor shall wear on their person an ID badge or wear a uniform containing the Contractor's business name.

- 5.4 Unauthorized Persons. Unless specifically authorized by the Agreement Administrator, under no circumstance shall another person or persons accompany the Contractor or the Contractor's employees onto MainePERS' property while the Contractor is conducting work under this contract.
- 5.5 Confidential Information/Security. Confidentiality of MainePERS information is required. All materials and documents provided by MainePERS, employers or participants in the plans administered by MainePERS, or MainePERS' vendors, or located in MainePERS buildings, shall constitute confidential information. The Contractor shall maintain confidentiality in accordance with industry standards and State and federal law. Neither the Contractor nor its employees will disclose, release or communicate any confidential information to any third person, individual, organization or entity without specific authorization by MainePERS. Any violation or breach of this provision will constitute grounds for immediate termination of the Agreement and shall entitle MainePERS to all remedies available in law or equity.
- 5.6 Solicitors. The Contractor warrants that it has not employed or contracted with any company or person, other than for assistance with the normal study and preparation of a proposal, to solicit or secure this Agreement and that it has not paid, or agreed to pay, any company or person, other than a bona fide employee working solely for the Contractor, any fee, commission, percentage, brokerage fee, gift, or any other consideration, contingent upon, or resulting from the award for making this Agreement. For breach or violation of this warranty, MainePERS shall have the right to annul this Agreement without liability or, in its discretion to otherwise recover the full amount of such fee, commission, percentage, brokerage fee, gift, or contingent fee.
- 5.7 Non-Discrimination in Employment: MainePERS' contracts for services are subject to statutory conditions related to non-discrimination in employment, 5 M.R.S. § 784. The Contractor has read and agrees to these conditions.
- 5.8 Access to Records. The Contractor shall maintain all books, documents, payrolls, papers, accounting records and other evidence pertaining to this Agreement for a period of seven (7) years following termination of this Agreement. The Contractor shall allow inspection of pertinent documents by MainePERS or its authorized representatives at the Contractor's office upon reasonable notice and shall furnish copies of the documents if requested.
- 5.9 MainePERS Held Harmless. The Contractor will indemnify, defend, and save harmless MainePERS, its Trustees, employees, and agents from any and all claims, costs, expenses, injuries, liabilities, losses and damages of every kind and description resulting from or arising out of the performance of this Agreement by the Contractor, its employees, agents, or subcontractors. This indemnification does not extend to a claim that results solely and directly from (i) MainePERS' negligence or unlawful act, or (ii) action by the Contractor taken in reasonable reliance upon an instruction or direction given by an authorized person acting on behalf of MainePERS in accordance with this Agreement. Nothing in this Agreement shall be construed as a waiver of the privileges or immunities of MainePERS, its Board of Trustees, or its employees.
- 5.10 Notice of Claims. The Contractor shall give the Agreement Administrator immediate notice in writing of any legal action or suit filed related in any way to this Agreement or which may affect the performance of the Contractor under this Agreement.

- 5.11 Severability. The invalidity or unenforceability of any particular provision or part thereof of this Agreement shall not affect the remainder of said provisions, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision or part thereof had been omitted.
- 5.12 Force Majeure. The performance of an obligation by a party under this Agreement shall be excused in the event that performance of that obligation by that party is prevented by an act of God, act of war, riot, fire, explosion, flood or other catastrophe, sabotage, severe shortage of fuel, power or raw materials, change in law, court order, national defense requirement, or strike or labor dispute, provided that any such event and the delay caused thereby is beyond the control of, and could not reasonably be avoided by, that party. In the event of the Contractor's non-performance caused by any of the foregoing reasons, MainePERS may, at its discretion, extend the time period for performance of the obligation excused under this section by the period of the excused delay together with a reasonable period to reinstate compliance with the terms of this Agreement.
- 5.13 Vendor Security Requirements. The Contractor will comply with MainePERS' Vendor Security Requirements, which are attached hereto as Exhibit 3 and incorporated herein by reference.
- 5.14 Entire Agreement. This document contains the entire Agreement of the parties, and neither party shall be bound by any statement or representation not contained herein. No waiver shall be deemed to have been made by any of the parties unless expressed in writing and signed by the waiving party. The parties expressly agree that they shall not assert in any action relating to the Agreement that any implied waiver occurred between the parties which is not expressed in writing. The failure of any party to insist in any one or more instances upon strict performance of any of the terms or provisions of the Agreement, or to exercise an option or election under the Agreement, shall not be construed as a waiver or relinquishment for the future of such terms, provisions, option or election, but the same shall continue in full force and effect, and no waiver by any party of any one or more of its rights or remedies under the Agreement shall be deemed to be a waiver of any prior or subsequent rights or remedy under the Agreement or at law.

IN WITNESS WHEREOF, MainePERS and the Contractor, by their representatives duly authorized, have entered into this Agreement as of the date first written above.

Maine Public Employees
Retirement System

Company Name

By: _____
Name:
Title:

By: _____
Name:
Title:

EXHIBIT 3

MainePERS Vendor Security Requirements

The Contractor shall cooperate with MainePERS in protecting the integrity, security, and confidentiality of MainePERS' information and assets by:

- participating in an annual vendor due diligence process by providing information reasonably requested by MainePERS within 10 business days;

[Other requirements to be identified based on particular Bidder and proposal and subject to negotiation]

Attachment D
Questions for RFP Respondents

A: General Information

1. Name and business address of responding party.
2. Name, address, email address and phone number of primary point of contact for all communications.
3. Provide a brief overview of your firm's business.
4. If applicable, please describe your firm's membership of and/or partnerships with investment-related organizations.
5. Please describe the composition and qualifications of the team that would work on this assignment.

B: Experience with Investment Consulting and Divestment

1. Please describe your firm's experience consulting with institutional investors on general investment topics such as asset allocation, portfolio construction, and performance measurement.
2. Please describe your firm's experience, if any, consulting with U.S. public pension plans on divestment, particularly of fossil-fuel companies.
3. Please describe your firm's experience consulting on climate change-related investment risks.
4. Please describe the data sources and analytical methods your firm would use for this engagement.

C: Other Items

1. Please disclose any potential conflicts of interest your firm may have related to this engagement such as managing investment products that have ownership of or exclude investment from fossil fuel companies.
2. Please provide at least three references for prior investment consulting engagements, preferably focused on divestment analysis for U.S. public pension plans.

Kristine Pelletier
Partner

Dulari Pancholi, CFA, CAIA
Principal, Head of Credit and Multi-Asset Investments

Kevin Leonard
Partner

April 29, 2022

Maine Public Employees Retirement System
139 Capitol Street
Augusta, ME 04330

RE: Divestment Consulting Services for Maine Public Employees Retirement System


Dear MainePERS Board of Trustees:

NEPC and MSCI are submitting a joint divestment consulting services proposal as outlined in the attached Executive Summary. NEPC has been providing investment consulting services since 1986. NEPC was founded on three main principles: strive to maintain **independence**, provide **proactive counsel** in an attempt to help our clients exceed their goals and objectives, and service our clients with **seasoned professionals**. As you evaluate firms, we would ask you to consider the following points that differentiate NEPC from the competition.

1. We are one of the largest **independent** investment consulting firms in the industry. We advise 399 retainer clients with \$1.5 trillion in assets¹. Our growth is attributed to the high quality results our clients have achieved and our high service model.
2. We have a **dedicated public fund team** that advises 68 public funds representing \$802 billion in assets². These team members have all spent virtually their entire careers working with Public Fund clients.
3. NEPC is a **thought leader in Impact Investing**; we are proud to work with more than 70 organizations that pursue Impact Investing to further their missions.

Thank you in advance for your consideration and we hope to have the opportunity to present our divestment consulting capabilities to you in person. Should you have any questions, please call us at (617) 374-1300.

Best regards,



Enclosures

¹ As of 1/1/2022, includes 86 clients with discretionary assets of \$66.3 billion.

² As of 1/1/2022



APRIL 2022

DIVESTMENT CONSULTING SERVICES PROPOSAL

Maine Public Employees Retirement
System

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EXECUTIVE SUMMARY

NEPC was founded in 1986 on three main principles: maintain **independence**, provide **proactive solutions**, and serve our clients with **seasoned professionals**. This focus, combined with client performance, has allowed us to provide investment consulting services to our clients for **36 years**.



100%
Independently owned
by 45 partners

100% employee-owned NEPC is neither an affiliate nor a subsidiary of any organization. Our independence ensures our impartiality, aligning our interests with the success of our clients. We do not accept any form of compensation other than the consulting fees paid by our clients.

At NEPC, we've created a thriving company culture that appeals to the industry's finest talent — with **327 professionals** in seven offices nationwide.

NEPC's consulting business is divided into distinct practice areas. We work with **68 public fund clients** representing \$802 billion in assets. Public funds account for 55% of NEPC's clients' total assets. These funds are served by our dedicated Public Fund team of 34 investment professionals, including 7 partners.

How We Help Our Clients

Our dedicated Public Fund Consulting Team has deep knowledge of asset allocation, asset liability hedging as well as a proactive strategic approach, which understands the nuances specific to the public fund marketplace. Everything we do is driven by our passion to gain a clear understanding of your situation and deliver investment advice specific to your needs.



- 117 CLIENT SERVICES
- 64 RESEARCH
- 65 PERFORMANCE REPORTING
- 81 OPERATIONS & SUPPORT



We assess our clients' progress against their own unique goals and objectives as well as the largest Public Fund performance measurement universe in the industry.

To help our public fund clients build **customized investment programs** that meet their unique investment goals and fulfill their fiduciary obligations, we incorporate data from the plan's actuarial valuation statements when performing our comprehensive **asset liability studies**. As a result, we can forecast the impact of changes to fund provisions, workforce, and actuarial assumptions on funding and contributions. Additionally, our **risk budgeting and scenario analysis** tools allow plan sponsors to test alternative asset allocations under multiple economic environments to confidently build an investment program that meets their needs.

In response to our clients' growing concern about **liquidity**, we've developed an analysis that enables us to examine each client's current and projected liquidity needs, and to profile the potential sources of these needs. We're careful to define these liquidity needs not only as actuarial forecasts of contributions vs. benefit payments, but also as forecasts of the liquidity needs rising from their alternative asset programs. This gives our clients a complete picture of their liquidity profile, which then becomes a key factor in determining how much exposure their portfolio can handle within illiquid asset classes.

Investing Is Complex, But We Love Every Part



We love great investment ideas. Superior investing is grounded in superior research and knowledge. NEPC has built one of the largest dedicated research teams in the consulting industry. The Research Group comprises 20% of NEPC's total work force and plays an integral role in supporting client relationships. Be it searching for the next investment strategy for your portfolio, considering a mosaic of perspectives while constructing portfolios, or monitoring existing managers, our mission is to provide sound financial advice. When you work with us, you get:

- A **boutique consulting experience** backed by a 64-person research team
- A forward-looking, multi-faceted asset allocation process that involves a comprehensive understanding of risk
- Actionable investment advice based on original, on-the-ground research and a comprehensive and exhaustive due diligence process
- A **Discovery Platform** dedicated to uncovering the next great investment idea off the beaten path of traditional areas of focus
- An open mind, relentless curiosity, **diversity in thought and experience**, and a vibrant mix of ideas
- Investment opportunities across the entire liquidity spectrum, not just within a single asset class
- **Independent and unbiased insights** on traditional and alternative assets, market and economic events, and industry trends

We are proactive in bringing new ideas and investment opportunities to clients and are widely viewed as a thought leader in our field. As a firm, we do this formally through our **annual asset allocation letter**, **quarterly market thoughts**, and **monthly market updates**, as well as through **client webinars**, our **annual investment conference**, "**Market Chatter**" pieces that focus on topical issues and **white papers** on key investment topics including new investment opportunities.

Divestment Consulting Services

NEPC and MSCI are submitting a joint divestment consulting services proposal as outlined below based on the System's project scope of services:

A. Broad review of divestment and the climate change-related risk landscape

Aspects of this should include, but need not be limited to:

1. A broad overview of climate change-related legal and regulatory trends, both in the U.S. and globally.
2. A summary of key climate change-related investment risks and their implications for institutional investors.
3. A summary of peer U.S. public pension funds' experiences with divestment, including discussion of type of divestment (e.g., fossil fuel, firearms, etc.) and whether or not divestment was legislatively mandated.

NEPC will have primary responsibility for providing a broad review of divestment and the climate change-related risk landscape with support from MSCI using MSCI's existing research (e.g., whitepapers, case studies, research blogs, etc.).

B. Identify and quantify the System's portfolio holdings subject to divestment

For public market holdings this should include:

- 1. Development of a clear and repeatable methodology for identifying exposures to companies that are subject to divestment based on legislative definitions. This should include identification of any required data sources.**
- 2. Identification of MainePERS holdings of securities subject to divestment, classified and aggregated by:**
 - a. Asset class & holding structure type (e.g., Domestic Equity SMA, or corporate bonds held in commingled funds)**
 - b. Sector / Industry / Sub-Industry using the Global Industry Classification Standard (GICS) taxonomy**
 - c. Fossil fuel type(s) (i.e., oil, natural gas, thermal coal, etc.)**
 - d. Relevant legislation (231 or 234) and specific legislative definition(s) (e.g., C(1) or C(2), etc.)**

NEPC and MSCI plan to work in partnership to deliver a comprehensive analysis to MainePERS for the public market holdings. NEPC will secure the license and leverage MSCI Fossil Fuel and For-Profit Prison Screens for identifying and quantifying holdings subject to divestment. This data can be accessed via data feed and/or through the MSCI ESG Manager portal. MSCI will support NEPC in mapping "fossil fuel" definitions specific to Maine legislation to MSCI Fossil Fuel screening criteria e.g., mapping to asset class, strategy/vehicle, GICS, fossil fuel types, etc.

C. Identify and quantify direct divestment costs

In this section the consultant will, for all portfolio assets subject to divestment:

- 1. Identify the types of potential direct costs and/or cost savings that may be associated with divestment, develop estimates of these, and summarize costs/cost savings by category and asset class. These should include, but need not be limited to:**
 - a. Transaction costs related to divestment of existing public holdings**
 - b. Secondary market pricing, legal expenses, and any reputational considerations associated with seeking to exit from private closed-end funds**
 - c. Potential servicing costs/cost savings arising from changes in investment structures and management agreements, including proxy and custodial services**
 - d. Other potential ongoing costs or cost savings (e.g., changes in data and compliance resources required to monitor holdings, etc.)**

NEPC will have primary responsibility for identifying and quantifying direct divestment costs with support from MSCI as applicable (e.g., changes in data resources required to monitor holdings).

D. Identify and quantify divestment impact on portfolio

This section should employ various measures and methodologies to provide MainePERS with an evaluation of the impact of divestment on the System's portfolio. Components should include:

- 1. Identify and explain measures and methodologies that can be used to analyze the impact of divestment on the System's investment portfolio.**
- 2. Compute and discuss these measures.**

- a. **This initial phase of the impact analysis should assume that any proceeds from divestment will be re-invested ratably across the remaining asset classes in the current portfolio.**

NEPC will have primary responsibility identifying and quantifying divestment impact on the portfolio with support from MSCI (e.g., utilizing off the shelf or potentially custom ex-Fossil Fuel/ex Thermal Coal indexes to help analyze divestment impact on risk/return profile of total opportunity set(s), tracking error, country/sector weights, style factors, climate risk metrics, etc.). NEPC will leverage MSCI Index Metrics reports for the analysis.

Let us use our experience and customized solutions, in collaboration with MSCI, to help MainePERS meet its divestment goals.

Data as of 1/1/2022

RESPONSE TO QUESTIONNAIRE

A. General Information

1. Name and business address of responding party.

NEPC, LLC
255 State Street
Boston, MA 02109

2. Name, address, email address and phone number of primary point of contact for all communications.

For the purpose of this proposal, your proposed primary NEPC contacts are:

Kristine Pelletier
Partner
kpelletier@nepc.com
(617) 314-3141

Dulari Pancholi, CFA, CAIA
Principal, Head of Credit and Multi-Asset Investments
dpancholi@nepc.com
(617) 395-7323

Kevin Leonard
Partner
kleonard@nepc.com
(617) 314-3128

3. Provide a brief overview of your firm's business.

NEPC, LLC has been providing investment consulting services since 1986. NEPC was founded on three main principles: strive to maintain **independence**, provide **proactive solutions** in an attempt to help our clients exceed their goals and objectives, and service our clients with **seasoned professionals**. This focus has generated 36 consecutive years of thoughtfully-managed growth.

NEPC takes pride in our long record of success providing independent, objective investment counsel to our clients. Clients can be confident in NEPC's integrity, as our revenue model is completely aligned with our clients' interests and goals. NEPC receives **100% of our revenue** exclusively from providing advisory consulting and discretionary investment services to our clients. NEPC's client-focused approach, paired with our experience and deep research resources, helps to ensure that we will continue to meet our clients' needs, through all types of market conditions.

4. If applicable, please describe your firm's membership of and/or partnerships with investment-related organizations.

NEPC has a small number of client relationships (currently four) with companies that have a money manager subsidiary whereby we (a) provide advice regarding the employee retirement

plan, or (b) provide research and advice connected to the selection of third-party investment managers. Although these relationships contribute less than 1% to our annual revenue, all are fully disclosed when NEPC conducts manager searches. The fees NEPC receives from these relationships are not affected by a rating that may be assigned by our research team, or by investments that any client may make.

In addition, we use the services of investment management firms to manage our employee Profit Sharing and 401(k) Plans, as do nearly all firms offering retirement plan benefits to their employees.

NEPC is an active member of several professional organizations, including:

- American Academy of Actuaries
- Associated General Contractors of America (AGC)
- Association for Financial Professionals (AFP)
- Association of Benefit Administrators (ABA)
- California Association of Public Retirement Systems (CALAPRS)
- Defined Contribution Institutional Investment Association (DCIIA)
- Economic Club of Chicago
- Family Office Exchange Members
- Financial Industry Regulatory Authority (FINRA)
- Gartner Leadership Council
- Georgia Association of Public Pension Trustees (GAPPT)
- Intentional Endowment Network (IEN)
- International Foundation of Employee Benefits Plans (IFEBP)
- Investment Consultants Sustainability Working Group - United States (ICSWG-US)
- Louisiana Trustee Education Council (LATEC)
- MA Coalition of Taft-Hartley Trust Funds, Inc
- MCA of Las Vegas SMACNA
- Michigan Association of Public Employee Retirement Systems (MAPERS)
- National Association of Securities Professionals (NASP)
- National Association of State Retirement Administrators (NASRA)
- National Conference on Public Employee Retirement Systems (NCPERS)
- National Coordinating Committee Multiemployer Plans (NCCMP)
- National Council of Real Estate Investment Fiduciaries (NCREIF)
- New America Alliance (NAA)
- NMS Endowment & Foundation Service Provider Membership (NMS)
- Principles for Responsible Investment Association (PRI)
- Private Equity Women Investor Network (PEWIN)
- Society for Info. Management
- Society of Actuaries (SOA)
- State Association of County Retirement Systems (SACRS)
- Texas Association of Public Employee Retirement Systems (TEXPERS)

5. Please describe the composition and qualifications of the team that would work on this assignment.

If we are chosen as your investment consultant, your NEPC project service team will consist of Kristine Pelletier, Partner, Dulari Pancholi, CFA, CAIA, Principal, Head of Credit and Multi-Asset Investments and Kevin Leonard, Partner. They will be supported by a dedicated Consulting Analyst and dedicated Research Specialists where appropriate.

Kristine M. Pelletier
Partner

Krissy joined NEPC in 2008. She is a Partner and senior member of NEPC's Endowment and Foundation practice. She also serves as Co-Head of NEPC's Impact Investing Committee.

Krissy brings nearly 20 years of investment experience, having spent most of her career focused on impact investing, portfolio construction, and the evaluation and selection of investment managers. In her current role, Krissy works with many of NEPC's philanthropic clients that are leading the industry on alignment of mission and money. Krissy is often featured in industry publications and a frequent speaker at conferences on the topic of Impact Investing. At the end of 2019, Krissy published an Op-Ed in Wealth Management titled "New Decade, New Fundamentals for Investing" defining three pillars that will be the largest drivers of investment success: sustainability, diversity and inclusion, and innovation. Krissy was named in CIO magazine's "The Knowledge Brokers 2021" edition as one of the world's most influential investment consultants³.

Prior to joining NEPC, Krissy worked at Wellington Management Company, LLP as a Research Associate, and served as a researcher and grant writer for Think:Kids, of Massachusetts General Hospital.

Krissy earned her M.B.A. from the Darden Graduate School of Business at the University of Virginia, and her B.A. in Finance and Economics from Simmons University (formerly Simmons College).

Krissy serves as a member of NEPC's Women's Leadership Forum, she is also on the Board of Trustees at Cushing Academy, is a mentor for Girls Who Invest, is an active volunteer with her alma mater, Simmons University, and previously served on the board for the Student Leadership Training Program.

Dulari Pancholi, CFA, CAIA
Principal, Head of Credit and Multi-Asset Investments

Dulari's investment career began in 2000 and she joined NEPC in 2006. She is the Head of Credit and Multi-Asset Investment Group at NEPC. Dulari is also the Co-Head of NEPC's Impact Investing Committee. As a research team leader, Dulari is a member of multiple investment committees and serves as the Co-Head of the Credit Beta Group. Dulari is also frequent speaker at industry conferences on the topic of Impact Investing.

Prior to joining NEPC in August of 2006, Dulari was Vice President of Operations of the Hedge Fund at Venus Capital Management. Prior to that, Dulari was employed as a Research Associate at the Center for International Securities and Derivatives Market (CISDM). As a Research

³ Please see Disclosures for important disclosures related to awards and recognitions.

Associate, Dulari's responsibilities included understanding various databases, statistical models, software and analytical tools used for efficient financial analysis. While at CISDM, Dulari authored and co-authored several research papers, one of which was published in the Journal of Alternative Investments in the Spring of 2004.

Dulari received her M.B.A. from the University of Massachusetts, Amherst and holds L.L.B. and B.S. degrees from the University of Mumbai. Dulari has attained both of the Chartered Financial Analyst and Chartered Alternative Investment Analyst designations. She is also a member of the Boston Security Analysts Society. She has recently completed the Sustainable Finance program at Yale SOM Executive Education.

Kevin M. Leonard **Partner**

Kevin joined NEPC in 2007 and his career in the financial services industry began in 1991 and the investment consulting industry in 1994. His consulting responsibilities and background include servicing public pension plans, Taft-Hartley pension funds, hospital, endowments, and foundations. Kevin is the team leader for the NEPC Public Fund Consulting Practice and is also a member of NEPC's Due Diligence Committee and Large Cap Equity Research Advisory Committee.

Prior to joining NEPC, Kevin was a Vice President/Partner at Segal Advisors. Prior to working at Segal Advisors, he was a Consultant at The Hannah Consulting Group, and worked at State Street Bank and Trust Company.

Kevin received his B.A. in Business Management from Assumption College. He served on the Board of Directors for the Massachusetts Public Pension Forum and is a frequent speaker at educational conferences and association seminars. Kevin was recognized as the 2012 Public Plan Consultant of the Year by Money Management Intelligence. Kevin was also a nominee for the same award in 2011. Kevin was named in CIO magazine's "The Knowledge Brokers 2019" list as one of the world's most influential investment consultants⁴.

NEPC's Research Group

Research is a core competency at NEPC and a hallmark of our service to our clients. NEPC's Research Group is comprised of 64 dedicated research professionals (approximately 20% of NEPC's total work force) organized into seven teams: Asset Allocation, Portfolio Construction, Global Research, Marketable Securities Research, Private Markets Research, Operational Due Diligence, and OCIO Portfolio Strategy. Our CIO, Tim McCusker, FSA, CFA, CAIA, Partner, is responsible for leading the overall research effort. The research teams are supported by NEPC's research operations group.

NEPC's Research Group provides customized solutions across a range of asset classes and investment strategies to help our clients meet their long-term financial objectives within their individual risk constraints.

⁴ CIO's Most Influential Investment Consultants: CIO Magazine interviews pension and non-profit CIOs, asset managers and former consultants to approximate what it calls "the hierarchy of today's institutional consultant industry". The results should not be considered a recommendation of any specific firm or individual consultant. For more information, please visit CIO Magazine's web site at <https://www.ai-cio.com/lists/>

When you work with us, you get:

- A boutique consulting experience backed by a 64-person Research team
- A forward-looking, multi-faceted asset allocation process that involves a comprehensive understanding of risk
- Actionable investment advice based on original, on-the-ground research and a comprehensive and exhaustive due diligence process
- A Discovery Platform dedicated to uncovering the next great investment idea off the beaten path of traditional areas of focus
- An open mind, relentless curiosity, diversity in thought and experience, and a vibrant mix of ideas
- Investment opportunities across the entire liquidity spectrum, not just within a single asset class
- Independent and unbiased insights on public markets and alternative assets, market and economic events, and industry trends

B. Experience with Investment Consulting and Divestment

1. Please describe your firm's experience consulting with institutional investors on general investment topics such as asset allocation, portfolio construction, and performance measurement.

NEPC has been consulting to public retirement plans since its inception over 36 years ago. Our dedicated Public Fund Consulting Team has deep knowledge of asset allocation, asset liability hedging as well as a proactive strategic approach, which understands the nuances specific to the public fund marketplace. Over the past (5+) years, NEPC has also worked with several of its clients who have considered divestment, with some choosing to move forward with divestment and others choosing to take a more holistic sustainability approach to the portfolio. We serve 399 retainer clients with \$1.5 trillion in assets across 1,053 separate portfolios⁵.

Client Type	Retainer Clients	Total Assets
Corporate	113	\$367 billion
Not-for-Profit/Charitable	80	\$95 billion
Healthcare Related	43	\$122 billion
Private Wealth	42	\$13 billion
Public Fund	68	\$802 billion
Taft-Hartley	53	\$66 billion
Total Clients	399	\$1,465 billion

NEPC's full-service retainer relationships are characterized by a trustworthy service commitment, featuring ready access to our staff and resources, state-of-the-art technology, and comprehensive solutions to our clients' investment needs. We offer an array of services to our clients, highlights of which are outlined below.

Investment Policy - Your Goals, Your Plan

Creating/reviewing your Investment Policy Statement (IPS) is our first priority. A well-conceived, actionable plan developed in close collaboration with the client, the IPS sets forth your goals and objectives within risk tolerances and investment constraints. Serving as the investment

⁵ As of 1/1/2022, includes 86 clients with discretionary assets of \$66.3 billion.

program's blueprint, the IPS defines asset classes and investment managers, an asset allocation target, investment guidelines and restrictions, including rebalancing guidelines and performance benchmarks, and the roles of the plan's fiduciaries and reporting requirements. We extend and reinforce the IPS by developing investment guidelines for each investment manager in a client's portfolio.

Asset Allocation - Multifaceted, Customized, Risk-controlled

Along with leveraging our dedicated research group and asset class experts, NEPC uses sophisticated and comprehensive proprietary asset modeling systems to customize each client's investment program. After a careful analysis of your objectives and constraints — cash flow projections, risk aversions, rate of return requirements, permissible asset classes, and any unique policy or regulatory considerations — we seek to develop investment portfolios. Employing a multifaceted approach that integrates several asset allocation models, including mean-variance optimization, risk budgeting, economic scenario analysis, factor analysis and liquidity analysis to minimize risk, we identify strategies that represent the most efficient risk-return-liquidity tradeoffs.

Manager Search – A Rigorous, Proprietary Process

We believe that identifying managers that can meet a fund's objectives is one of the most important parts of an investment consultant's role. Our proprietary process begins with documenting the reasons for the search, and taking note of the client's specific needs, objectives, and sensitivities. NEPC has developed minimum criteria for each asset class, and we monitor a variety of internal systems and databases, including eVestment to find and track managers for our focused placement list of managers.

Of most impact to finding the best managers first are two resources unique to us: the NEPC database, housing all of our Due Diligence data, and our proprietary Performance Analytics Statistical Software (PASS), which allows our analysts to validate and compare investment returns and other key performance indicators.

We review investment manager candidates objectively and methodically. When a list is vetted, we can assist with the interview process, either with you or on your behalf, to create the most appropriate portfolio of managers to reach the risk and return goals of the Fund.

Alternative Assets – Improving Diversification and Risk-adjusted Returns

NEPC has significant experience building alternative asset programs and identifying high quality private equity, private debt, hedge funds and real assets managers for our clients' alternative investments programs. NEPC has actively advised our clients regarding alternative investments for the past 28 years. Our clients have \$246.9 billion in alternative assets across 286 client relationships⁶. We have the commitment, experience, and research resources to meet all of your alternative assets consulting needs and to drive a positive outcome. Our alternative assets services include education, portfolio design, manager search, due diligence reviews, and monitoring/reporting. We currently have 24 full-time individuals dedicated to Alternative Investments led by Sarah Samuels, CFA, CAIA, Partner, Head of Investment Manager Research.

Performance Measurement - Broader, Deeper Analysis

Investment Performance Analysis (IPA) reports are highly graphic, customized documents, providing performance results, risk analyses and comparisons for the total fund, all asset classes, capitalization ranges, and style combinations and investment managers versus goals

⁶ As of 12/31/2020, NEPC provides some form of advice to all clients counted but does not advise all clients on all asset classes.

and objectives. We work with each client to develop an appropriate reporting tool for their program.

Client Education - Timely, Tailored Programs

As a research-driven organization whose consultants are among the industry's foremost thought leaders, we take every opportunity to share our resources and insights with our clients. As we see it, the better informed you are, the stronger our collaboration. That's why, in addition to your access to a team of NEPC consultants and analysts, we provide a range of tailored educational programs and services. Of course, we also offer informative resources such as white papers, in which we present our perspectives on industry issues, legislative changes, and investment strategies that can affect an investment program.

Impact Investing Committee

As part of our commitment to impact investing, we have an internal **Impact Investing Committee** responsible for overseeing trends, researching managers and working with clients to develop strategies that meet their needs and align with their respective organizations' mission. This group includes a mix of client consultants and research professionals across asset classes. Kristine Pelletier, Partner and Dulari Pancholi, CFA, CAIA, Principal, Head of Credit and Multi-Asset Investments serve as Co-Heads of this Committee. As we have seen increasing interest in ESG and impact investing from across our diverse client base, we felt that an integrated committee approach would offer the ability to better tailor our focus to each client's unique need – leveraging information and views from peers across the firm. In addition, NEPC's research professionals all play an important role in discussing and evaluating the role that ESG plays in the respective processes of all investment managers we evaluate.

NEPC meets regularly with impact-oriented investment managers across asset classes as we continue to source preferred strategies and options for our clients. Importantly, we have sourced several preferred strategies for clients that target attractive risk-adjusted returns and align with the respective missions and values of our client base. While our Impact Investing Committee may source and identify strategies, its vetting and approval process follows the standard NEPC research process.

Ongoing Efforts to Enhance Impact Investing Best Practices

The NEPC ESG rating system, Impact Investing Committee and related ESG evaluation approach reflects a commitment to being a best-in-class option for impact-oriented investors. However, we also recognize that effective impact investing demands ongoing evolution, evaluation, and education. To that end, NEPC engages in numerous efforts to track developments, evaluate new sources of information, and promote better practices in our industry. For example:

- NEPC is a founding member of the US Investment Consultants Sustainability Working Group (ICSWG). Dulari Pancholi serves as our primary representative to this group. The ICSWG is a collaboration among investment consulting firms to engage with its collective stakeholders, and empower asset owners and their ultimate beneficiaries, to advance sustainable investment practices across the investment industry.
- We participate in national conversations about the evolution of ESG investing, such as the Department of Labor and the White House Office of Social Innovation's stakeholder roundtable.
- We regularly host opportunities for our clients to explore ESG topics and share their own best practices, such as our annual Investment Conference, webinars and outside speaker events.

- We are a signatory to the United Nations Principles for Responsible Investing (PRI) Initiative, a leading global network for investors to publicly demonstrate their commitment to impact investment.

NEPC Research

NEPC is a research-driven consulting firm, as evidenced by the list of papers generated by our research and consulting teams over the past few years. Please see a sampling listing of research papers below. A complete list can be found at <https://www.nepc.com/insights>.

- **Taking Stock: China Transitions, an NEPC 2022 Key Market Theme** (February 2022)
- **Taking Stock: Globalization Backlash, an NEPC 2022 Key Market Theme** (February 2022)
- **Taking Stock: Economic Crossroads, an NEPC 2022 Key Market Theme** (February 2022)
- **NEPC's 2022 Asset Allocation Letter: The Case for Curing Investment Amnesia** (February 2022)
- **Taking Stock: Permanent Interventions, an NEPC 2022 Key Market Theme** (February 2022)
- **A Decade in Review: The 2021 Defined Benefit Trends Survey** (January 2022)
- **China Bears and Inflation Scares: Positioning Portfolios for Success in 2022 and Beyond – Q3 Quarterly Market Webinar** (October 2021)
- **Taking Stock: NEPC's August 2021 Pension Monitor** (September 2021)
- **NEPC Market Outlook: Taking Profits in a Period of Market Strength** (August 2021)
- **Meeting You Where You Are: Client Input About the Future of Meetings** (June 2021)
- **Should Investors be Bracing for a Tidal Wave of Inflation** (May 2021)
- **Taking Stock: Stimulus Package Provides Respite to Single-Employer Pension Plans** (March 2021)
- **Taking Stock: China Transitions** (March 2021)
- **Taking Stock: Globalization Backlash** (March 2021)
- **Taking Stock: Permanent Interventions, an NEPC 2021 Key Market Theme** (February 2021)
- **Taking Stock: Virus Trajectory, an NEPC 2021 Key Market Theme** (February 2021)
- **NEPC's 2021 Asset Allocation Letter: Time for Your Portfolio's Annual Wellness Check** (February 2021)
- **Taking Stock: LDI-Focused Corporate Pension Plans Win in 2020** (January 2021)
- **Taking a Leap of Faith into a New Decade: NEPC's 2020 Asset Allocation Letter** (January 2020)
- **Winter Is Coming, But When?: NEPC's 2019 Asset Allocation Letter** (January 2019)
- **Markets Take Flight: NEPC's 2018 Asset Allocation Letter** (February 2018)
- **The Curse of Greed** (January 2018)
- **Power Up Your Pension Plans** (October 2017)
- **Terminated-Vested Lump Sum Payouts** (October 2017)
- **The Essential Guide to Third-Party Valuations for Hedge Fund Investors** (May 2017)
- **Fossil Fuel Divestment: Considerations for Institutional Portfolios** (March 2017)
- **The Times Are A-Changin': NEPC's 2017 Annual Asset Allocation** (February 2017)
- **Behind the Curtain: Operational Capabilities Are a Must for OCIOs** (October 2016)
- **NEPC Corporate Pension Focus – Interest Rate Risk and Asset/Liability Management for Cash Balance Plans** (October 2016)
- **Class is in Session: Lawsuits Against Higher Education Retirement Plans** (October 2016)

- **The Disease of Doubt** (July 2016)
- **Thinking Ahead to Stay Ahead: Strategic Private Equity Investing in Healthcare** (April 2016)
- **Embrace Opportunities Amidst Uncertainty: NEPC’s 2016 Asset Allocation Letter** (January 2016)

2. Please describe your firm’s experience, if any, consulting with U.S. public pension plans on divestment, particularly of fossil-fuel companies.

We have a handful of clients that currently engage in some type of divestment approach. NEPC believes in utilizing a broad opportunity set and flexible strategies to construct a diversified investment portfolio. We are committed to working with our clients to design customized solutions that meet the specific goals and objectives of their organization. When it comes to divestment, we believe that there is no “one size fits all” solution – each organization and investment portfolio has unique issues that will impact the decision. We believe that decision makers should contemplate and discuss a number of factors that fall into three main categories:

- 1) What do you hope to accomplish through divestment?
- 2) How will you measure or define success?
- 3) What approach is best for your investment program?

Working in partnership with the MainePERS, we would help the Board discuss these factors to determine if divestment is the best path forward for your organization. NEPC has worked extensively with the Board, staff and stakeholders in providing education, recommendations, and investment analysis related to negative screening and pursuing best practices with respect to assessing ESG related risks, and in particular, climate change risk. We have generated intellectual content and topical white papers and are currently in the process of developing a framework for climate change risk scenario analysis tool to aid clients with strategic asset allocation process within an asset-liability framework.

We have worked with several clients who have considered divestment, with some choosing to move forward with divestment and others choosing to take a more holistic ESG approach to the portfolio. When it comes to implementation, each organization’s path will look somewhat different. The chart below demonstrates some of the available options to the MainePERS should you choose to pursue a divestment strategy.

Potential Options	Description	Example	Comments
Full divestment	Divest from a specified list of fossil fuel companies across entire investment portfolio (i.e. Carbon Tracker 200 list)	<ul style="list-style-type: none"> ▪ Sterling College: Portfolio was solely invested in index products ▪ Endowment completely divested from fossil fuels and utilized a sole fossil fuel free investment manager for implementation 	Small and liquid investment program allows for easier implementation

Potential Options	Description	Example	Comments
Partial divestment from specific asset classes	Divest from fossil fuel companies (i.e. Carbon 200 list), but only within certain asset classes	<ul style="list-style-type: none"> ▪ Pitzer College: Committed to divesting the endowment/s investments in fossil fuel stocks by the end of 2014 	Potential to prioritize certain asset classes where greater breadth of options exist (public equities)
Partial divestment from specific industries	Commit to divesting from companies in select high carbon emitting industries (e.g. coal)	<ul style="list-style-type: none"> ▪ Stanford University: Committed to divesting a list of 100 coal companies 	Easier option to implement for larger investment programs with separate accounts.

In addition to the options listed above, there are also extensions to divestment. Some of those extensions include:

- Allocating to sustainable investments, including those with a focus the energy transition
 - This can be achieved through investment in green bonds, private equity funds and other specialized funds
- Considering investments in strategies with an ESG focus
 - Broader approach that promotes environmental, social and governance best practices
 - Will likely reduce exposure to fossil fuels and provide exposure to the best ideas from an ESG perspective
- Company engagement on key issues
 - Requires significant resources and a well-defined mission
 - Efforts may be combined with other organizations to increase bargaining power
 - Active proxy voting (requires investment in carbon emitting companies)
- Public Policy work
 - Time intensive, but can create awareness
- Allocating a percentage of investment proceeds to green projects within the organization
 - Examples include solar/wind power for buildings, LEED certification, providing grants for carbon emission reduction research, etc.

NEPC would work in partnership with MainePERS to discuss all of these options to determine which path forward is the best for your organization. In considering the potential effects on MainePERS we believe there are a few different frameworks from which to evaluate the divestment decision:

- 1) Asset Allocation could be impacted by a decision to divest as solutions may be limited within certain asset classes or strategies (e.g. alternative investments, real assets, or global asset allocation). Eliminating these asset classes from an investment portfolio could dramatically alter the risk and return profile
- 2) Risk Management should be considered when discussing divestment. Exposure to the energy sector has been a valuable source of return, diversification and inflation protection. Limiting exposure to diversifying strategies may impact overall return and risk expectations. Evaluating currency, country and regional concentration is important if divesting from international companies and re-allocating capital.

- 3) Manager Selection will likely be significantly limited. Larger organizations may have greater ability to access separate accounts or influence the terms of commingled funds. The current universe of managers/strategies that divest is limited and may have low asset levels, shorter track records and higher management fees. There is a substantial universe of managers/strategies that integrate ESG factors into their analysis, however this will not guarantee a fossil fuel free strategy.
- 4) Investment performance may be influenced by divestment and there are a number of ways to assess the potential impact. Some organizations have evaluated the performance impact of divestment by reviewing performance of the energy sector versus that of the overall market. Restricting investments in a certain sector or industry limits the investment manager opportunity set and may impact performance positively or negatively. Other organizations have concluded that divestment would require the forfeiture of future alpha. If fossil fuel companies are viewed as a risk likely to underperform going forward, the decision to divest could be interpreted as an active management decision. Divesting an actively invested program by reallocating funds to a fossil fuel free index fund may sacrifice alpha. The limited number of established actively managed fossil fuel free funds may leave investors with few choices in reallocating capital. Requesting that a manager implement negative screening shrinks the investment universe, so investors may experience underperformance and/or heightened volatility
- 5) Investment Related Fees are important to quantify when assessing divestment, specifically: transaction costs to divest and re-invest securities in separately managed accounts; transaction costs associated with changing investment products; potential changes to investment management fees.
- 6) Investment Policy Statements will have to be updated if the decision is made to divest. A description of the divestment approach (asset classes, timeline, etc.), monitoring process and roles and responsibilities for the Board, Investment Committee and any sub-Committees are critical.

3. Please describe your firm's experience consulting on climate change-related investment risks.

Because climate change is expected to have a material impact on virtually all markets in coming decades, the NEPC **Impact Investing Committee** has sought to formalize and expand its understanding of climate related impacts and make appropriate recommendations to clients regarding their investment portfolios to reflect climate risks and opportunities.

Climate Change Research Climate change is a critical theme that we embrace as part of our Impact Investing Research. While NEPC has cultivated an awareness of long-term potential climate impacts for many years, we began formally analyzing client portfolios in 2019 for specific climate risk factors. This is a long-term project and an evolving process to assess climate risk factors at the asset class, country, and eventually the sector/industry level.

Our research efforts have produced the following key learnings that inform our recommendations to clients:

- Climate change will impact numerous fundamental building blocks of capital markets such as inflation, real growth, profit margins, and credit defaults.
- Wealthier countries are most able to adapt to climate change, exacerbating global wealth inequality. Emerging markets are most vulnerable with higher sensitivity to climate change risk factors, specifically nations with a fragile socio-economic profile.
- Climate change transition costs are likely to pressure profit margins across industries in coming decades, and the physical costs of climate change could have a potentially

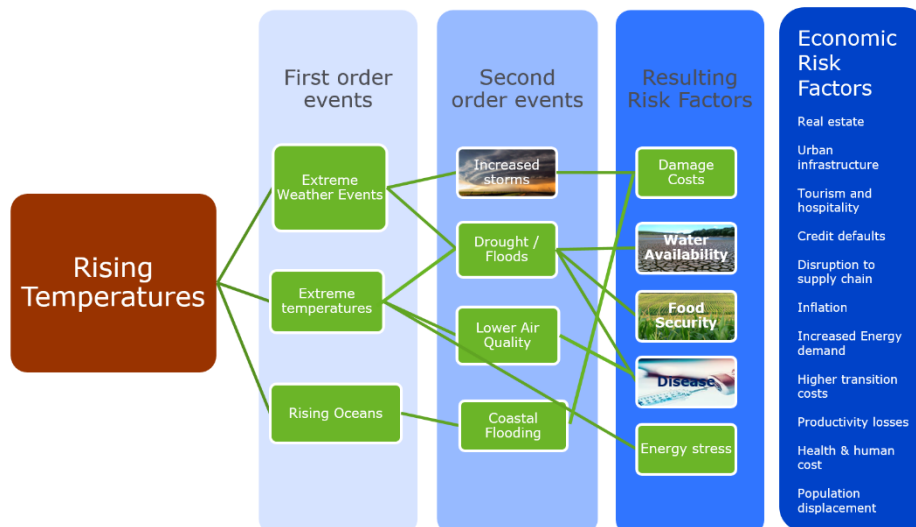
inflationary effect. Credit markets may be most exposed to this risk, with higher defaults associated with climate events and large disruptions to business models.

- The capital market risks of climate change can be seen today but it is an unknown when the market may fully discount the range of outcomes associated with climate change costs.
- COVID-19 has had a significant impact on the global climate as many people globally slowed travel and transportation.
- Potential portfolio actions over time may include identifying private equity opportunities in new technologies and analyzing geographical diversification for real estate.

We focus on climate change risk factors because they help us categorize systematic exposures to long-term impacts of climate change. Vulnerability to these risk factors (and each economy's ability to adapt) will ultimately determine the winners and losers across geographies and industries. Our climate change "policy scenarios" are defined by the mitigation policies of global nations. The scenarios highlight the severity and economic implications of an economy's risk factors and adaptability to climate change.

The policy scenarios impact the core building blocks of capital markets and are used to define potential investment effects. Below is an example of economic risk factors of climate change that could affect economic factors.

Working through first and second order effects, we identify the economic risk factors of climate change, which then inform our asset class assumptions for each policy path



How Climate Research Is Integrated into Client Portfolios Our research approaches climate-related portfolio solutions through a multi-step process which links to client's goals and objectives. It begins with collaborating to set strategy around the climate solution in context of overall portfolio objectives and constraints. In this area, there are several approaches, but we seek to optimize the client's goals and objectives using our "four pillars" framework. Below is a schematic of the four pillars as it relates to climate change.



Reduce Carbon Emissions	Benefit from decarbonization trend	Carbon Offset Reduce Emissions	Engage with corporate on lowering emission and Net Zero agenda
Fund's portfolio would exclude investments or screen out investments in all or key fossil fuel emitters	Opportunistic mandates benefiting from industry winner/losers	Replacing fossil/carbon exposure with renewable energy Control total emission at portfolio level	Collaboration at issuer level with similar minded allocators
<ul style="list-style-type: none"> Low carbon index Fossil Free Indices Screen out fossil fuel exposure or high emitters 	ESG Integrated products across asset classes and liquidity spectrum	Environment focused Thematic liquid and illiquid funds (e.g. renewables energy, water, etc.)	Case specific situations specifically targeted towards emissions

It is our view that climate change data and policies are likely to change considerably in coming years, and as such it is incumbent on us to continually update our research approach and investment recommendations around climate issues. For example, the Biden administration has rejoined the Paris Climate Accord and has stated its intent to support the development of renewable energy.

Given the significant data and policy changes ahead, NEPC will be reviewing and revising its climate analysis in the near term. NEPC is also in the beginning stages of fine tuning its investment manager ESG rating system to highlight manager climate engagement. In addition, NEPC has continued to expand our thematic manager Focused Placement Lists to distinguish best-in-class climate-focused managers for recommendation to clients. Several of the managers we work with have relationships with climate advisors, or solid internal expertise and experience – we would be happy to work with you and these experts to develop an educational session if that is of interest.

Example of Client Projects: West Coast Public Pension Client: NEPC has been engaged as the Board’s strategic advisor providing advice on planning, policy setting, governance, investment research and implementation regarding investment sustainability/ ESG integration. We have encouraged the plan to integrate ESG holistically into their investment process. This includes ongoing focus and refinement on ESG integration versus purely negative screens, education and writing white papers for the Board recommending pursuing ESG integration, encouraging affiliation with industry groups that are focused on ESG related risks and encouraging the build out of ESG related employee resources at the Plan. This client hired a Director of ESG, who has since developed complex models projecting the impact of global warming on financial results of energy companies as a guide to engaging with company management; NEPC reviewed and opined positively on the results. We have aided the plan with governance and policy setting around the topic of sustainability and long-term strategic investment priorities such as the inclusion of extensive ESG related evaluation criteria in investment manager searches and ongoing monitoring of exposures related to climate change risk. We have aided the Plan in

providing investment management solutions related to climate change risk. Our work has also focused on active ownership and shareholder advocacy, and detailed review of proxy voting policies and manager voting process.

Example of an Investment Underwritten In Past Two Years NEPC has made a concerted effort to source and underwrite thematic impact ideas with theses that align with our clients' missions. In particular, NEPC has underwritten strategies across themes such as sustainability, education/workforce development, and investing in underserved communities. One recent example is Vision Ridge III, a sustainable infrastructure fund that invests across the energy, transportation and agriculture sectors, targeting opportunities in renewable energy, energy storage, charging infrastructure, maritime and commercial vehicle electrification, sustainable agriculture, and water infrastructure. The manager's team has over 30 years of collective experience investing across various real assets sectors and has developed comprehensive sector knowledge and a diverse and deep network to leverage.

4. Please describe the data sources and analytical methods your firm would use for this engagement.

NEPC and MSCI plan to work in partnership to deliver a comprehensive analysis to MainePERS for the public market holdings. NEPC will secure the license and leverage MSCI Fossil Fuel and For-Profit Prison Screens for identifying and quantifying holdings subject to divestment. This data can be accessed via data feed and/or through the MSCI ESG Manager portal. MSCI will support NEPC in mapping "fossil fuel" definitions specific to Maine legislation to MSCI Fossil Fuel screening criteria e.g., mapping to asset class, strategy/vehicle, GICS, fossil fuel types, etc. The information outlined on public markets data below was provided by MSCI.

Fossil Fuel Reserves Data

MSCI ESG Research provides reported fossil fuel reserves data under the following reserve categories for 9,300+ companies (including the MSCI ACWI IMI). MSCI ESG Research has a dedicated team of analysts responsible for identifying companies with fossil fuel reserves and revenue. Sources include company publications (e.g. annual reports, 10K, 20F) and other public records (such as sustainability reports). Fossil fuel reserves data is updated annually.

- Metallurgical coal
- Thermal coal
- Conventional oil
- Shale oil
- Oil shale & tar sands
- Natural gas
- Shale gas

Fossil Fuel Revenue Data

Oil and Gas Revenue related to Extraction and Production To help clients screen their portfolios for companies involved in various types of oil and gas production, MSCI ESG Research provides an oil and gas revenue exposure module for Integrated Oil and Gas and Exploration and Production companies available for 9,300+ companies including the MSCI ACWI IMI.

Oil & Gas Revenue related to Other Business Activities in the Value Chain MSCI ESG Research collects data on revenue derived from following oil & gas-related business activities (beyond Extraction and Production):

- Oil & Gas equipment and services;
- Oil & Gas refining;
- Oil & Gas pipelines and transportation;
- Oil & Gas distribution and retailing;
- Petrochemical products;
- Trading of Oil & Gas and related products; and
- Biofuel

Thermal Coal Mining Revenue Data

In addition to Oil & Gas revenue, MSCI ESG Research also identifies revenue associated with thermal coal mining. This screen identifies the percentage of revenue (either reported or estimated) that companies derive from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties, and contract mining services.

Power Generation

In order to help clients screen their portfolios/universes for companies involved in carbon-intensive power generation operations, MSCI ESG Research provides a power-generation module containing power-generation volumes, installed capacity data and power-generation revenue by fuel type for 9,300+ companies.

For the divestment of private prison assets, MSCI's Business Involvement Screening Research would be utilized, and specifically, our For-Profit Prisons screen which identifies companies that derive any detectable revenue from the operation of private prisons, jails, detention centers or correctional facilities or from the provision of integral services to these types of facilities. Integral services include complete facilities management (end-to-end), security services and detention services. For-Profit Prisons may be alternatively known as private prisons. Please reference the attached Business Involvement Screening Research document for the full methodology and definitions.

In addition to the datasets mentioned above, MSCI can create customized screens tailored to adhere to specific legislation or client mandates as well as creating customized indexes for policy/mandate benchmarks or as the basis of passive exposures to align with divestment legislation and/or investment policies.

Private Markets

NEPC will work with MainePERS to understand the private market portfolio holdings, and work with you as well as your investment managers as appropriate in the evaluation of those portfolios. NEPC has also, on occasion, worked with clients to determine if a sale of private assets is in their best interest. In this process, NEPC works with a combination of secondary funds, private equity secondary brokers, and other intermediaries that might be useful in determining the approximate desirability and representative pricing of those assets.

C. Other Items

1. **Please disclose any potential conflicts of interest your firm may have related to this engagement such as managing investment products that have ownership of or exclude investment from fossil fuel companies.**

We are unaware of any potential conflicts of interest that would be created in serving MainePERS. **You should never wonder if your interests are first and foremost when working with your consultant.** NEPC strives to avoid and mitigate conflicts of interest whenever possible, and we have structured our business model with this in mind. Examples of our focus on mitigating potential conflicts of interest include the following:

- We do not have a complicated business model which can inhibit the ability of plan sponsors to understand fee transparencies and conflicts
- We do not provide management consulting to investment management firms to help them with strategic decision-making and product positioning
- We are not affiliated with divisions or firms that offer investment products
- We do not provide brokerage services
- We do not offer actuarial services
- We do not accept or pay referral fees, finder's fees or other commissions for placing managers with clients or for any other activity
- We do not incent our consultants to switch clients to a higher-fee service model
- We do not charge investment managers for inclusion in our manager search databases
- All fees paid to NEPC are cash-based ("hard dollars") and we do not accept any "soft dollars"
- Our annual investment conference is not subsidized by investment managers

Our business model has been designed to mitigate potential conflicts of interests so that we maintain our independence and objectivity and align our interests with those of our clients.

2. **Please provide at least three references for prior investment consulting engagements, preferably focused on divestment analysis for U.S. public pension plans.**

Our clients are our only customers, and we have grown substantially through their referrals over the years. While we submit client references per your request, we respectfully request that you not contact them without notifying us first at which time we will provide full contact information.

NEPC References:

San Francisco Employees' Retirement System

Andrew Collins
Head of ESG and Responsible Investing

University of Maine System

Tracy Elliott, CPA, CIA
VP of Finance and Controller

MSCI References:

- **UC Investments** - <https://www.ucop.edu/investment-office/files/uc-investments-tcf2021.pdf>
- **United Nations Joint Staff Pension Fund** - https://www.unjspf.org/wp-content/uploads/2022/03/UNJSPF_Report_March8.pdf
- **Regents of the University of Michigan**

DIVESTMENT CONSULTING AGREEMENT

NEPC would like to request the following additions to the proposed agreement. We would be pleased to discuss these items at your convenience.

Section 5.5 - Confidential Information/Security

Please add:

Notwithstanding the foregoing, the Contractor shall be permitted to disclose or communicate to a proper party information received from MainePERS, MainePERS's custodian bank or MainePERS's investment managers if such disclosure or communication is necessary for the Contractor to perform the services required in this Agreement or is required by law.

NEPC also requests that the following new sections be added:

Responsibility of Contractor

Contractor shall have no responsibility or authority to (i) manage or in any way direct the investment of any assets of MainePERS or (ii) enter into any agreement with any investment manager on behalf of, or otherwise bind, MainePERS. Nothing contained herein shall require MainePERS to engage any investment manager recommended by Contractor or to follow any advice provided by Contractor.

Acknowledgments

MainePERS acknowledges and agrees that:

1. Contractor has not made and cannot make any promise, guarantee or other statement or representation regarding the future investment performance of MainePERS's investments;
2. the past performance of the accounts of other clients of Contractor is not necessarily indicative of the future performance of MainePERS's investments;
3. in the performance of its services under this Agreement, Contractor shall be entitled to rely on information furnished by investment managers, it being understood that Contractor shall have no liability for the accuracy or completeness of any information furnished or representation made by the investment managers, provided Contractor conducted due diligence and evaluation of such investment managers with reasonable care;
4. to the extent permitted by applicable law, Contractor will not be liable for any losses or expenses incurred as a result of any action or omission by an investment manager, custodian or unrelated third party;
5. with respect to funds-of-funds, if applicable, Contractor's analysis will be conducted at the fund-of-funds level and will not generally include a direct review of underlying funds; and
6. Contractor's services do not include tax or regulatory advice, or interpretation of legal documents.

Miscellaneous Terms

Contractor shall be permitted to give advice and take action with respect to MainePERS which differs from the advice made or recommended or actions taken with respect to such other accounts and clients even though the investment objectives may be the same or similar. Contractor shall not be obligated to give MainePERS treatment more favorable than or preferential to that provided to such other accounts and clients.

Nothing in this Agreement shall limit or restrict Contractor or any of its shareholders, officers or employees from buying, selling, or trading in any securities for their own account or accounts, subject to Contractor's obligations as an SEC-registered entity and the restrictions set forth in Contractor's Code of Ethics and Personal Trading Policy. MainePERS acknowledges that Contractor and its shareholders, officers, affiliates and employees, and its other clients, may at any time have,

acquire, increase, decrease, or dispose of positions in investments which are at the same time being acquired or disposed of for the account of MainePERS.

Electronic Signatures and Records

Both the Contractor and MainePERS consent to the use of electronic signatures. This Agreement, and any other documents requiring a signature hereunder, may be signed electronically. The Parties agree not to deny the legal effect or enforceability of the Agreement solely because it is in electronic form or because an electronic record was used in its formation. The Parties agree not to object to the admissibility of the Agreement in the form of an electronic record, or a paper copy of an electronic document, or a paper copy of a document bearing an electronic signature, on the basis that it is an electronic record or electronic signature or that it is not in its original form or is not an original.

PROPOSED FEES

NEPC and MSCI are submitting a joint divestment consulting services proposal as outlined below based on the System's project scope of services:

NEPC is proposing a project fee of \$75,000 with travel, postage, and related expenses will be billed back at cost. The pricing for access to the MSCI data to perform work on identifying and quantifying holdings subject to divestment are included in this project fee.

A. Broad review of divestment and the climate change-related risk landscape

Aspects of this should include, but need not be limited to:

- 1. A broad overview of climate change-related legal and regulatory trends, both in the U.S. and globally.**
- 2. A summary of key climate change-related investment risks and their implications for institutional investors.**
- 3. A summary of peer U.S. public pension funds' experiences with divestment, including discussion of type of divestment (e.g., fossil fuel, firearms, etc.) and whether or not divestment was legislatively mandated.**

NEPC will have primary responsibility for providing a broad review of divestment and the climate change-related risk landscape with support from MSCI using MSCI's existing research (e.g., whitepapers, case studies, research blogs, etc.).

B. Identify and quantify the System's portfolio holdings subject to divestment

For public market holdings this should include:

- 1. Development of a clear and repeatable methodology for identifying exposures to companies that are subject to divestment based on legislative definitions. This should include identification of any required data sources.**
- 2. Identification of MainePERS holdings of securities subject to divestment, classified and aggregated by:**
 - a. Asset class & holding structure type (e.g., Domestic Equity SMA, or corporate bonds held in commingled funds)**
 - b. Sector / Industry / Sub-Industry using the Global Industry Classification Standard (GICS) taxonomy**
 - c. Fossil fuel type(s) (i.e., oil, natural gas, thermal coal, etc.)**
 - d. Relevant legislation (231 or 234) and specific legislative definition(s) (e.g., C(1) or C(2), etc.)**

NEPC and MSCI plan to work in partnership to deliver a comprehensive analysis to MainePERS for the public market holdings. NEPC will secure the license and leverage MSCI Fossil Fuel and For-Profit Prison Screens for identifying and quantifying holdings subject to divestment. This data can be accessed via data feed and/or through the MSCI ESG Manager portal. MSCI will support NEPC in mapping "fossil fuel" definitions specific to Maine legislation to MSCI Fossil Fuel screening criteria e.g., mapping to asset class, strategy/vehicle, GICS, fossil fuel types, etc.

C. Identify and quantify direct divestment costs

In this section the consultant will, for all portfolio assets subject to divestment:

- 1. Identify the types of potential direct costs and/or cost savings that may be associated with divestment, develop estimates of these, and summarize costs/cost savings by category and asset class. These should include, but need not be limited to:**
 - a. Transaction costs related to divestment of existing public holdings**

- b. Secondary market pricing, legal expenses, and any reputational considerations associated with seeking to exit from private closed-end funds**
- c. Potential servicing costs/cost savings arising from changes in investment structures and management agreements, including proxy and custodial services**
- d. Other potential ongoing costs or cost savings (e.g., changes in data and compliance resources required to monitor holdings, etc.)**

NEPC will have primary responsibility for identifying and quantifying direct divestment costs with support from MSCI as applicable (e.g., changes in data resources required to monitor holdings).

D. Identify and quantify divestment impact on portfolio

This section should employ various measures and methodologies to provide MainePERS with an evaluation of the impact of divestment on the System's portfolio. Components should include:

- 1. Identify and explain measures and methodologies that can be used to analyze the impact of divestment on the System's investment portfolio.**
- 2. Compute and discuss these measures.**
 - a. This initial phase of the impact analysis should assume that any proceeds from divestment will be re-invested ratably across the remaining asset classes in the current portfolio.**

NEPC will have primary responsibility identifying and quantifying divestment impact on the portfolio with support from MSCI (e.g., utilizing off the shelf or potentially custom ex-Fossil Fuel/ex Thermal Coal indexes to help analyze divestment impact on risk/return profile of total opportunity set(s), tracking error, country/sector weights, style factors, climate risk metrics, etc.). NEPC will leverage MSCI Index Metrics reports for the analysis.

DISCLOSURES

Awards and Recognitions Disclosure

- Pension Bridge Institutional Asset Management Awards 2020. For more information, please visit <https://iamanagementawards.awardstage.com/#!/judging-methodology--criteria>.
- CIO's Most Influential Investment Consultants: CIO Magazine interviews pension and non-profit CIOs, asset managers and former consultants to approximate what it calls "the hierarchy of today's institutional consultant industry". The results should not be considered a recommendation of any specific firm or individual consultant. For more information, please visit CIO Magazine's web site at <https://www.ai-cio.com/lists/>
- These rating or awards may not be representative of any one client's experience with NEPC. Any rating or award is representative of NEPC's past performance only and is not indicative of NEPC's future performance, nor does it indicate an endorsement of NEPC. NEPC did not pay any of these organizations to be considered for an award.
- An award presented to a client of NEPC is not a recognition of NEPC's performance and should not be considered an endorsement of NEPC.

Client Results Disclosure – All Clients

- Past performance is no guarantee of future results.
- NEPC acts in an advisory capacity-only for many clients and does not have discretion over those client assets. As a result, a client's investment performance may not be attributable solely to NEPC's advice.
- NEPC's Overall Composite is compiled from all Pension Plans, Endowments and Foundations for which NEPC is the sole full-retainer consultant. Plans are included in the Composite provided they have exposure to equity and bonds (including alternatives) of at least 25% each, and no more than 20% to other assets such as cash and GIC's.
- New clients are added to the Overall Composite with the first full quarter of a new manager selected from an NEPC search, or after one year as an NEPC client, whichever comes first, provided that the plan is globally diversified.
- Results are reported gross of NEPC advisory fees.
- NEPC's fees for advisory clients vary considerably depending on client size and complexity.

Information Disclosure

- Investment Metrics Plan Universe
- As of 12/31/2021, the Investment Metrics Universe contained actual, custodian-supplied and audited data on over 3,100 plan sponsors, representing roughly \$2.5 trillion in assets. This data is drawn from 52 independent investment consulting firms, including NEPC.
- ICC Universe
- Through 2011, universe rankings were based on the ICC Universe, which was populated by 12 independent investment consulting firms, including NEPC, and supplemented by many of the performance measurement clients of State Street Bank.
- Certain information, including that relating to market indices, was provided by sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.
- This document may contain confidential or proprietary information and is intended only for the designated recipient(s). If you are not a designated recipient, you may not copy or distribute this document.

Alternative Investment Disclosure

It is important that investors understand the following characteristics of non-traditional investment strategies including hedge funds, real estate, real assets and private equity:

- Performance can be volatile and investors could lose all or a substantial portion of their investment.

- Leverage and other speculative practices may increase the risk of loss.
- Past performance may be revised due to the revaluation of investments.
- These investments can be illiquid, and investors may be subject to lock-ups or lengthy redemption terms.
- A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value.
- These funds are not subject to the same regulatory requirements as registered investment vehicles.
- Managers may not be required to provide periodic pricing or valuation information to investors.
- These funds may have complex tax structures and delays in distributing important tax information.
- These funds often charge high fees.
- Investment agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager's realm of expertise or contemplated investment strategy.





November 2022



DIVESTMENT MEMO

NEPC, LLC

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INTRODUCTION

The purpose of this report is to assist MainePERS in evaluating the divestment of certain assets as specified in Maine statutes PL2021 c.231 and PL2021 c.234. The report will cover the following items:

- A review of the divestment and climate change-related risk landscape
- Identify and quantify the System's portfolio holdings subject to divestment
- Identify and quantify direct divestment costs
- Identify and quantify divestment impact on portfolio

The information provided within is intended to give the System a more detailed understanding of the impact of the Maine legislation and the implied costs (investment and operational) of divesting as contemplated by the legislation. This report will not include alternatives to divesting, but rather focus on the impact of divesting.

SECTION A: BROAD REVIEW OF DIVESTMENT AND THE CLIMATE CHANGE-RELATED RISK LANDSCAPE

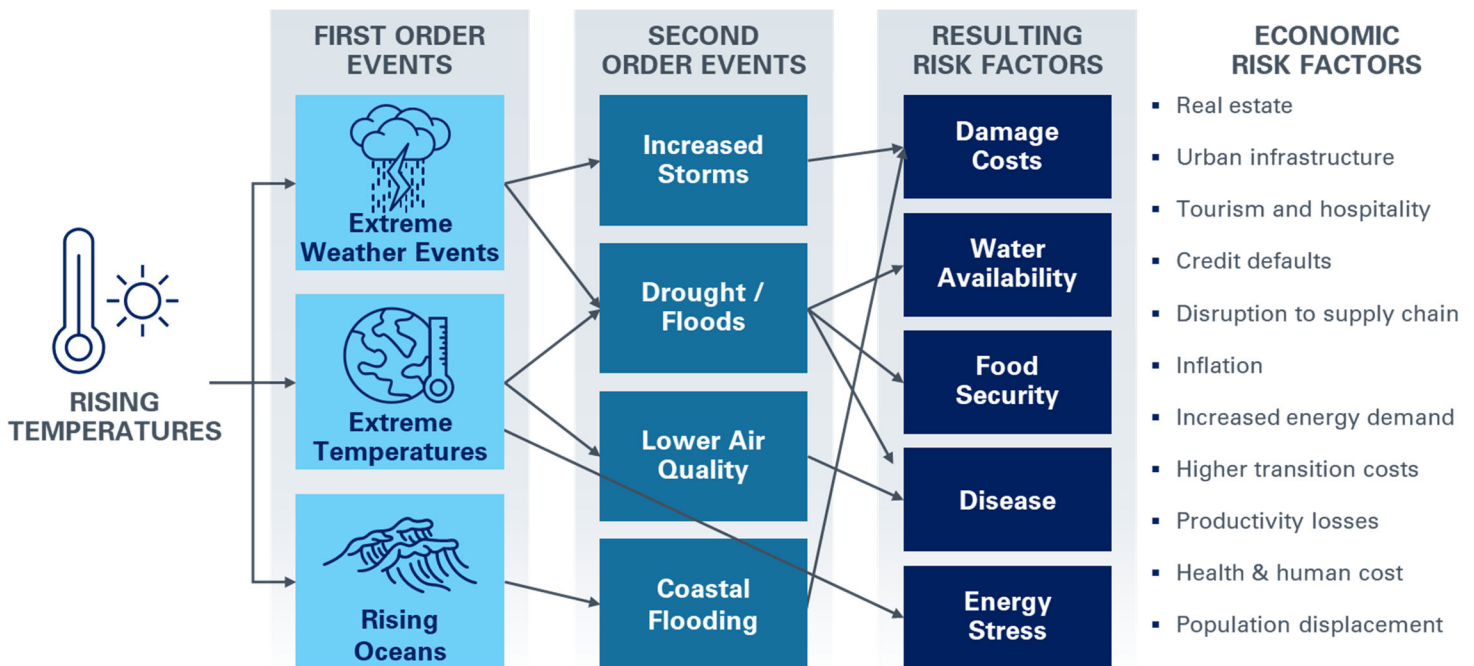
Over the last decade, investors have increased their understanding of climate related risks and have considered those risks in various ways for portfolio construction. This section will provide a brief overview of those risks, the potential investment implications, and how institutional investors are considering those implications through portfolio mandates. We will also highlight some of the state legislative trends.

Risks

As investors strive to understand the investment implications associated with climate change, it is important to begin with an understanding of *risk factors* and potential government *policy reactions* to those risks. These combine to influence the eventual investment implications.

Climate change risk factors categorize systematic exposures to long-term impacts of climate change. Vulnerability to these risk factors and each economy's ability to adapt will ultimately determine the winners and losers across geographies and industries.

Working through first and second order effects, the economic risk factors of climate change can then inform asset class views for each government policy path.

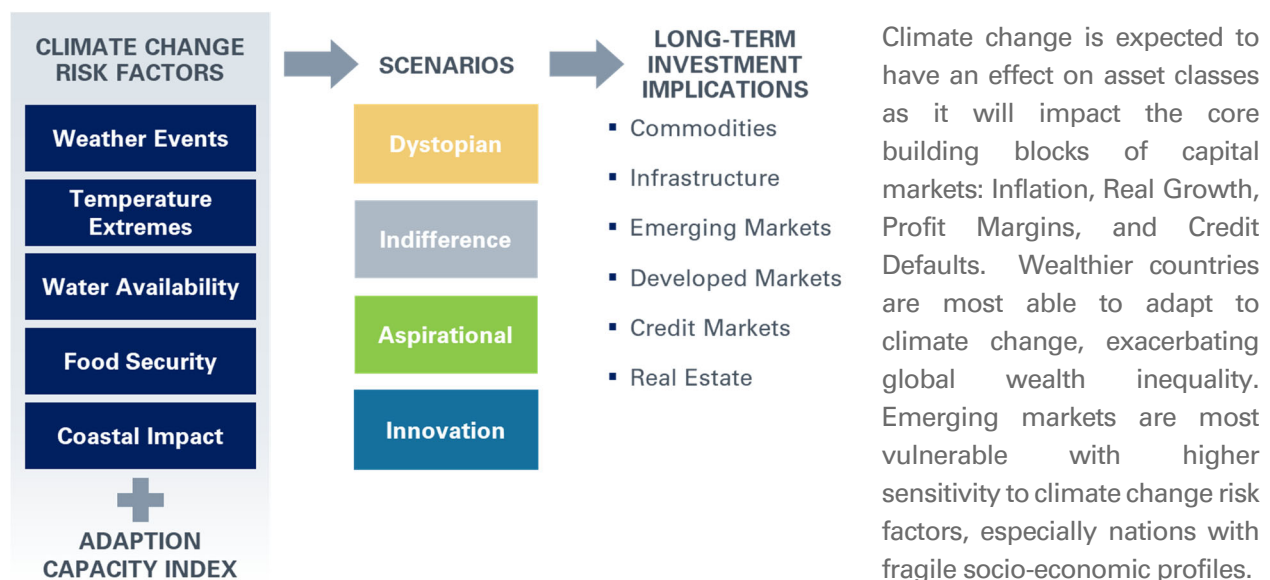


Countries may have the ability to mitigate or offset exposures to certain risk factors by taking some type of action in response to climate change. Ultimately, it depends on readiness in regard to economics (mobility of private capital), governance (stability of society and institutional arrangements), and social conditions (that help society make efficient and equitable use of capital).

We view potential policy scenarios under the following framework:

- **Dystopian:** Industrialized nations reverse current policies in place to mitigate greenhouse gas emissions. Potential global temperature change of 5°C or greater
- **Indifference:** Current mitigation policies in place continue with potential global temperature change of 3°C to 3.5°C
- **Aspirational:** Current pledges of industrialized nations are implemented along with current policies (e.g., Paris Accord) with potential global temperature change of 3°C or less
- **Innovation:** Revolutionary technological change reduces greenhouse gas emissions to 20th century levels. Potential global temperature change of 2°C or less

Investors can turn to investment implications by engaging this type of climate risk model – beginning with economic risk factors, overlaying scenario work on potential policies, leading to varied outcomes depending on the asset class.



Climate change transition costs are likely to pressure profit margins across industries with physical costs of climate change having a potentially inflationary effect. Credit markets may be most exposed with higher defaults associated with climate events and large disruptions to business models. The capital market risks of climate change can be seen today but it is still to be determined when the market may fully discount the range of outcomes associated with climate change costs.

Investor Response

As investors grapple with how to evaluate exposure to climate risks and consider portfolio implications, multiple approaches are typically discussed. The four most reviewed include negative screening, ESG integration, thematic investing, and engagement. A description of each of these approaches follows, with a note about the adoption of each by pension plans.

Approach 1: Cancel

Strategy: Negative Screening

Description: Avoid companies, products, or industries that you don't support. This strategy has been around for decades because it's a straightforward approach.

Example: Historically, lots of people have sought to avoid ‘sin stocks’ like guns, liquor, or tobacco. More recently, many investors with a particular concern about climate change have sought to divest from companies that produce or are dependent on fossil fuels, as opposed to renewable energy sources.

Suitable for: Negative-screening portfolios place blunt limits on portfolio managers and are not necessarily designed to find the best long-term investments. For that reason, negative-screening strategies are best used by organizations with strong missions or specific philanthropic goals, such as religious institutions. Screening can be challenging to implement as it is often accompanied by higher investment management fees and a more restricted universe of options. At times, sector exclusion may pose a challenge from a fiduciary standpoint.

Approach 2: Consider

Strategy: ESG Integration

Description: ESG integration looks at a firm’s environmental, social and governance data to glean intelligence on its long-term viability and value. In addition to portfolio managers assessing each company on the basis of its financial fundamentals, they also consider material information about its environmental impacts, stakeholder relationships, and governance record. Investments that are strong on these counts are viewed as quality investments that are less likely to be derailed by unforeseen risks.

Example: The implosion of Equifax in 2017, when a data breach exposed the personal information of 145.5 million Americans and wreaked havoc on its reputation and its stock price. Monitoring the firm’s ESG data could have helped in forming a clearer picture of the true risks of investing in Equifax.

Suitable for: This strategy has the broadest appeal for most investors because it builds on traditional analysis, rather than trying to replace or constrain it. A well-developed ESG rating system allows investors to benefit from a firm’s financial gains while being aware of risks that might not show up on a balance sheet. It also gives investors an opportunity to get an early look at firms that are exploring—and potentially utilizing—impact-related opportunities.

Approach 3: Sharpen your focus

Strategy: Thematic Investing

Description: A specialized approach that prioritizes specific impact issues, such as expanding the use of renewable energy, improving access to healthcare, or addressing racial equity. Unlike negative screening, these strategies tend to take a more constructive approach, actively investing in firms that have solutions to offer while also achieving financial goals.

Example: As environmental concerns have become more severe, investment managers are responding by presenting public and private investments that target companies offering sustainable solutions. We have seen a variety of themes here, ranging from agriculture technology, energy efficiency, water and waste management, to food security and access. Investors also are increasingly focused on DEI, that is, diversity, equity, and inclusion, and are taking steps to view and assess their portfolio through this lens.



Suitable for: The idea with thematic investing is to be proactive with your capital. The approach is a good fit for investors with a specific interest, especially those who prefer to focus on investing in companies offering solutions rather than avoiding firms deemed problematic.

Approach 4: Progress by proxy

Strategy: Engagement

Description: Invest in the firms you like but take an active approach to discussing ESG and impact issues with company management, and/or utilize proxy votes to focus the company’s attention on matters of concern. This strategy tends to work best when investors join forces in voting blocs or other organized campaigns to communicate with the company.

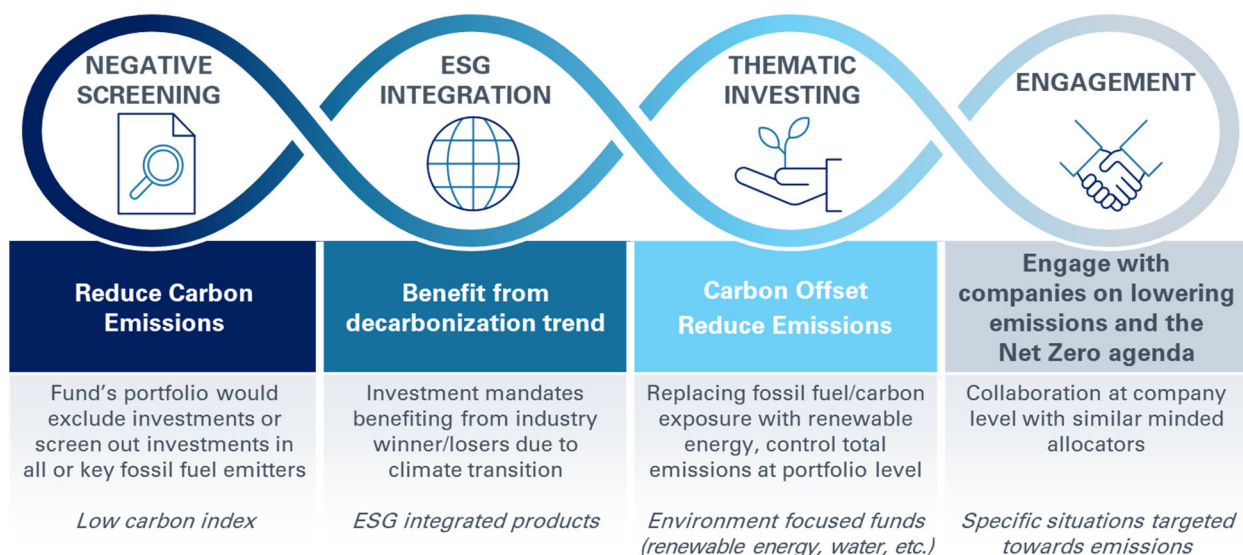
Example: Shareholder initiatives by large institutional investors, like New York City’s pension fund, which has pressured major companies to release workforce data on race and gender or face a shareholder vote.

Suitable for: Engagement demands time and organization, so the strategy is best employed by professionals with the time and resources to build alliances and see the strategy through.

These approaches are not mutually exclusive, and investors often explore multiple options depending on their goals and objectives. When pension plans are considered specifically, the following trends emerge:

- Negative screening: Some plans explore this option for low-carbon or fossil fuel free mandates. Sector exclusion may pose a challenge from a fiduciary standpoint.
- ESG Integration: An ongoing area of focus.
- Thematic investing: An increasing area of focus as some pensions explore emission targets and diversity mandates.
- Engagement: Pension plans dominate this segment. Most engagement efforts are geared towards emissions, equity, and governance issues.

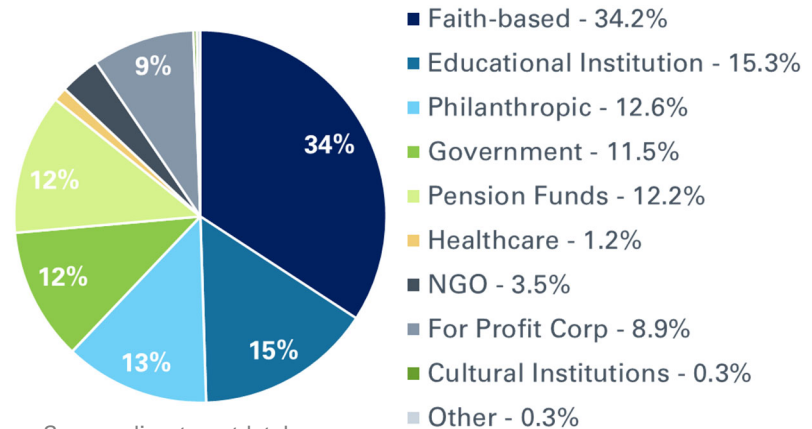
Taking these four approaches and applying them specifically to climate may result in the following types of portfolio mandates.



Prior to selecting an approach, investors may benefit from undergoing a process to determine portfolio exposures that may be most impacted by climate risks. Depending on the investor type, a process to reduce or eliminate (divest) exposure may follow. In NEPC’s 2017 paper “Fossil Fuel Divestment: Considerations for Institutional Portfolios” we described the many considerations that investors should evaluate when evaluating a divestment approach, including, but not limited to the impact on asset allocation, volatility, returns and costs.

Divestment Trends

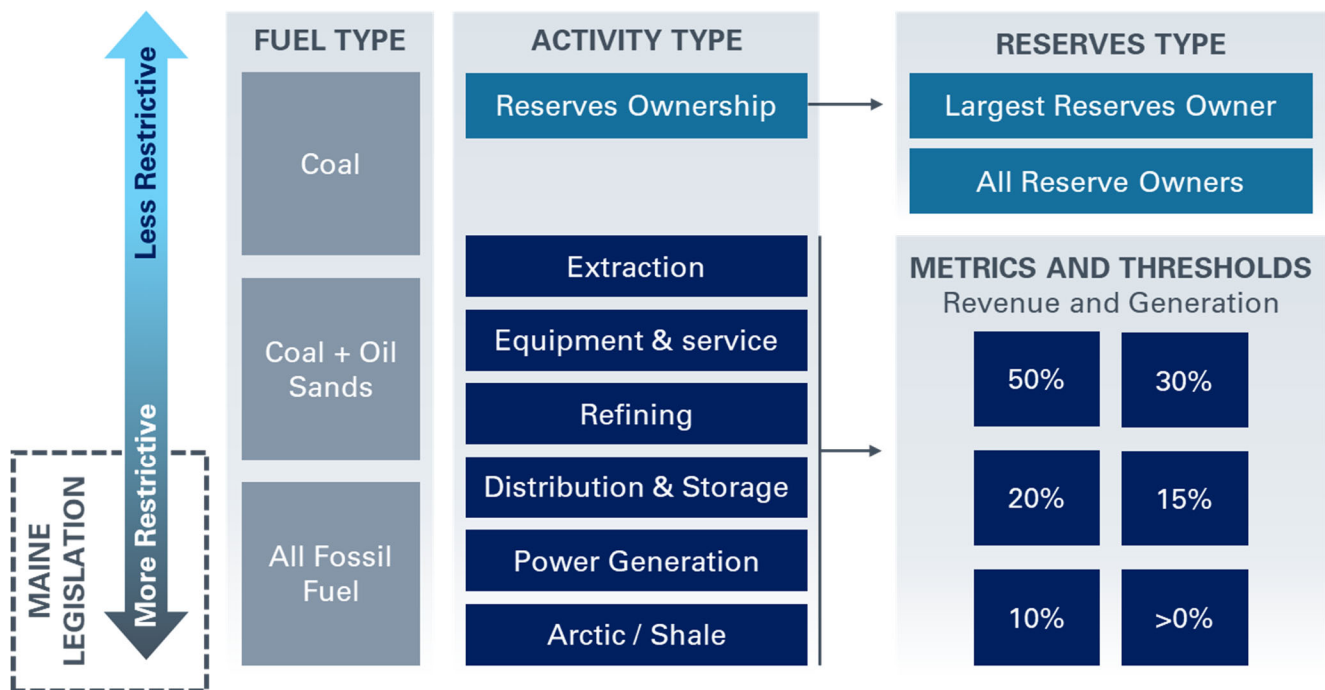
Nearly 1,500 institutions with approximately \$40.56 trillion in assets are considering a spectrum of divestment approaches. Implementation varies widely – on scope, flexibility, and timeline. As seen to the right, the majority of these institutions are mission related (faith-based, education, philanthropic, etc.) and may not be subject to the same regulations as pension plans. Relating this back to the possible negative outcomes of a divestment approach on portfolio returns, in the case of public pension funds the government (and ultimately taxpayers) are generally the backstop if returns aren’t met, which is an important distinction between public pensions and the other institutions in the chart above.



Source: divestmentdatabase.org

Relating this back to the possible negative outcomes of a divestment approach on portfolio returns, in the case of public pension funds the government (and ultimately taxpayers) are generally the backstop if returns aren’t met, which is an important distinction between public pensions and the other institutions in the chart above.

If a determination is made to divest, in this case from fossil fuels, there are still several decisions to make. The below graphic highlights some of these points, including what types of fuels, what type of activity, reserves, and if thresholds will be utilized based on revenue and/or generation.



Source: MSCI



Even after the above points are evaluated, there is a spectrum of divestment commitments among investors which range from less to more restrictive. These implementation approaches may be based on industry membership or only following a security-by-security review on fundamental investment characteristics, often through the lens of a long-term business plan or potential to adapt to the energy transition.

As indicated, many commitments may be partial – such as focusing on the largest fossil fuel companies by reserve, or focusing on a specific asset class. As investors evaluate their portfolios for exposure, we may see commitments become more comprehensive. Importantly, an announcement by an investor does not indicate divestment action is complete. In practice, announcements are usually followed by significant evaluation and discussion about implementation plans.



Source: divestmentdatabase.org

Importantly, investors rely on flexibility in their divestment statements to accommodate implementation challenges. Areas that require specificity for implementation:

- Define fossil fuels intended for divestment
- Set a time horizon – a longer time horizon leaves room for incremental change rather than forced selling
- Address asset class differences – ability to adopt within an asset class, availability of investment strategies to help achieve goals, the impact that asset classes have on total portfolio construction, etc.
- Scope of divestment within portfolio – active vs. passive, direct vs. indirect holdings, cost effectiveness of implementation in current market



- Determine if engagement will have a role (or not)

A thorough review of the above items would address operational complexity for the investor and anticipated costs. Maximum flexibility assumes no legislation is forcing a specific approach. While many divestment announcements have been made over the last several years, the legislation outcomes are mixed.

For a summary of legislation being explored or implemented by states, Ropes & Gray has periodically published a survey of “State Regulation of ESG Investment Decision-Making by Public Retirement Plans”. For this report, the August 2022 update was reviewed, specifically looking at “Actions Promoting Divestment from Fossil Fuel and/or Firearms/Ammunition Companies”. We found the following:

Topic	Number
States with initiatives	12
Legislative announcements only	3
Initiatives currently referred to committee	8
Initiatives currently in committee	1
Initiatives that died in committee	3
Initiatives currently in effect	2

Notably, only two states have legislation currently in effect – Connecticut and Maine. Connecticut has a Responsible Gun Policy, which applies to Connecticut Retirement Plans and Trust Funds. Maine stands alone as the only state with enacted fossil fuel divestment legislation. This will be important to keep in mind whenever comparisons are made to peers.

SECTION B: IDENTIFY AND QUANTIFY THE SYSTEM'S PORTFOLIO HOLDINGS SUBJECT TO DIVESTMENT

This section of the report will outline the process conducted to identify and quantify the System's portfolio holdings subject to divestment, across both public and private markets.

Divestment Legislation

The Maine divestment legislation covers fossil fuels and for-profit prison exposures. The law defines fossil fuels as coal, petroleum, natural gas or any derivative of coal, petroleum or natural gas that is used for fuel:

1. Is among the 200 publicly traded companies with the largest fossil fuel reserves in the world;
2. Is among the 30 largest public company owners in the world of coal-fired power plants;
3. Has as its core business the construction or operation of fossil fuel infrastructure [oil or gas wells, oil or gas pipelines and refineries; oil, coal or gas-fired power plants; oil and gas storage tanks; fossil fuel export terminals; and any other infrastructure used exclusively for fossil fuels];
4. Has as its core business the exploration, extraction, refining, processing or distribution of fossil fuels; or
5. Receives more than 50% of its gross revenue from companies that meet the definition under (1), (2), (3) or (4).

"Fossil fuel infrastructure" means oil or gas wells, oil or gas pipelines and refineries; oil, coal or gas-fired power plants; oil and gas storage tanks; fossil fuel export terminals; and any other infrastructure used exclusively for fossil fuels.

As noted in the legislation, a final report to the joint standing committee regarding the completion of divestment is due on January 1, 2026.

Process to Identify Current Holdings – as of June 30, 2022

NEPC worked in partnership with MSCI to produce a comprehensive analysis of the MainePERS public market holdings. MSCI created a customized screen to map the Maine legislation into their proprietary ESG Manager portal. All public market holdings were uploaded to the MSCI ESG Manager portal to run through the custom screen. This is a repeatable process for the future, but does come at a cost for access to the MSCI ESG Manager portal. Note that this tool is only useful for the public market, not the private market, holdings.

MainePERS Staff provided information regarding private market portfolio holdings that are subject to divestment. The Staff assessment of holdings was based on fossil fuel Global Industry Classification Standard (GICS) codes.

The fossil fuel and private prison (FF/PP) exposure across the total fund is summarized below. As shown (refer appendix for additional details), the total exposure across the fund is 7.63% (or \$1,375.5 million) with the majority in the Private Markets allocation.



Asset	Estimated FF/PP [\$M]	Weighted Exposure
Public Markets	\$445.5	2.47%
Private Markets	\$930.0	5.16%
Total	\$1,375.5	7.63%

It should be noted that Fossil fuel-related investments represent the vast majority of exposure in the total fund. Private prison exposure accounts for 0.0009% or \$0.2M of total Fund market value, so we will primarily focus on Fossil fuel related exposure throughout this report.

Public Markets Divestment Exposure

As shown in the table below, the divestment exposure of 2.47% in Public Markets is spread across US Equity, International Equity and Traditional Credit. The total market value is \$445.5 million. The majority of the public market divestment exposure is concentrated in the public equity allocation.

Asset	Policy Target (A)	Portfolio Weight (B)	Estimated FF/PP [% of (B)]	Estimated FF/PP [\$M]	Weighted Exposure	Source
Domestic Equity	18%	14.78%	7.73%	\$205.8	1.14%	MSCI ESG Manager
International Equity	12%	9.74%	11.32%	\$198.7	1.10%	MSCI ESG Manager
TOTAL PUBLIC EQUITY	30%	24.5%		\$404.5	2.24%	
Traditional Credit	5%	5.71%	3.98%	\$41.0	0.23%	MSCI ESG Manager
US Govt. securities	10%	7.68%	No exposure	\$0	0%	Staff
Risk Diversifiers	7.5%	7.17%	No exposure	\$0	0%	Staff
TOTAL PUBLIC MARKETS	52.5%	45.1%		\$445.5	2.47%	

Diving deeper into the Public Markets, the table below details the dollar amount and the number of holdings within each Asset of Public Markets. While the number of holdings is highest in Traditional Credit, the dollar amount is small. The table also notes where the limited amount of Private Prison exposure is held, within the Russell 2000 allocation.



Asset Exposure	Portfolio Allocation (\$M)	Total Number of Holdings	Number of Holdings Tagged for Divestment	Fossil Fuel Exposure (\$M)	Private Prison Exposure (\$M)	Source
Russell 1000	\$2,491.4	1,033	69	\$192.6	\$0.0	MSCI ESG Manager
Russell 2000	\$171.5	1,978	97	\$13.1	\$0.2	MSCI ESG Manager
ACWI ex US	\$1,755.2	2,371	218	\$198.7	\$0.0	MSCI ESG Manager
Traditional Credit	\$1,029.3	14,355	913	\$41.0	\$0.0	MSCI ESG Manager
TOTAL				\$445.4	\$0.2	

Going one step further into specific holdings, the top 3 holdings across the Public Markets (along with their dollar exposure) are noted below. Exxon Mobil shows up in both the Russell 1000 and Traditional Credit as a top holding. We have included a full listing of exposures in the Appendix of this report, and noted which aspect of the Maine legislation caused each holding to be tagged.

Russell 1000	Russell 2000	ACWI ex US	Traditional Credit
1. Berkshire Hathaway Inc. (\$32.6M)	1. Murphy USA Inc. (\$0.4M)	1. Shell PLC (\$15.6M)	1. Energy Transfer LP (\$2.0M)
2. Exxon Mobil Corporation (\$23.9M)	2. Matador Resources Company (\$0.4M)	2. BHP Group Limited (\$11.4M)	2. Exxon Mobil Corporation (\$2.0M)
3. Chevron Corporation (\$18.8M)	3. Black Hills Corporation (\$0.4M)	3. Total Energies SE (\$10.3M)	3. Enterprise Products Operating LLC (\$1.7M)



Private Markets Divestment Exposure

As shown in the table below, the divestment exposure of 5.16% in Private Markets is spread across Infrastructure, Private Equity, Private Credit and Natural Resources. The total market value is \$930.0 million. The majority of the private market divestment exposure is concentrated in the infrastructure allocation.

Asset	Policy Target (A)	Portfolio Weight (B)	Estimated FF/PP [% of (B)]	Estimated FF/PP [\$M]	Weighted Exposure	Source
Infrastructure	10%	11.20%	34.86%	\$703.2	3.90%	Staff
Private Equity	12.5%	21.05%	5.20%	\$197.3	1.09%	Staff
Private Credit	10%	6.77%	1.83%	\$22.3	0.12%	Staff
Natural Resources	5%	5.01%	0.80%	\$7.2	0.04%	Staff
Real Estate	10%	10.46%	No exposure	\$0	0%	Staff
TOTAL PRIVATE MARKETS	47.5%	54.5%		\$930.0	5.16%	

Diving deeper into the Private Markets, the table below details the dollar amount and the number of funds within each segment of Private Markets. Out of 302 Private Market funds that MainePERS owns, 58 funds have fossil fuel exposure, three of which are co-investments. For further reference, these 58 funds include 25 funds in infrastructure (including two co-investments), 22 funds in private equity (including one co-investment), 8 in private credit, and 3 in natural resources. The number of holdings and market value are the highest in infrastructure.

Asset Exposure	Portfolio Allocation (\$M)	Total Number of Funds	Number of Funds Tagged for Divestment	Fossil Fuel Exposure (\$M)	Weighted Exposure	NAV of Funds with FF Exposure (\$M)
Infrastructure	\$2,017.3	49	25	\$703.2	3.90%	\$1,355.4
Private Equity	\$3,793.5	149	22	\$197.3	1.09%	\$648.7
Private Credit	\$1,219.0	45	8	\$22.3	0.12%	\$455.7
Natural Resources	\$902.9	16	3	\$7.2	0.04%	\$26.7
Real Estate	\$1,884.6	43	0	\$0	0%	\$0
TOTAL PRIVATE MARKETS	\$9,817.3	302	58	\$930.0	5.16%	\$2,486.5

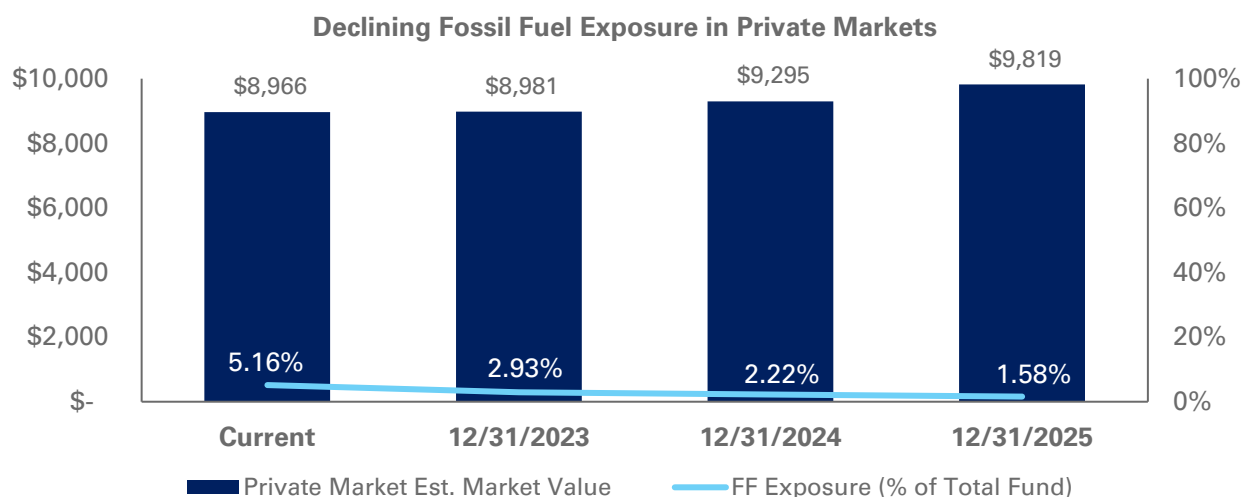


Since existing private market fossil fuel exposures are held in fixed-life funds, an additional evaluation was run to estimate how these holdings may change through the end of 2025 (keeping in mind that the legislation calls for the completion of divestment to occur by January 1, 2026). NEPC used our internal forecasts to estimate how each fund would wind down over the next three years. Several assumptions were included in this forecast:

- MainePERS continues to make commitments to private market investment opportunities at the 47.5% target
- No new commitments are made to fossil fuel strategies
- Forecasts based on fund lifecycle and a natural wind down of existing investments
- Forecasts apply only to current holdings, and not any subsequent commitments
- No transaction costs are associated with this decline in fossil fuel exposure

The following table and chart summarize the estimated decline of divestment exposure within Private Markets over the next three years. As shown, our forecasts indicate that the number of funds will decrease from 58 to 48, and the market value exposure will drop significantly from \$930.0 million to \$327.2 million.

	Projected # of Funds with Exposure	Projected FF Exposure (\$M)	Projected Total NAV of FF Funds (\$M)
Current	58	\$930.0	\$2,486.5
12/31/2023	52	\$560.9	\$1,929.2
12/31/2024	50	\$441.7	\$1,548.9
12/31/2025	48	\$327.2	\$1,166.2



The chart above demonstrates the impact that this decline in private market exposure will have on the total fossil fuel exposure, declining from 5.16% of the total fund to 1.58% of the total fund. While the above exercise can aid in understanding the anticipated shift in private markets, it is important to highlight that these are only estimates and results could differ significantly depending on market conditions and each manager’s results.



SECTION C: IDENTIFY AND QUANTIFY THE DIRECT INVESTMENT COSTS

In this section of the report, we will discuss the potential costs and considerations to divest completely from fossil fuels and private prisons across the public and private market allocations.

Public Market Exposure

Currently, 2.47% of the MainePERS total public market allocation is estimated to be from fossil fuels and private prisons. Most of this exposure is from fossil fuel investments within domestic equity, followed by international equity, and then the traditional credit allocation. The typical paths to implement divestment would include either exploring fossil-free products and/or customizing a Separately Managed Account (SMA). While off-the-shelf fossil fuel free products exist in the market today, they may not meet the divestment criteria defined within the State of Maine’s legislation nor would they exclude private prisons from the investment mandate. As such, for implementing divestment within its public market allocation, MainePERS will need to consider Separately Managed Accounts (SMAs). SMAs have additional costs and considerations that need to be evaluated such as:

- On average, SMA’s incur higher management fees, higher trading costs, legal paperwork, creating custodian accounts, proxy voting expenses, and an increase in time/resource commitment from the staff.
- The predicted tracking error for an SMA account tends to be higher relative to its comparable index fund. A fund manager can optimize the portfolio to reduce the tracking error however, the exclusion of sectors or investments from a portfolio limits the diversification benefit as well as the ability to replicate an index holding.
- Other considerations such as retaining other ad-hoc services and licensing expenses such as an updated list of securities/screens to provide to the SMA manager, on-going reporting on exposures and monitoring for compliance.

The table below summarizes the estimations for cost increases for using SMAs and the associated considerations for implementation.

Consideration for SMAs	
US Equity	<ul style="list-style-type: none"> ▪ Increase in management fees on average could range 1-2 bps higher ▪ Own custody account and expect increased transaction costs ▪ Relatively easy to set up and implement an SMA
International Equity (ACWI)	<ul style="list-style-type: none"> ▪ Increase in management fees on average of 2-3 bps higher than US Equity ▪ Challenging to set up and implement efficiently as MainePERS will need to set up individual custody accounts in each of the underlying countries. This may take an estimated 6-12 months to open all custody accounts. In addition, there will be licensing requirements to invest directly in some emerging market countries ▪ Potentially higher tracking error
Traditional Credit	<ul style="list-style-type: none"> ▪ Potentially higher trading costs for fixed income ▪ Relatively easy to set up and implement



Following is a summary of costs that will need to be considered when implementing an SMA vehicle:

- **Custody and Administrative Fees:** These fees generally cover custody, accounting, and audit fees and accrue in a fund on a daily basis. MainePERS would be directly responsible for negotiating and paying these fees in a SMA
- **Conversion Costs:** Moving developed non-US assets from a Fund to a SMA will incur operational costs. In addition, the Emerging Market exposure in a fund may need to be sold and comparable securities re-purchased in a SMA, thereby incurring additional transaction costs in the current market environment
- **Ongoing Annual Costs:** Management fees will be higher in a SMA over a Fund. Additionally, due to the inability to cross-trade, the ongoing trading costs will typically be higher
- **Predicted Tracking Error:** will be higher in a SMA over a comparable Fund due to lower AUM and screens
- **Securities Lending:** Typically, in a SMA the custodian will be the securities lending agent. MainePERS will need to assume responsibility for comparing relative lending yields
- **Other Administrative Considerations:** MainePERS will be directly responsible for account opening and maintenance with their custodian for all markets, including Emerging Markets (currently 49 in MSCI ACWI) for the SMA. This can be particularly challenging with Emerging Markets where account opening can be time intensive and local tax agents and licensing may be required

Private Market Exposure

Currently, 5.16% of MainePERS fossil fuel exposure is from the private market allocation. Since private market fossil fuel exposures are held in fixed-life funds, our analysis was focused on two options:

Option#1 was to estimate how these fossil fuel exposures are likely to change before the timeline laid out in the legislation (January 2026). This estimate is outlined in Section B.

Option#2 was to evaluate the potential discounts in valuation if the funds containing fossil exposures were sold in the secondary market. For clarification, secondary purchases involve one party (a secondaries manager) buying an existing limited partnership (LP) interest in one or more private markets funds from another party (such as MainePERS, for example). Many LPs have explored this avenue to access liquidity or to rebalance a portfolio or as a return seeking/risk management tool. Secondaries managers typically purchase these LP interests at a discount or premium based on their underwriting of fund holdings and market valuations. The secondaries market has grown rapidly over the past few years as more LPs and GPs explore ways to manage liquidity and access opportunities within private market investments.

For Option #2, NEPC contacted four established secondaries fund managers to obtain tentative valuation ranges for the private market portfolio. Initial feedback from these managers provided the following assessment:



	Infrastructure	Energy PE & Natural Resources	General PE	Private Credit and Special Situations
Fossil Fuel Exposure (\$M)	\$703.2	\$154.0	\$50.5	\$22.3
Pricing Range	70%-90%	40%-80%	70%-80%	60%-80%

Note: Feedback based on NAVs that were communicated as 3/31/2022 GP valuations cash adjusted through end of Q2 2022. Also, keep in mind that the above percentages estimated were percentages of these cash adjusted Q2 2022 NAV values – actual proceeds received in any sale would be further adjusted to reflect any capital calls or distributions that have occurred after 6/30/2022.

Based on the valuation estimates provided by these managers, on average, infrastructure funds held value relatively well as the underlying assets remain attractive in this market environment. This is important to note because most of the fossil fuel exposure within private markets is from the plan’s infrastructure investments. In contrast, Energy fund interest was low. For those few fund managers with dedicated Energy or Real Asset secondary funds, interest varied based on the quality of the assets with suggested valuation discounts ranging from 30% to 50+%. Finally, Private Equity (PE) funds in general are expected to be discounted in the range of 20%-30% of fund valuation. This is higher than usual due to the lag in PE valuations fully reflecting the current public market and economic outlook. If MainePERS decides to explore a secondary sale, it should be noted that the best practice would dictate retaining services of a third-party broker service for best execution (additional cost). In addition to these one-time costs, there will be other costs to consider such as the on-going monitoring for compliance with the legislation as well as the opportunity cost of significantly reducing the infrastructure allocation for the future.



SECTION D: IDENTIFY AND QUANTIFY THE DIRECT INVESTMENT IMPACT ON MAINEPERS PORTFOLIO

In this section of the report, we will discuss the impact on MainePERS portfolio return, risk, and asset exposures, from implementing divestment measures.

The overall impact on the portfolio from implementing screening involves three aspects: Reduced diversification benefit which will impact portfolio volatility, increased cost, reduced or lost investment opportunity in the future.

Public Market Portfolio

To understand the impact on the public market portfolio, NEPC conducted a (back-tested) hypothetical scenario analysis. In this analysis, two portfolios were compared - one (Benchmark Portfolio) consisting of the existing public equity allocation and the other (Divested Portfolio) consisting of the Benchmark Portfolio that was divested from fossil fuel and private prison investments as defined in the state's legislation. This hypothetical performance was prepared for NEPC by the investment firm Parametric at NEPC's request. This performance represents back-tested historical returns based on the exclusion of fossil fuels and private prisons (following Maine's legislative directive), with trailing periods calculated as of June 30, 2022.

The results indicate that the variability of returns (volatility), will be different than the index due to loss of diversification benefit from sector exclusion. Over the long term, the hypothetical Divested Portfolio delivers a marginally higher return with a slightly higher volatility. In the short term, the hypothetical Divested Portfolio experiences a higher drawdown and a higher associated volatility.

Performance	1- Year	3-Year	5-Year	10-Year	25-Year
Divested Portfolio*	-17.77%	7.03%	7.87%	10.48%	7.56%
Benchmark**	-15.74%	6.91%	7.75%	9.80%	7.49%
Relative Performance	-2.03%	0.13%	0.12%	0.67%	0.07%
Standard Dev.	1- Year	3-Year	5-Year	10-Year	25-Year
Divested Portfolio*	15.53%	18.05%	16.32%	13.44%	16.14%
Benchmark**	15.37%	18.20%	16.37%	13.46%	15.93%
Relative Vol.	0.16%	-0.15%	-0.05%	-0.02%	0.21%
Tracking Error	1.46%	1.21%	1.03%	1.00%	1.23%

*Divested Portfolio - Benchmark based hypothetical back-tested portfolio with exclusion screens applied and proceeds re-invested. ** Benchmark: 56.4% Russell 1000 / 3.9% Russell 2000 / 39.7% MSCI ACWI ex US without any screens.



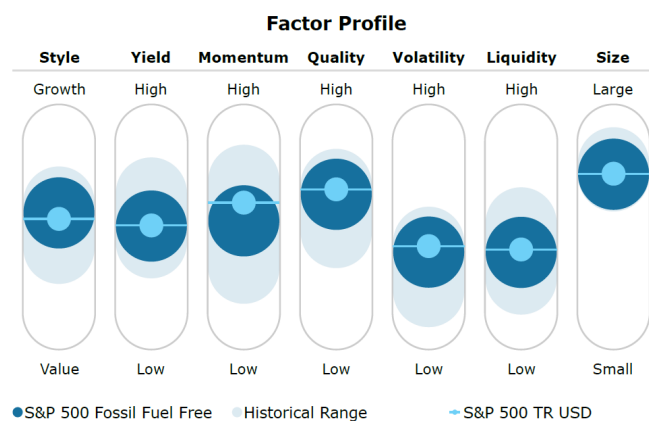
The primary reason for this increase in variability of returns is that the composition of the portfolio changes as sectors are excluded from the investment mandate. Contribution to return varies by sector from year to year as seen in the exhibit below. An increase in portfolio concentration in certain sectors will change the return-risk profile for the portfolio going forward.

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022**
Consumer Discretionary 42.72	Utilities 28.59	Consumer Discretionary 9.94	Energy 28.01	Technology 34.28	Health Care 6.29	Technology 49.97	Technology 43.57	Energy 53.02	Energy 33.87
Health Care 41.24	Health Care 25.18	Health Care 6.86	Financials 22.69	Materials 23.94	Utilities 4.03	Financials 31.90	Consumer Discretionary 29.58	Real Estate 45.97	Utilities -6.58
Industrials 40.44	Technology 17.75	Consumer Staples 6.83	Industrials 19.95	Industrials 23.84	Consumer Discretionary 1.85	S&P 500 31.49	Communication Services 26.82	Financials 34.77	Consumer Staples -11.89
Financials 35.37	Consumer Staples 15.86	Technology 5.63	Materials 16.66	Consumer Discretionary 22.77	Technology -1.57	Communication Services 31.23	Materials 20.34	Technology 34.53	Healthcare -13.12
S&P 500 32.39	Financials 15.03	S&P 500 1.38	Utilities 16.00	Financials 22.04	Real Estate -2.27	Industrials 29.12	S&P 500 18.40	NYSE Equal Sector Weight 29.46	NYSE Equal Sector Weight -18.20
NYSE Equal Sector Weight 30.81	S&P 500 13.69	NYSE Equal Sector Weight -1.37	Technology 14.82	S&P 500 21.83	S&P 500 -4.38	Real Estate 28.84	Healthcare 13.27	S&P 500 26.71	Industrials -20.76
Consumer Staples 26.27	NYSE Equal Sector Weight 13.41	Financials -1.60	NYSE Equal Sector Weight 14.31	Health Care 21.70	NYSE Equal Sector Weight -6.74	Consumer Discretionary 28.42	NYSE Equal Sector Weight 11.29	Consumer Discretionary 27.83	Financials -21.24
Energy 26.16	Industrials 10.45	Industrials -4.25	S&P 500 11.96	NYSE Equal Sector Weight 13.27	Consumer Staples -8.00	NYSE Equal Sector Weight 23.21	Industrials 10.83	Materials 27.43	Materials -23.77
Technology 25.97	Consumer Discretionary 9.49	Utilities -4.86	Consumer Discretionary 5.88	Consumer Staples 12.92	Financials -13.09	Consumer Staples 27.45	Consumer Staples 10.13	Healthcare 25.92	S&P 500 -23.87
Materials 25.83	Materials 7.31	Materials -8.59	Consumer Staples 5.00	Utilities 12.02	Industrials -13.10	Utilities 26.08	Utilities 0.35	Industrials 20.93	Real Estate -28.90
Utilities 13.00	Energy -8.60	Energy -21.46	Real Estate 3.19	Real Estate 10.70	Materials -14.78	Materials 24.18	Financials -1.83	Utilities 17.58	Consumer Discretionary -29.88
			Health Care -2.83	Energy -1.06	Communication Services** -16.98	Health Care 20.65	Real Estate -2.27	Consumer Staples 17.10	Technology -31.23
					Energy -18.15	Energy 11.85	Energy -32.81	Communication Services 15.89	Communication Services -37.92

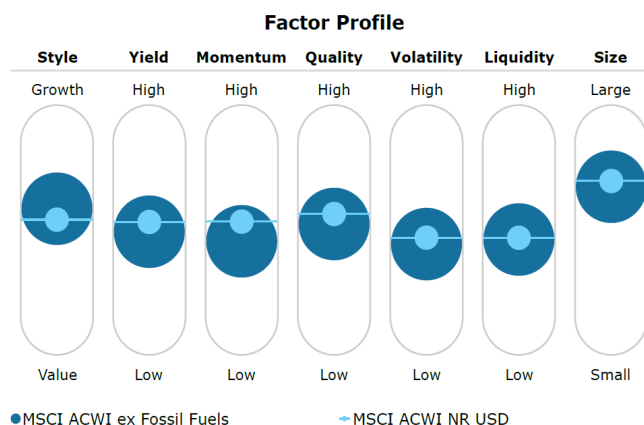
Source: Bloomberg. Data shown in percentages. 2022 data as of September 30, 2022.

In addition, the Divested portfolio may also exhibit variability with respect to a variety of measures, such as Value/Growth tilt, dividend yield, and other such valuation metrics. For example, when we compare an ex-fossil fuel index with a broad index we find the following difference in characteristics, indicating a growth tilt to ex-fossil fuel index.

	S&P 500 ex Fossil Fuel	S&P 500
P/E	18.42	17.98
P/B	3.41	3.38
Dividend Yield	1.89%	1.98%
Standard Deviation	18.02	18.07
Sharpe Ratio	0.52	0.51
# of Holdings	489	503



	MSCI ACWI ex Fossil Fuel	MSCI ACWI
P/E	15.42	14.51
P/B	2.36	2.27
Dividend Yield	2.66%	2.84%
Standard Deviation	17.07	17.15
Sharpe Ratio	0.27	0.27
# of Holdings	2,750	2,899



Source: Morningstar, eVestment and/or Strategy materials. Past performance is no guarantee of future results. As of 9/30/2022.

Private Market Portfolio

To understand the impact of divestment on the private market portfolio, NEPC used the discount estimates provided by the four secondaries investment managers to arrive at the estimated average dollar loss from discount. The table below provides the break-down of the estimated dollar value of discount across private market holdings. It should be noted that, in private funds, to implement divestment completely, the entire interest in the fund containing fossil exposure would need to be sold or wound down. As such, for Maine to divest the full \$930 million fossil fuel exposure through secondaries transactions, it would require selling off the entire \$2,486.5 million of NAV (full fund value). The approximate loss from the discount from such transactions would be around \$565 million, which is subject to change at the time of actual execution.

	Infrastructure	Energy PE & Natural Resources	General PE	Private Credit and Special Situations	Total (\$M)
Fossil Fuel Exposure (\$M)	\$703.2	\$154.0	\$50.5	\$22.3	\$930.0
Fund NAV (\$M)	\$1,355.4	\$154.8	\$520.6	\$455.7	\$2,486.5
Average Discount	~19%	~39%	~23%	~29%	Average: ~28%
Estimated Discount* (\$M)	\$254.1	\$60.0	\$120.4	\$131.0	\$565.5

*Estimated Discount was calculated using the middle of each offered range where applicable

NEPC also conducted an asset allocation analysis to understand the impact on the expected portfolio risk and return if MainePERS excluded infrastructure assets from its portfolio. We limited this analysis to just infrastructure because it is the largest contributor to fossil fuel exposure within the portfolio. In the table below, we show three portfolio mixes – one with the Policy mix, second with the portfolio ex-infrastructure and the third being a risk-adjusted ex-infrastructure portfolio. For clarification, MainePERS ex-infrastructure represents a proportional re-allocation of the infrastructure allocation across the remaining private market asset classes. And MainePERS ex-infrastructure (risk adjusted) assumes a consistent private market allocation based on the ex-infrastructure mix and adjusts the public equity and fixed income allocations to bring volatility in-line with the Policy portfolio.

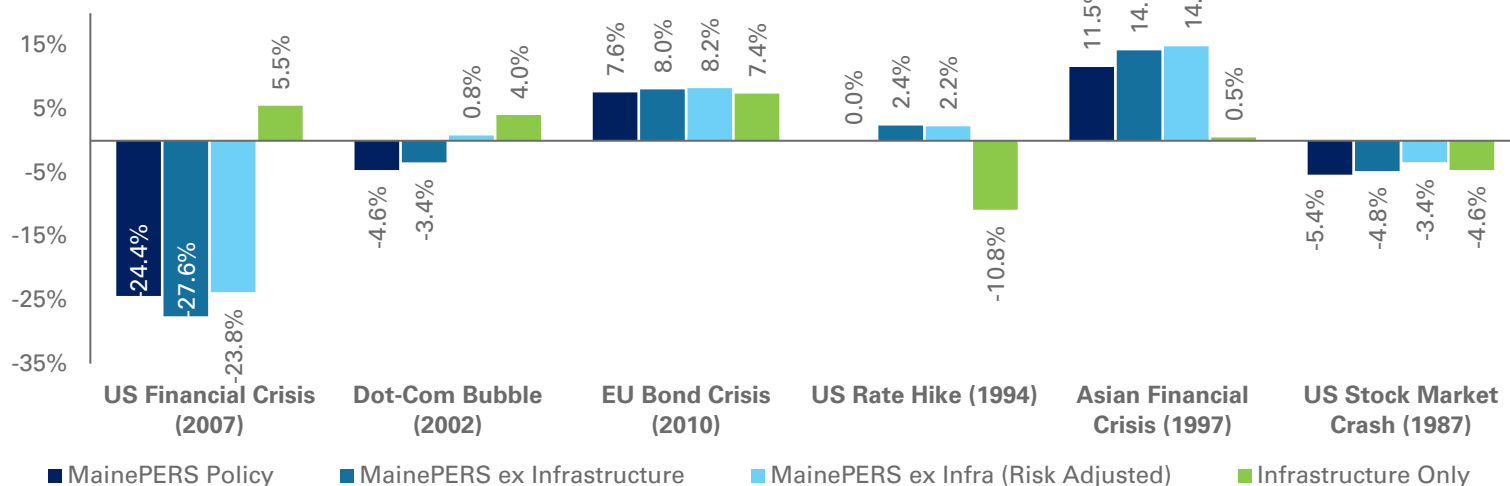


The table below highlights the three portfolio mixes and the difference in allocations across various asset classes and the ultimate impact on the return, risk, and Sharpe ratio (excess return per unit of risk). We also show the results of a stress test that demonstrates the hypothetical impact on these three portfolios during periods of historical market crisis. The results indicate an increase in return variability, which when controlled in the risk-adjusted portfolio may have an impact on future returns due to a reduction in the equity allocation.

Asset Group	MainePERS Policy	MainePERS ex Infrastructure	MainePERS ex Infrastructure (Risk Adjusted)
Global Equity	30.0	30.0	24.0
Private Equity	12.5	15.8	15.8
Equity	42.5	45.8	39.8
IG Credit	5.0	5.0	7.0
US Gov	10.0	10.0	14.0
Private Credit	10.0	12.7	12.7
Fixed Income	25.0	27.7	33.7
Real Estate	10.0	12.7	12.7
Infrastructure	10.0		
Natural Resources	5.0	6.3	6.3
Real Assets	25.0	19.0	19.0
Risk Diversifiers	7.5	7.5	7.5
Multi-Asset	7.5	7.5	7.5

Measure	MainePERS Policy	MainePERS ex Infrastructure	MainePERS ex Infrastructure (Risk Adjusted)
Expected Return 10 Yr (Geometric)	7.4%	7.7%	7.5%
Standard Deviation (Asset)	13.5%	14.5%	13.5%
Sharpe Ratio (10 Years)	0.34	0.33	0.35

Stress Test - Hypothetical Cumulative Return

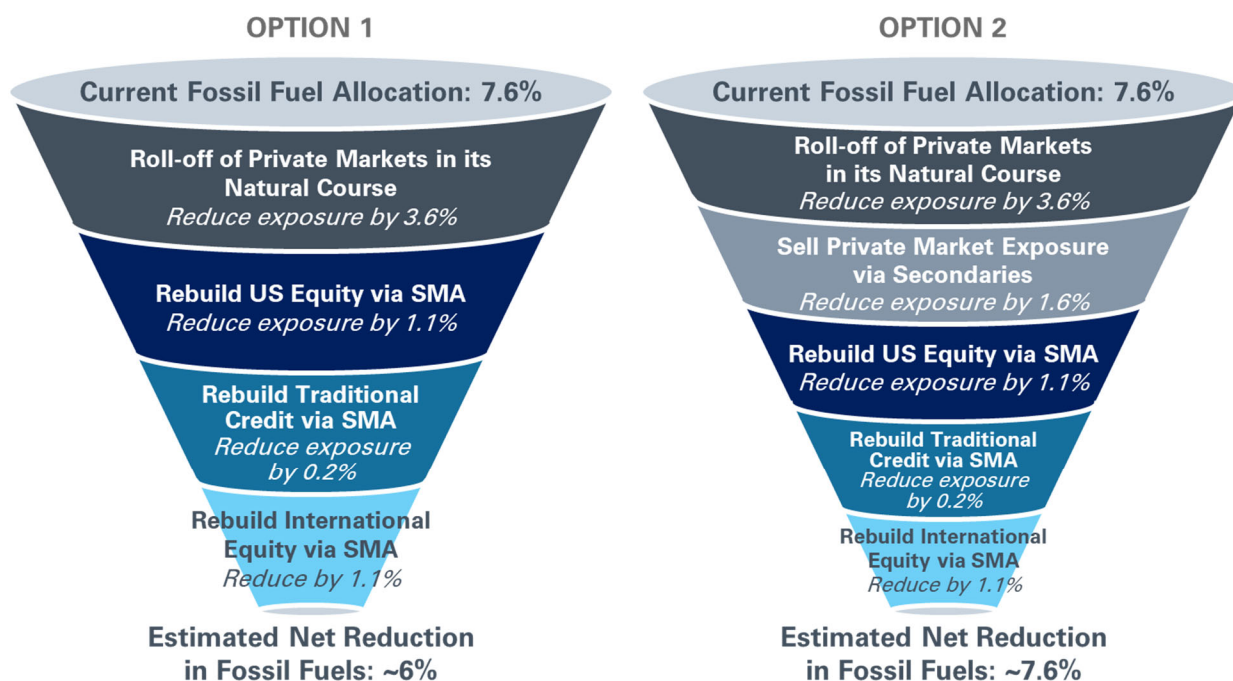


SUMMARY

In summary, MainePERS currently has 7.6% in holdings that fall within the scope of the new legislation (refer to Appendix for more details). Two options that can decrease this exposure, in order of ease of implementation, are the following:

- Option 1: Do nothing with the public market allocations, allow the existing private markets to roll-off and make no new commitments to private markets that fall under the legislation. This should, over the next three years, reduce the exposure by 3.6%.
- Option 2: Do nothing with the public market allocations, allow the existing private markets to roll-off and make no new commitments to private markets that fall under the legislation (that is, follow Option 1 to reduce by 3.6%). Then, following the roll-off in three years, explore a secondaries sale of remaining Private Markets holdings to reduce the exposure by the outstanding 1.6%. While this approach provides a faster way to reduce the additional exposure from private markets, its implementation may result in a loss (valuation discount).
- Additional actions that can be taken, alongside each option above:
 - Restructure US Equity with specific screening through a separately managed account. This will bring down the fossil fuel exposure by 1.1%. This will involve some operational complexity and cost considerations.
 - Restructure Traditional Credit with specific screening through a separately managed account. This will bring down the fossil fuel exposure by 0.2%. This will involve some operational complexity and cost considerations.
 - Restructure International Equity with specific screening through a separately managed account. This will bring down the fossil fuel exposure by 1.1%. This will be a costly and operationally challenging option.

The chart below depicts these two options (with add-ons) to reduce fossil fuel exposure:



As indicated, Option 1 will not bring the FF exposure to 0% by 2026. Option 2 can bring the FF exposure to 0% by 2026, but would involve a secondary sale. Further analysis would need to be done to evaluate alternatives that could help minimize some of the costs borne by the Plan. The purpose of this report was to clarify the total exposure across the portfolio and to provide a summary of the anticipated costs to divest pursuant to the legislation.



APPENDIX: FOSSIL FUEL/PRIVATE PRISON EXPOSURE-RUSSELL 1000

Strategy	Issuer Name	Portfolio Weight	O&G Reserves	Coal Reserves	Coal Generate Output	Energy Supplier	Energy Producer	O&G Extraction Producer	O&G Refining	O&G Distribution	O&G Equip Services	O&G Storage Transport	Max Rev Fossil Fuels	Max Rev Coal	Private Prisons
Russell 1000	ALCOA CORPORATION	0.02%			x										
Russell 1000	ALLIANT ENERGY CORPORATION	0.04%			x										
Russell 1000	AMEREN CORPORATION	0.06%			x										
Russell 1000	AMERICAN ELECTRIC POWER COMPANY, INC.	0.13%			x									x	
Russell 1000	ANTERO MIDSTREAM CORPORATION	0.01%				x						x			
Russell 1000	ANTERO RESOURCES CORPORATION	0.02%	x				x	x							
Russell 1000	APA CORPORATION	0.03%	x				x	x							
Russell 1000	ATMOS ENERGY CORPORATION	0.04%								x					
Russell 1000	BAKER HUGHES COMPANY	0.07%				x					x				
Russell 1000	BERKSHIRE HATHAWAY INC.	1.31%		x	x										
Russell 1000	CASEY'S GENERAL STORES, INC.	0.02%								x					
Russell 1000	CENTERPOINT ENERGY, INC.	0.05%			x										
Russell 1000	CHENIERE ENERGY, INC.	0.09%				x				x					
Russell 1000	CHESAPEAKE ENERGY CORPORATION	0.03%	x				x	x							
Russell 1000	CHEVRON CORPORATION	0.76%	x				x	x							
Russell 1000	CMS ENERGY CORPORATION	0.05%			x										
Russell 1000	CONOCOPHILLIPS	0.31%	x				x	x							
Russell 1000	CONTINENTAL RESOURCES, INC.	0.01%	x				x	x							
Russell 1000	Coterra Energy Inc.	0.05%	x				x	x							
Russell 1000	DEVON ENERGY CORPORATION	0.10%	x				x	x							
Russell 1000	DIAMONDBACK ENERGY, INC.	0.06%	x				x	x							
Russell 1000	Dominion Energy, Inc.	0.17%			x										
Russell 1000	DT MIDSTREAM, INC.	0.01%				x						x			
Russell 1000	DTE ENERGY COMPANY	0.06%			x										
Russell 1000	DUKE ENERGY CORPORATION	0.22%			x										
Russell 1000	ENTERGY CORPORATION	0.06%			x										
Russell 1000	EDG RESOURCES, INC.	0.17%	x				x	x							
Russell 1000	EQT CORPORATION	0.03%	x				x	x							
Russell 1000	Evergy, Inc.	0.04%			x										
Russell 1000	EXXON MOBIL CORPORATION	0.96%	x				x		x						
Russell 1000	FIRSTENERGY CORP.	0.06%			x										
Russell 1000	FREEPORT-MCMORAN INC.	0.11%	x												
Russell 1000	HALLIBURTON COMPANY	0.08%				x					x				
Russell 1000	HESS CORPORATION	0.08%	x				x	x							
Russell 1000	HF SINCLAIR CORPORATION	0.02%					x		x						
Russell 1000	IDACORP, INC.	0.01%			x										
Russell 1000	KINDER MORGAN, INC.	0.09%				x						x			
Russell 1000	MARATHON OIL CORPORATION	0.04%	x				x	x							
Russell 1000	MARATHON PETROLEUM CORPORATION	0.12%					x		x						
Russell 1000	MDU RESOURCES GROUP, INC.	0.01%			x										
Russell 1000	NATIONAL FUEL GAS COMPANY	0.02%	x												
Russell 1000	NEW FORTRESS ENERGY INC.	0.01%				x				x					
Russell 1000	NEXTERA ENERGY, INC.	0.40%			x										
Russell 1000	NISOURCE INC.	0.03%			x					x					
Russell 1000	NOV INC.	0.02%				x					x				
Russell 1000	NRG ENERGY, INC.	0.02%			x										
Russell 1000	OCCIDENTAL PETROLEUM CORPORATION	0.13%	x				x	x							
Russell 1000	OGE ENERGY CORP.	0.02%			x										
Russell 1000	ONEOK, INC.	0.07%				x						x			
Russell 1000	OVINTIV INC.	0.03%	x				x	x							
Russell 1000	PDC ENERGY, INC.	0.02%	x				x	x							
Russell 1000	PHILLIPS 66	0.10%					x			x					
Russell 1000	PINNACLE WEST CAPITAL CORPORATION	0.02%			x										
Russell 1000	PIONEER NATURAL RESOURCES COMPANY	0.14%	x				x	x							
Russell 1000	PPL CORPORATION	0.05%			x									x	
Russell 1000	RANGE RESOURCES CORPORATION	0.02%	x				x	x							
Russell 1000	Schlumberger N.V.	0.13%				x					x				
Russell 1000	SEMPRA ENERGY	0.13%										x			
Russell 1000	SOUTHWESTERN ENERGY COMPANY	0.02%	x				x	x							
Russell 1000	TARGA RESOURCES CORP.	0.04%				x						x			
Russell 1000	Texas Pacific Land Corp	0.02%					x								
Russell 1000	THE AES CORPORATION	0.04%			x									x	
Russell 1000	THE SOUTHERN COMPANY	0.20%			x									x	
Russell 1000	THE WILLIAMS COMPANIES, INC.	0.10%				x						x			
Russell 1000	UGI CORPORATION	0.02%								x					
Russell 1000	VALERO ENERGY CORPORATION	0.11%					x		x						
Russell 1000	VISTRA CORP.	0.03%			x										
Russell 1000	WEC ENERGY GROUP, INC.	0.08%			x										
Russell 1000	Xcel Energy Inc.	0.10%			x										



APPENDIX: FOSSIL FUEL/PRIVATE PRISON EXPOSURE-RUSSELL 2000

Strategy	Issuer Name	Portfolio Weight	O&G Reserves	Coal Reserves	Coal Generate Output	Energy Supplier	Energy Producer	O&G Extraction Producer	O&G Refining	O&G Distribution	O&G Equip Services	O&G Storage/Transport	Max Rev Fossil Fuels	Max Rev Coal	Private Prisons
Russell 2000	ALLETE, INC.	0.15%		x	x										x
Russell 2000	ALPHA METALLURGICAL RESOURCES, INC.	0.10%		x											x
Russell 2000	ALTO INGREDIENTS, INC.	0.01%					x								
Russell 2000	ARCH RESOURCES, INC.	0.10%		x											x
Russell 2000	Archaea Energy Inc	0.04%					x								
Russell 2000	ARCHROCK INC.	0.05%				x									
Russell 2000	ARKO CORP.	0.03%								x					
Russell 2000	AVISTA CORPORATION	0.13%			x										
Russell 2000	BERRY CORPORATION (BRY)	0.03%	x				x	x							
Russell 2000	BLACK HILLS CORPORATION	0.21%		x	x							x			x
Russell 2000	Borr Drilling Limited	0.03%				x									
Russell 2000	BRIGHAM MINERALS, INC.	0.06%	x				x								
Russell 2000	BRISTOW GROUP INC.	0.02%				x									
Russell 2000	BROOKFIELD INFRASTRUCTURE CORPORATION	0.18%										x			
Russell 2000	CACTUS, INC.	0.10%				x					x				
Russell 2000	CALIFORNIA RESOURCES CORPORATION	0.13%	x				x	x							
Russell 2000	CALLON PETROLEUM COMPANY	0.08%	x				x	x							
Russell 2000	CENTENNIAL RESOURCE DEVELOPMENT, INC.	0.05%	x				x	x							
Russell 2000	CHAMPIONX CORPORATION	0.18%				x					x				
Russell 2000	CHESAPEAKE UTILITIES CORPORATION	0.09%								x					
Russell 2000	CIVITAS RESOURCES, INC.	0.17%	x				x	x							
Russell 2000	CLEAN ENERGY FUELS CORP.	0.03%					x			x					
Russell 2000	CNX RESOURCES CORPORATION	0.14%	x				x	x							
Russell 2000	COMSTOCK RESOURCES, INC.	0.05%	x				x	x							
Russell 2000	CONSOL ENERGY INC.	0.07%		x										x	
Russell 2000	CORECIVIC, INC.	0.06%													x
Russell 2000	CRESCENT ENERGY COMPANY	0.02%	x				x	x							
Russell 2000	CVR ENERGY, INC.	0.04%					x		x						
Russell 2000	DELEK US HOLDINGS, INC.	0.08%					x		x						
Russell 2000	DENBURY INC.	0.13%	x				x	x							
Russell 2000	DMC GLOBAL INC.	0.01%				x					x				
Russell 2000	Dorian LPG Ltd.	0.02%				x						x			
Russell 2000	DRIL-QUIP, INC.	0.04%									x				
Russell 2000	EARTHSTONE ENERGY, INC.	0.03%	x				x	x							
Russell 2000	Equitrans Midstream Corporation	0.11%				x						x			
Russell 2000	EXPRO GROUP HOLDINGS N.V.	0.04%				x					x				
Russell 2000	FLEX LNG LTD.	0.03%				x						x			
Russell 2000	FRONTLINE LTD.	0.05%				x						x			
Russell 2000	GEVO, INC.	0.02%					x								
Russell 2000	GREEN PLAINS INC.	0.04%					x								
Russell 2000	GULFPORT ENERGY CORPORATION	0.04%	x				x	x							
Russell 2000	HELIX ENERGY SOLUTIONS GROUP, INC.	0.02%				x					x				
Russell 2000	HELMERICH & PAYNE, INC.	0.19%				x		x							
Russell 2000	INTERNATIONAL SEAWAYS, INC.	0.05%				x							x		
Russell 2000	KINETIK HOLDINGS INC.	0.02%				x									
Russell 2000	KOSMOS ENERGY LTD.	0.12%	x				x	x					x		
Russell 2000	LAREDO PETROLEUM, INC	0.05%	x				x	x							
Russell 2000	LIBERTY ENERGY INC.	0.08%				x									
Russell 2000	MAGNOLIA OIL & GAS CORPORATION	0.15%	x				x	x							
Russell 2000	MATADOR RESOURCES COMPANY	0.23%	x				x	x							
Russell 2000	MGE ENERGY, INC.	0.12%			x										
Russell 2000	Montauk Renewables Inc	0.03%								x					
Russell 2000	MURPHY OIL CORPORATION	0.20%	x				x	x							
Russell 2000	MURPHY USA INC.	0.23%								x					
Russell 2000	NABORS INDUSTRIES LTD.	0.05%				x		x							
Russell 2000	NEW JERSEY RESOURCES CORPORATION	0.19%								x					
Russell 2000	NextDecade Corp	0.01%				x							x		
Russell 2000	NEXTER OILFIELD SOLUTIONS INC.	0.07%				x					x				
Russell 2000	NOBLE CORPORATION	0.04%				x		x							
Russell 2000	NORTHERN OIL AND GAS, INC.	0.07%	x				x								
Russell 2000	NORTHWEST NATURAL HOLDING COMPANY	0.08%								x					
Russell 2000	NORTHWESTERN CORPORATION	0.14%	x		x										
Russell 2000	NOW INC.	0.05%									x				
Russell 2000	OCEANEERING INTERNATIONAL, INC.	0.05%				x					x				
Russell 2000	ONE GAS, INC.	0.19%								x					
Russell 2000	Otter Tail Corporation	0.12%			x										
Russell 2000	PACIFIC HOLDINGS, INC.	0.03%	x				x		x						
Russell 2000	PATTERSON-UTI ENERGY, INC.	0.15%				x		x							
Russell 2000	PBF ENERGY INC.	0.12%					x		x						
Russell 2000	PEABODY ENERGY CORPORATION	0.11%		x											x
Russell 2000	PNM RESOURCES, INC.	0.18%			x										
Russell 2000	PORTLAND GENERAL ELECTRIC COMPANY	0.19%			x										
Russell 2000	PROPETRO HOLDING CORP.	0.04%				x					x				
Russell 2000	RAMACO RESOURCES, INC.	0.01%													x
Russell 2000	Ranger Oil Corporation	0.03%	x				x	x							
Russell 2000	REX AMERICAN RESOURCES CORPORATION	0.02%					x								
Russell 2000	RPC, INC.	0.02%				x					x				
Russell 2000	SANDRIDGE ENERGY, INC.	0.01%	x				x	x							
Russell 2000	SELECT ENERGY SERVICES, INC.	0.02%				x						x			
Russell 2000	SILVERBOW RESOURCES, INC.	0.01%	x				x	x							
Russell 2000	SM ENERGY COMPANY	0.18%	x				x	x							
Russell 2000	SOUTH JERSEY INDUSTRIES, INC.	0.18%								x					
Russell 2000	Spire Inc.	0.17%								x					
Russell 2000	TALOS ENERGY INC.	0.05%	x				x	x							
Russell 2000	TEEKAY CORPORATION	0.01%				x							x		
Russell 2000	TELLURIAN INC.	0.07%	x				x	x							
Russell 2000	THE GEO GROUP, INC.	0.03%													x
Russell 2000	TIDEWATER INC.	0.04%				x					x				
Russell 2000	TRAVELCENTERS OF AMERICA INC.	0.02%								x					
Russell 2000	U.S. SILICA HOLDINGS, INC.	0.04%				x					x				
Russell 2000	UNITED STATES LIME & MINERALS, INC.	0.01%	x												
Russell 2000	Valaris Limited	0.11%				x		x							
Russell 2000	W&T OFFSHORE, INC.	0.02%	x				x	x							
Russell 2000	WARRIOR MET COAL, INC.	0.07%		x											
Russell 2000	WEATHERFORD INTERNATIONAL PUBLIC LIMITED COMPANY	0.06%				x					x				
Russell 2000	WHITING PETROLEUM CORPORATION	0.12%	x				x	x							
Russell 2000	WORLD FUEL SERVICES CORPORATION	0.06%					x			x					



APPENDIX: FOSSIL FUEL/PRIVATE PRISON EXPOSURE - ACWI EX-US

Strategy	Issuer Name	Portfolio Weight	O&G Reserves	Coal Reserves	Coal Generate Output	Energy Supplier	Energy Producer	O&G Extraction Producer	O&G Refining	O&G Distribution	O&G Equip Services	O&G Storage Transport	Max Rev Fossil Fuels	Max Rev Coal	Private Prisons
ACWI ex US	ABOITIZ EQUITY VENTURES INC.	0.01%			x										
ACWI ex US	ABU DHABI NATIONAL OIL COMPANY FOR DISTRIBUTION PJSC	0.02%								x					
ACWI ex US	AC Energy Corporation	0.01%											x		
ACWI ex US	ACWA POWER Company	0.01%			x								x		
ACWI ex US	ADANI ENTERPRISES LIMITED	0.04%												x	
ACWI ex US	ADANI POWER LIMITED	0.01%											x		
ACWI ex US	ADANI TOTAL GAS LIMITED	0.04%								x					
ACWI ex US	ADANI TRANSMISSION LIMITED	0.04%			x										
ACWI ex US	AFRICAN RAINBOW MINERALS LIMITED	0.01%		x										x	
ACWI ex US	AK ALROSA PAO	0.00%	x												
ACWI ex US	AKER BP ASA	0.04%	x				x	x							
ACWI ex US	ALFA, S.A.B. de C.V.	0.01%	x												
ACWI ex US	ALIMENTATION COUCHE-TARD INC.	0.15%								x					
ACWI ex US	AltaGas Ltd.	0.03%						x							
ACWI ex US	Aluminum Corporation of China Limited	0.01%												x	
ACWI ex US	Aluminum Corporation of China Limited	0.00%												x	
ACWI ex US	AMPOL LIMITED	0.03%					x		x						
ACWI ex US	APA Group	0.04%										x			
ACWI ex US	ARC RESOURCES LTD.	0.04%	x				x	x							
ACWI ex US	AYALA CORPORATION	0.01%			x										
ACWI ex US	B.Grimm Power Public Company Limited	0.00%											x		
ACWI ex US	BASF SE	0.17%	x												
ACWI ex US	BEIJING ENTERPRISES HOLDINGS LIMITED	0.01%										x			
ACWI ex US	BHARAT PETROLEUM CORPORATION LIMITED	0.02%					x		x						
ACWI ex US	BHP GROUP LIMITED	0.65%	x	x										x	
ACWI ex US	BP P.L.C.	0.42%	x				x		x						
ACWI ex US	CANADIAN NATURAL RESOURCES LIMITED	0.29%	x				x	x							
ACWI ex US	Cenovus Energy Inc.	0.12%	x				x								
ACWI ex US	Centrais Eletricas Brasileiras S.A.	0.04%			x										
ACWI ex US	Centrais Eletricas Brasileiras S.A.	0.01%			x										
ACWI ex US	CEZ, a.s.	0.04%		x	x									x	
ACWI ex US	China Coal Energy Company Limited	0.01%		x	x									x	
ACWI ex US	CHINA GAS HOLDINGS LIMITED	0.02%										x			
ACWI ex US	CHINA LONGYUAN POWER GROUP CORPORATION LIMITED	0.03%			x										
ACWI ex US	China Oilfield Services Limited	0.01%				x					x				
ACWI ex US	China Petroleum & Chemical Corporation	0.05%	x				x								
ACWI ex US	China Petroleum & Chemical Corporation	0.01%	x				x								
ACWI ex US	China Power International Development Limited	0.02%			x								x		
ACWI ex US	CHINA RESOURCES GAS GROUP LIMITED	0.02%								x					
ACWI ex US	China Resources Power Holdings Company Limited	0.02%			x								x		
ACWI ex US	China Shenhua Energy Company Limited	0.04%		x	x									x	
ACWI ex US	China Shenhua Energy Company Limited	0.01%		x	x									x	
ACWI ex US	China Suntien Green Energy Corporation Limited	0.00%				x						x			
ACWI ex US	Chubu Electric Power Company, Incorporated	0.03%			x										
ACWI ex US	CITIC Limited	0.03%	x		x										x
ACWI ex US	CK HUTCHISON HOLDINGS LIMITED	0.08%	x												
ACWI ex US	CK INFRASTRUCTURE HOLDINGS LIMITED	0.02%			x										
ACWI ex US	CLP HOLDINGS LIMITED	0.06%			x										
ACWI ex US	COAL INDIA LTD	0.02%		x										x	
ACWI ex US	COMPAGNIE PETROLIERE IMPERIALE LTEE	0.05%	x				x		x						
ACWI ex US	COSAN S.A.	0.02%					x			x					
ACWI ex US	COSCO Shipping Energy Transportation Co., Ltd.	0.00%				x						x			
ACWI ex US	DCC PUBLIC LIMITED COMPANY	0.03%								x					
ACWI ex US	DIALOG GROUP BERHAD	0.01%				x					x				
ACWI ex US	E.ON SE	0.08%			x										
ACWI ex US	ECOPETROL S.A.	0.02%	x				x		x						
ACWI ex US	EDP - Energias de Portugal, S.A.	0.06%			x										
ACWI ex US	ELECTRICITE DE FRANCE SA	0.02%			x										
ACWI ex US	ELECTRICITY GENERATING PUBLIC COMPANY LIMITED	0.01%		x	x								x	x	
ACWI ex US	EMERA INCORPORATED	0.06%			x								x		
ACWI ex US	Empresas Copec S.A.	0.01%					x			x					
ACWI ex US	Enagas, S.A.	0.02%										x			
ACWI ex US	Enbridge Inc.	0.39%					x					x			
ACWI ex US	Endesa, Sociedad Anonima	0.03%			x										
ACWI ex US	ENEL - SPA	0.20%			x										
ACWI ex US	Enel Americas S.A.	0.01%			x										
ACWI ex US	Enel Chile S.A.	0.00%			x										
ACWI ex US	ENEOS Holdings, Inc.	0.05%	x				x		x					x	
ACWI ex US	ENGIE BRASIL ENERGIA S.A.	0.01%			x										
ACWI ex US	ENGIE SA	0.09%	x		x							x			
ACWI ex US	ENI S.P.A.	0.14%	x				x								
ACWI ex US	ENN ENERGY HOLDINGS LIMITED	0.06%								x					
ACWI ex US	ENN Natural Gas Co., Ltd.	0.00%								x					
ACWI ex US	EQUINOR ASA	0.15%	x				x		x						
ACWI ex US	EXXARO RESOURCES LIMITED	0.01%		x										x	
ACWI ex US	FORMOSA PETROCHEMICAL CORPORATION	0.02%					x		x						
ACWI ex US	Fortis Inc.	0.10%			x										
ACWI ex US	Fortum Oyj	0.03%			x										
ACWI ex US	FOSUN INTERNATIONAL LIMITED	0.01%	x												
ACWI ex US	Franco-Nevada Corporation	0.11%	x												
ACWI ex US	GAIL (INDIA) LIMITED	0.01%	x							x					
ACWI ex US	Galp Energia, SGPS, S.A.	0.03%	x				x								
ACWI ex US	GAZPROM PAO	0.00%	x				x								
ACWI ex US	GD POWER DEVELOPMENT CO., LTD.	0.00%			x								x		
ACWI ex US	GLENORE PLC	0.24%	x	x										x	
ACWI ex US	Global Power Synergy Public Company Limited	0.01%			x								x		



APPENDIX: FOSSIL FUEL/PRIVATE PRISON EXPOSURE - ACWI EX-US

Strategy	Issuer Name	Portfolio Weight	O&G Reserves	Coal Reserves	Coal Generate Output	Energy Supplier	Energy Producer	O&G Extraction Producer	O&G Refining	O&G Distribution	O&G Equip Services	O&G Storage Transport	Max Rev Fossil Fuels	Max Rev Coal	Private Prisons
ACWI ex US	GMK NORIL'SKIY NIKEL PAO	0.00%	x												
ACWI ex US	GUANGDONG INVESTMENT LIMITED	0.02%			x										
ACWI ex US	Guanghui Energy Co., Ltd.	0.00%	x	x			x	x						x	
ACWI ex US	Gulf Energy Development Public Company Limited	0.02%											x		
ACWI ex US	HD HYUNDAI CO.,LTD.	0.01%					x		x						
ACWI ex US	HENAN SHENHUO COAL & POWER CO.,LTD	0.00%		x	x										
ACWI ex US	HINDUSTAN PETROLEUM CORPORATION LIMITED	0.01%	x				x		x						
ACWI ex US	HK ELECTRIC INVESTMENTS LIMITED	0.01%			x								x		
ACWI ex US	Huadian Power International Corporation Limited	0.00%		x	x								x	x	
ACWI ex US	Huaibei Mining Holdings Co.,Ltd.	0.00%												x	
ACWI ex US	HUANENG POWER INTERNATIONAL, INC.	0.01%			x								x		
ACWI ex US	HUANENG POWER INTERNATIONAL, INC.	0.00%			x								x		
ACWI ex US	HYUNDAI GLOVIS Co., LTD.	0.01%												x	
ACWI ex US	Iberdrola, S.A.	0.27%			x										
ACWI ex US	Idemitsu Kosan Co.,Ltd.	0.02%	x				x		x					x	
ACWI ex US	INDIAN OIL CORPORATION LIMITED	0.01%	x				x		x						
ACWI ex US	Indraprastha Gas Ltd	0.01%								x					
ACWI ex US	INNER MONGOLIA DIAN TOU ENERGY CORPORATION LIMITED	0.00%												x	
ACWI ex US	Inner Mongolia ERDOS Resources Co.,Ltd.	0.00%		x										x	
ACWI ex US	INNER MONGOLIA YITAI COAL CO., LTD	0.01%		x										x	
ACWI ex US	INPEX CORPORATION	0.05%	x				x	x							
ACWI ex US	INTER RAO YEEES PAO	0.00%			x										
ACWI ex US	ITOCHU Corporation	0.14%		x										x	
ACWI ex US	JARDINE MATHESON HOLDINGS LIMITED	0.05%												x	
ACWI ex US	JINDAL STEEL AND POWER LIMITED	0.01%		x	x										
ACWI ex US	Jizhong Energy Resources Co., Ltd.	0.00%		x										x	
ACWI ex US	JSW STEEL LIMITED	0.02%			x										
ACWI ex US	KEPPEL CORPORATION LIMITED	0.03%	x												
ACWI ex US	KEYERA CORP.	0.02%					x			x					
ACWI ex US	KOC HOLDING ANONIM SIRKETI	0.01%												x	
ACWI ex US	KOREA ELECTRIC POWER CORPORATION	0.02%			x										
ACWI ex US	KUNLUN ENERGY COMPANY LIMITED	0.01%	x							x					
ACWI ex US	MISC BERHAD	0.01%										x			
ACWI ex US	Mitsubishi Corporation	0.17%	x	x										x	
ACWI ex US	MITSUBI & CO., LTD.	0.14%	x	x										x	
ACWI ex US	MOL Magyar Olaj- es Gazipari Nyilvanosan Mukodo Reszvenyt	0.02%	x				x		x						
ACWI ex US	Naturgy Energy Group, S.A.	0.02%			x					x					
ACWI ex US	Neste Oyj	0.08%					x								
ACWI ex US	NK LUKOIL PAO	0.00%	x				x		x						
ACWI ex US	NK ROSNEFT PAO	0.00%	x				x		x						
ACWI ex US	NOVATEK PAO	0.00%	x				x	x							
ACWI ex US	NTPC LIMITED	0.03%		x	x								x		
ACWI ex US	OFFSHORE OIL ENGINEERING CO.,LTD.	0.00%				x					x				
ACWI ex US	OIL AND NATURAL GAS CORPORATION LIMITED	0.02%	x				x		x						
ACWI ex US	OK RUSAL MKPAO	0.00%		x											
ACWI ex US	OMV Aktiengesellschaft	0.03%	x				x		x						
ACWI ex US	ORIGIN ENERGY LIMITED	0.03%	x		x										
ACWI ex US	Orsted AS	0.09%			x										
ACWI ex US	OSAKA GAS CO., LTD.	0.03%										x			
ACWI ex US	PARKLAND CORPORATION	0.02%					x			x					
ACWI ex US	PEMBINA PIPELINE CORPORATION	0.09%				x						x			
ACWI ex US	PETRO RIO S.A.	0.01%	x				x	x							
ACWI ex US	PetroChina Company Limited	0.04%	x				x								
ACWI ex US	PetroChina Company Limited	0.00%	x				x								
ACWI ex US	Petroleo Brasileiro S.A. (Petrobras)	0.11%	x				x		x						
ACWI ex US	Petroleo Brasileiro S.A. (Petrobras)	0.10%	x				x		x						
ACWI ex US	PETRONAS DAGANGAN BERHAD	0.01%					x			x					
ACWI ex US	PETRONET LNG LIMITED	0.01%				x				x					
ACWI ex US	PGE POLSKA GRUPA ENERGETYCZNA SPOLKA AKCYJNA	0.01%			x										
ACWI ex US	PINGDINGSHAN TIANAN COAL. MINING CO., LTD.	0.00%												x	
ACWI ex US	POLSKI KONCERN NAFTOWY ORLEN SPOLKA AKCYJNA	0.02%	x		x		x								
ACWI ex US	POLSKIE GORNICTWO NAFTOWE I GAZOWNICTWO SPOLKA A	0.01%	x		x		x					x			
ACWI ex US	POSCO Holdings Inc.	0.06%			x										
ACWI ex US	Power Assets Holdings Limited	0.04%			x										
ACWI ex US	PT Adaro Energy Indonesia Tbk	0.01%		x										x	
ACWI ex US	PT Aneka Tambang Tbk	0.00%		x										x	
ACWI ex US	PT Astra International Tbk	0.04%		x										x	
ACWI ex US	PT United Tractors Tbk	0.01%		x										x	
ACWI ex US	PTT EXPLORATION AND PRODUCTION PUBLIC COMPANY LIM	0.03%	x				x	x							
ACWI ex US	PTT Oil and Retail Business PCL	0.01%								x					
ACWI ex US	PTT Public Company Limited	0.04%	x	x	x		x							x	
ACWI ex US	PUBLIC POWER CORPORATION S.A.	0.00%			x										
ACWI ex US	Qatar Fuel Company QPSC	0.01%					x			x					
ACWI ex US	Qatar Gas Transport Company Limited (Nakilat)QPSC	0.01%				x						x			
ACWI ex US	Rabigh Refining and Petrochemical Company SJSC	0.01%					x		x						
ACWI ex US	RATCH GROUP PUBLIC COMPANY LIMITED	0.01%			x								x		
ACWI ex US	RELIANCE INDUSTRIES LIMITED	0.47%	x				x								
ACWI ex US	Repsol S.A.	0.10%	x				x								
ACWI ex US	Ressources Teck Limitee	0.07%	x												
ACWI ex US	RWE Aktiengesellschaft	0.10%			x										
ACWI ex US	Samsung Engineering Co., Ltd.	0.01%									x				
ACWI ex US	SANTOS LIMITED	0.07%	x				x	x							
ACWI ex US	SASOL LIMITED	0.06%	x	x										x	
ACWI ex US	Saudi Arabian Oil Company	0.11%	x				x	x							



APPENDIX: FOSSIL FUEL/PRIVATE PRISON EXPOSURE - ACWI EX-US

Strategy	Issuer Name	Portfolio Weight	O&G Reserves	Coal Reserves	Coal Generate Output	Energy Supplier	Energy Producer	O&G Extraction Producer	O&G Refining	O&G Distribution	O&G Equip Services	O&G Storage Transport	Max Rev Fossil Fuels	Max Rev Coal	Private Prisons
ACWI ex US	Saudi Electricity Company SJSJC	0.02%											x		
ACWI ex US	SDIC Power Holdings Co., Ltd.	0.00%			x										
ACWI ex US	SEVERSTAL' PAO	0.00%												x	
ACWI ex US	Shaanxi Coal Industry Company Limited	0.01%		x										x	
ACWI ex US	SHAN XI HUA YANG GROUP NEW ENERGY CO., LTD.	0.00%		x	x									x	
ACWI ex US	Shanxi Coking Coal Energy Group Co., Ltd.	0.00%			x									x	
ACWI ex US	Shanxi Lu'an Environmental Energy Dev. Co., Ltd	0.00%		x										x	
ACWI ex US	SHELL PLC	0.89%	x				x		x						
ACWI ex US	Shenzhen Energy Group Co., Ltd.	0.00%			x								x		
ACWI ex US	SICHUAN CHUANYOU ENERGY CO., LTD.	0.00%			x										
ACWI ex US	Sinopec Shanghai Petrochemical Company Limited	0.00%							x						
ACWI ex US	SK Inc.	0.03%												x	
ACWI ex US	SK Innovation Co., Ltd.	0.04%					x		x						
ACWI ex US	SNAM S.P.A.	0.05%										x			
ACWI ex US	S-Oil Corporation	0.02%					x		x						
ACWI ex US	SOUTH32 LIMITED	0.06%		x										x	
ACWI ex US	SSE PLC	0.09%	x												
ACWI ex US	SUMITOMO CORPORATION	0.07%												x	
ACWI ex US	Suncor Energy Inc.	0.23%	x				x		x						
ACWI ex US	SURGUTNEFTEGAZ PAO	0.00%	x				x	x							
ACWI ex US	SURGUTNEFTEGAZ PAO	0.00%	x				x	x							
ACWI ex US	TATNEFT' PAO	0.00%	x				x								
ACWI ex US	TBEA CO., LTD.	0.00%												x	
ACWI ex US	TC Energy Corporation	0.23%				x						x			
ACWI ex US	TENAGA NASIONAL BERHAD	0.02%											x		
ACWI ex US	TENARIS S.A.	0.03%				x					x				
ACWI ex US	Thai Oil Public Company Limited	0.01%					x		x						
ACWI ex US	THE HONG KONG AND CHINA GAS COMPANY LIMITED	0.05%	x							x				x	
ACWI ex US	The Kansai Electric Power Company, Incorporated	0.03%			x										
ACWI ex US	THE TATA POWER COMPANY LIMITED	0.02%		x	x								x	x	
ACWI ex US	Tokyo Electric Power Company Holdings, Incorporated	0.03%			x										
ACWI ex US	TOKYO GAS CO.,LTD.	0.04%								x					
ACWI ex US	TotalEnergies SE	0.59%	x				x								
ACWI ex US	TOURMALINE OIL CORP.	0.07%	x				x	x							
ACWI ex US	TURKIYE PETROL RAFINERILERI ANONIM Sirketi	0.01%					x		x						
ACWI ex US	ULTRAPAR PARTICIPACOES S.A.	0.01%				x				x					
ACWI ex US	Uniper SE	0.01%			x										
ACWI ex US	VALE S.A.	0.26%		x										x	
ACWI ex US	VEDANTA LIMITED	0.01%	x	x	x										
ACWI ex US	VEOLIA ENVIRONNEMENT SA	0.07%			x										
ACWI ex US	VERBUND AG	0.03%			x										
ACWI ex US	VIBRA ENERGIA S/A	0.02%								x					
ACWI ex US	WASHINGTON H. SOUL PATTINSON AND COMPANY LIMITED	0.02%	x	x										x	
ACWI ex US	WOODSIDE ENERGY GROUP LTD	0.19%	x				x	x							
ACWI ex US	Yankuang Energy Group Company Limited	0.02%		x	x									x	
ACWI ex US	Yankuang Energy Group Company Limited	0.00%		x	x									x	
ACWI ex US	Yantai Jereh Oilfield Services Group Co., Ltd.	0.00%				x					x				
ACWI ex US	Zijin Mining Group Company Limited	0.01%		x											



APPENDIX: FOSSIL FUEL/PRIVATE PRISON EXPOSURE – TRADITIONAL CREDIT

Strategy	Issuer Name	Portfolio Weight	O&G Reserves	Coal Reserves	Coal Generate Output	Energy Supplier	Energy Producer	O&G Extraction Producer	O&G Refining	O&G Distribution	O&G Equip Services	O&G Storage Transport	Max Rev Fossil Fuels	Max Rev Coal	Private Prisons
Maine Agg	Alabama Power Company	0.04%			x								x		
Maine Agg	AMEREN CORPORATION	0.01%			x										
Maine Agg	AMERICAN ELECTRIC POWER COMPANY, INC.	0.02%			x									x	
Maine Agg	APACHE CORPORATION	0.00%	x					x							
Maine Agg	Appalachian Power Company	0.02%			x								x		
Maine Agg	ARIZONA PUBLIC SERVICE COMPANY	0.03%			x								x		
Maine Agg	ATMOS ENERGY CORPORATION	0.03%								x					
Maine Agg	AVISTA CORPORATION	0.00%			x										
Maine Agg	BERKSHIRE HATHAWAY ENERGY COMPANY	0.09%		x	x										
Maine Agg	BERKSHIRE HATHAWAY INC.	0.02%		x	x										
Maine Agg	BLACK HILLS CORPORATION	0.02%		x	x							x		x	
Maine Agg	CANADIAN NATURAL RESOURCES LIMITED	0.05%	x				x	x							
Maine Agg	Genovus Energy Inc.	0.05%	x				x								
Maine Agg	CENTERPOINT ENERGY, INC.	0.01%			x										
Maine Agg	CHEVRON CORPORATION	0.07%	x				x	x							
Maine Agg	CMS ENERGY CORPORATION	0.01%			x										
Maine Agg	CONOCOPHILLIPS	0.02%	x				x	x							
Maine Agg	CONTINENTAL RESOURCES, INC.	0.01%	x				x	x							
Maine Agg	Coterra Energy Inc.	0.02%	x				x	x							
Maine Agg	DEVON ENERGY CORPORATION	0.04%	x				x	x							
Maine Agg	DIAMONDBACK ENERGY, INC.	0.03%	x				x	x							
Maine Agg	DOMINION ENERGY SOUTH CAROLINA, INC.	0.01%			x								x		
Maine Agg	Dominion Energy, Inc.	0.06%			x										
Maine Agg	DTE ELECTRIC COMPANY	0.04%			x										
Maine Agg	DTE ENERGY COMPANY	0.02%			x										
Maine Agg	Duke Energy Carolinas, LLC	0.08%			x										
Maine Agg	DUKE ENERGY CORPORATION	0.07%			x										
Maine Agg	DUKE ENERGY FLORIDA, LLC	0.04%			x								x		
Maine Agg	DUKE ENERGY INDIANA, LLC	0.02%			x								x		
Maine Agg	Duke Energy Progress, LLC	0.05%			x										
Maine Agg	ENABLE MIDSTREAM PARTNERS, LP	0.02%										x			
Maine Agg	ENBRIDGE ENERGY PARTNERS, L.P.	0.02%										x			
Maine Agg	Enbridge Inc.	0.06%					x					x			
Maine Agg	Enel Americas S.A.	0.00%			x										
Maine Agg	Enel Chile S.A.	0.01%			x										
Maine Agg	Enel Generacion Chile S.A.	0.00%			x										
Maine Agg	ENERGY TRANSFER LP	0.20%		x			x					x			
Maine Agg	ENTERGY ARKANSAS, LLC	0.02%			x										
Maine Agg	ENTERGY CORPORATION	0.02%			x										
Maine Agg	ENTERGY LOUISIANA, LLC	0.05%			x									x	
Maine Agg	ENTERGY MISSISSIPPI, LLC	0.01%			x									x	
Maine Agg	ENTERGY TEXAS, INC.	0.01%			x									x	
Maine Agg	ENTERPRISE PRODUCTS OPERATING LLC	0.17%					x					x			
Maine Agg	EOG RESOURCES, INC.	0.02%	x					x	x						
Maine Agg	EQT CORPORATION	0.02%	x					x	x						
Maine Agg	EQUINOR ASA	0.09%	x					x		x					
Maine Agg	EVERGY KANSAS CENTRAL, INC.	0.01%												x	
Maine Agg	Evergy Metro, Inc.	0.01%			x										
Maine Agg	Evergy, Inc.	0.01%			x										
Maine Agg	EXXON MOBIL CORPORATION	0.19%	x					x		x					
Maine Agg	FLORIDA POWER & LIGHT COMPANY	0.09%			x									x	
Maine Agg	Fortis Inc.	0.01%			x										



APPENDIX: FOSSIL FUEL/PRIVATE PRISON EXPOSURE – TRADITIONAL CREDIT

Strategy	Issuer Name	Portfolio Weight	O&G Reserves	Coal Reserves	Coal Generate Output	Energy Supplier	Energy Producer	O&G Extraction Producer	O&G Refining	O&G Distribution	O&G Equip Services	O&G Storage Transport	Max Rev Fossil Fuels	Max Rev Coal	Private Prisons
Maine Agg	FREEMPORT-MCMORAN INC.	0.04%	x												
Maine Agg	GEORGIA POWER COMPANY	0.04%			x										
Maine Agg	GULF POWER COMPANY	0.00%			x								x		
Maine Agg	HALLIBURTON COMPANY	0.06%				x					x				
Maine Agg	HELMERICH & PAYNE, INC.	0.01%				x		x							
Maine Agg	HESS CORPORATION	0.04%	x				x	x							
Maine Agg	HF SINCLAIR CORPORATION	0.01%					x		x						
Maine Agg	INDIANA MICHIGAN POWER COMPANY	0.02%			x										
Maine Agg	IPALCO ENTERPRISES INC	0.01%												x	
Maine Agg	KENTUCKY UTILITIES COMPANY	0.01%			x									x	
Maine Agg	KINDER MORGAN, INC.	0.08%				x						x			
Maine Agg	LOUISVILLE GAS AND ELECTRIC COMPANY	0.00%			x									x	
Maine Agg	MAGELLAN MIDSTREAM PARTNERS, L.P.	0.03%				x						x			
Maine Agg	MARATHON OIL CORPORATION	0.02%	x				x	x							
Maine Agg	MARATHON PETROLEUM CORPORATION	0.05%					x		x						
Maine Agg	MIDAMERICAN ENERGY COMPANY	0.04%			x										
Maine Agg	MPLX LP	0.12%				x						x			
Maine Agg	NATIONAL FUEL GAS COMPANY	0.01%	x												
Maine Agg	NEVADA POWER COMPANY	0.01%												x	
Maine Agg	NISOURCE INC.	0.07%			x					x					
Maine Agg	Northern States Power Company (Minnesota)	0.04%			x										
Maine Agg	NORTHWESTERN CORPORATION	0.00%	x		x										
Maine Agg	NOV INC.	0.01%				x					x				
Maine Agg	OGLETHORPE POWER CORP	0.02%			x									x	
Maine Agg	OKLAHOMA GAS AND ELECTRIC COMPANY	0.01%			x									x	
Maine Agg	ONE GAS, INC.	0.01%								x					
Maine Agg	ONEOK, INC.	0.06%				x						x			
Maine Agg	OVINTIV INC.	0.01%	x				x	x							
Maine Agg	PHILLIPS 66	0.06%					x			x					
Maine Agg	Piedmont Natural Gas Company, Inc.	0.01%								x					
Maine Agg	PINNACLE WEST CAPITAL CORPORATION	0.00%			x										
Maine Agg	PIONEER NATURAL RESOURCES COMPANY	0.02%	x				x	x							
Maine Agg	PLAINS ALL AMERICAN PIPELINE, L.P.	0.05%				x						x			
Maine Agg	Progress Energy, Inc.	0.01%			x									x	
Maine Agg	PUBLIC SERVICE COMPANY OF COLORADO	0.03%			x										
Maine Agg	PUGET ENERGY, INC.	0.01%			x										
Maine Agg	PUGET SOUND ENERGY, INC.	0.02%			x										
Maine Agg	Ressources Teck Limitee	0.02%	x												
Maine Agg	SABINE PASS LIQUEFACTION, LLC	0.07%								x					
Maine Agg	SEMPRA ENERGY	0.05%										x			
Maine Agg	SIERRA PACIFIC POWER COMPANY	0.00%			x										
Maine Agg	SOUTHWESTERN ELECTRIC POWER COMPANY	0.02%			x									x	
Maine Agg	SOUTHWESTERN PUBLIC SERVICE COMPANY	0.01%			x										
Maine Agg	Suncor Energy Inc.	0.04%	x				x		x						
Maine Agg	TAMPA ELECTRIC COMPANY	0.01%			x									x	
Maine Agg	TARGA RESOURCES CORP.	0.02%				x						x			
Maine Agg	TC PIPELINES, LP	0.01%										x			
Maine Agg	TENNESSEE GAS PIPELINE COMPANY, L.L.C.	0.01%										x			
Maine Agg	TEXAS EASTERN TRANSMISSION, LP	0.00%										x			
Maine Agg	THE AES CORPORATION	0.01%			x									x	
Maine Agg	THE SOUTHERN COMPANY	0.06%			x									x	
Maine Agg	THE WILLIAMS COMPANIES, INC.	0.10%				x						x			
Maine Agg	TRANSCANADA PIPELINES LIMITED	0.10%										x			
Maine Agg	TRANSCONTINENTAL GAS PIPE LINE COMPANY, LLC	0.02%										x			
Maine Agg	TUCSON ELECTRIC POWER COMPANY	0.01%			x									x	
Maine Agg	UNION ELECTRIC COMPANY	0.04%			x									x	
Maine Agg	VALE S.A.	0.01%		x											x
Maine Agg	VALERO ENERGY CORPORATION	0.05%					x		x						
Maine Agg	VEOLIA ENVIRONNEMENT SA	0.00%			x										
Maine Agg	Virginia Electric and Power Company	0.11%			x									x	
Maine Agg	WEC ENERGY GROUP, INC.	0.01%			x										
Maine Agg	WISCONSIN POWER AND LIGHT COMPANY	0.01%			x									x	
Maine Agg	WISCONSIN PUBLIC SERVICE CORPORATION	0.01%			x									x	
Maine Agg	Xcel Energy Inc.	0.04%			x										



DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

Some of the information presented herein has been obtained from external sources NEPC believes to be reliable. While NEPC has exercised reasonable professional care in preparing this content, we cannot guarantee the accuracy of all source information contained within.

The opinions presented herein represent the good faith views of NEPC as of the publication date and are subject to change at any time.

This presentation contains summary information regarding the investment management approaches described herein but is not a complete description of the investment objectives, portfolio management and research that supports these approaches. This analysis does not constitute a recommendation to implement any of the aforementioned approaches.





Board Responsibilities – Investment Policy for Defined Benefit Plans

2.1 – Investment Policy Statement

Date Adopted: June 9, 2016

Date Amended: November 10, 2016; May 11, 2017; June 8, 2017; September 14, 2017; December 14, 2017; November 12, 2020; January 14, 2021; May 12, 2022, February 9, 2023

Policy

The Board of Trustees of the Maine Public Employees Retirement System is authorized and responsible for administering defined benefit retirement programs at the State and local levels. The Board carries out this responsibility by adopting investment objectives and establishing an investment program through which the policy is implemented. In the case of conflicts, this policy statement supersedes previous policies and actions by the Board.

This policy covers the investment management of the assets of the following defined benefit programs administered by the Board:

- Legislative Retirement Program;
- Judicial Retirement Program;
- State Employee and Teacher Retirement Program, which includes State employees and public school members; and
- Participating Local District Retirement Program, which includes retirement plans of withdrawn participating local districts and the Consolidated Plan for Participating Local Districts.

Collectively, the assets of these programs are referred to as the DB Plan Assets. Statutes allow for the pooling of the DB Plan Assets for the purpose of investment. Pooling provides significant efficiencies. Because the relevant characteristics of the DB plans are sufficiently similar, all the DB Plan Assets are pooled for investment.

Statutory/Legal Provisions

- [Me. Const. art. IX, § 18.](#)
- [5 M.R.S. §§ 1957-1958](#) (divestment statutes)
- [5 M.R.S. §§ 17102, 17103, 17435; 18-B M.R.S. § 801](#), et seq. (Maine Uniform Trust Code); [18-B M.R.S. § 901](#), et seq. (Maine Uniform Prudent Investor Act).
- [5 M.R.S. §§ 17153\(4\).](#)
- Restatement (Third) of Trusts § 78(1) (2007) (the “sole interest rule”).
- Restatement (Third) of Trusts formally permits, and in some cases requires, the delegation of investment decisions from trustees to internal staff or external agents with the necessary skills and knowledge.

- The Employee Retirement Income Security Act (“ERISA”), codified at [29 U.S.C. § 1002, et seq.](#), provides a description of the standard of care that applies to trustees of private sector retirement plans. Although the System as a public retirement plan is not specifically governed by the fiduciary duty standard set forth in ERISA, courts will often consider the standard set forth in ERISA when addressing public pension plan issues. Under ERISA, a fiduciary must act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person (expert) acting in a like capacity would act. This statutory standard is derived from the common law of trusts, which is applicable in the State of Maine.

Resources

The Board of Trustees implements this investment policy in coordination with:

- in-house investment professionals (the “Investment Team”), with experience, authority and responsibility to implement the investment policy and administer investment operations;
- consultants, with appropriate expertise, to assist the Board and the Investment Team;
- investment managers, selected individually and collectively to reflect and implement the investment policy, having full discretion within policy and contractual limits to manage assets allocated to them;
- custodians qualified to carry out recordkeeping, reporting, measurement and custodial functions; and
- other advisors that the Board deems appropriate and necessary

The Investment Team shall oversee the processes by which Custodians, Consultants, and other Advisors are hired, evaluated, and terminated, and shall work with the General Counsel on the terms of contracts of engagement.

At least every five years, the Investment Team will evaluate the performance and contract terms of all such service providers and make a recommendation to the Board as to whether or not a search process for new providers and/or renegotiation of terms be initiated.

Investment Objectives

MainePERS’ investment objectives balance the System’s twin goals of generating investment returns (to ensure growth of the trust funds) and minimizing investment risks (loss of capital and cash flow shortfalls). The Board recognizes and accepts that these goals are in opposition, and that a trade-off exists between expected risk and return. The Board balances these goals by seeking to optimize portfolio returns consistent with an established targeted portfolio risk level. Additionally, by optimizing investment returns on trust assets, rather than attempting to maximize them, the Board seeks to maintain contribution rate and funding level volatility at acceptable levels that have been determined from time to time during strategic asset allocation planning and asset/liability reviews.

Strategic Asset Allocation and Rebalancing

The Investment Team and Board consultants shall annually review long-term capital market expectations and existing asset class allocations with Trustees. The Board shall review, and when strategically appropriate, approve recommended changes to the existing strategic asset classes, target weights, and ranges for implementation by the Investment Team. (See Appendix 1)

The specified policy weight ranges define minimum and maximum acceptable weights for each asset class. (See Appendix 2) The Investment Team shall maintain asset class weights within target ranges, subject to considerations such as transactions costs and the unique characteristics of private market investments, by reallocating capital within existing strategies and investments. The Investment Team will provide Trustees with reports showing the fund's current asset allocation at least monthly, and report on rebalancing activity quarterly.

Portfolio Risk Management

The primary method of controlling risk shall be the selection of the strategic asset allocation and asset class target weights within the allocation. (See Appendix 1) Combined with long term capital market expectations, these policy weights define a portfolio with a specific level of risk.

The Chief Investment Officer shall develop a risk strategy for managing assets within the Board approved strategic asset allocation. The risk strategy will specify practices and procedures for the measurement and management of portfolio risk, including the provision of a portfolio risk report to the Board at least quarterly. (See Appendix 3)

Nothing in the risk strategy shall override the Asset Classes, Policy Weights and Ranges described in Appendix 1.

Performance Objectives and Benchmarks

The Board acknowledges that benchmarks provide insight into fund and asset class performance, but are not necessarily guides for changing asset allocations or fund managers. The rate of return earned by fund assets will be measured against a policy benchmark comprised of the asset class benchmarks. (See Appendix 4) Returns earned by individual managers will be compared with a benchmark index appropriate to each manager's investment approach.

For performance evaluation purposes, all rates of return will be measured net of the deduction of investment management fees.

During a period of transition from one asset allocation to another, certain transitional allocations to appropriate benchmarks are permitted.

Investment Implementation

The Investment Team shall implement the investment policy, subject to Board guidelines:

- Exposure to publicly traded equity securities is expected to be obtained passively and with weightings substantially similar to those of the benchmarks specified in Appendix 4. Any exceptions must be approved by the Board.
- Investments within each Asset Class should be consistent with the Asset Class definitions provided in Appendix 1.

Environmental, Social, and Governance; Engagement

In performing due diligence and monitoring activities, the Board and the Investment Team shall comply with Board Policy 2.6, Environmental, Social and Governance Policy; and Board Policy 2.7, Engagement.

Investment Manager Selection and Allocation Process

MainePERS invests through external investment managers, who are charged to act as fiduciaries, and allocates fund assets among them in accordance with the strategic asset allocation. The Investment Team identifies, performs due diligence on, and recommends investment managers and allocations to the Board. The Investment Team also monitors performance and recommends retention and termination decisions to the Board. The Board retains final authority for manager selection, retention and termination decisions.

Managers are selected and retained on the basis of an evaluation that establishes sufficient confidence that the manager will improve the return and risk of the investment program. If and when the Investment Team and/or consultant(s) identify an investment manager that they believe will improve the investment program, the Investment Team will make a recommendation to the Board of Trustees that the manager be hired. This recommendation will be accompanied by an opinion by the investment consultant on this recommendation. The Board retains the final authority to accept or reject such recommendations.

The Investment Team will prepare and present to the Board of Trustees selection criteria they deem pertinent for each manager search and recommendation to hire. The Investment Team will provide the Board with all the necessary information and analysis to enable an informed decision. The Board may choose to interview the recommended manager or they may rely on the Investment Team to conduct interviews.

Derivatives

In general, the use of derivatives is permitted provided that the purpose of the derivative is to achieve an investment objective at lower cost and/or risk than would be the case with direct investments in the underlying securities. The System may also invest in strategies which use derivatives to obtain leverage. In all such cases, the use of derivatives must be disclosed to the

Board prior to the Board's approval, and the strategy must be structured so as to limit System liability to the amount committed to the strategy.

Leverage

The System may invest in strategies in which managers have discretion to use leverage. The use of leverage in any strategy must be disclosed to the Board prior to the Board's approval, and the strategy must be structured so as to limit System liability to the amount committed to the strategy.

Fossil Fuel and Private Prison Investments

The System may invest in strategies providing managers with broad discretion in the selection of investments. The potential for fossil fuel or for-profit prison investment must be disclosed to the Board prior to the Board's approval of a strategy. For those strategies likely to invest in stocks, securities or other obligations of fossil fuel or for-profit prison assets, disclosures will include a description of the expected role of such investments in the proposed strategy and discussion of the process leading to the selection of the strategy.

On an annual basis, the Board will be provided with a report summarizing the System's fossil fuel and for-profit prison investments. This report will include a discussion of the actual and expected changes in these exposures, and analysis of these exposures within the context of the divestment statutes, 5 M.R.S. §§ 1957 and 1958.

Hedging

The Board has reviewed the benefits and risks associated with foreign currency exposures. As a general rule the Board has chosen not to hedge currency at the portfolio level. Unless otherwise directed asset managers will have discretion to hedge investments under their management as they deem most beneficial to their mandate.

Transaction Costs and Brokerage

The Board of Trustees expects investment managers, in their capacity as fiduciaries, to manage transaction costs in the best interests of the System as an investor. To enable the managers to fulfill this fiduciary duty, it is the Board's policy not to be party to directed brokerage programs.

Securities Lending

The System may participate in a securities lending program either directly through its separately managed portfolios or indirectly through its investments in pooled vehicles. In each case, the securities lending program must focus on low risk, as opposed to maximization of returns. All DB Plan Assets are available for securities lending.

Monitoring

The Board relies on the Investment Team and the investment consultant(s) to continuously monitor the investment program and to report to the Board as outlined below.

- the Investment Team and investment consultant(s) provide comprehensive periodic reports on the entire investment program, including asset allocation, performance of each component relative to benchmarks, attribution analysis, and commentary.
- the Investment Team and investment consultant(s) monitor changes and developments at investment managers and at custodian(s) on an ongoing basis and report significant changes or events with recommended actions as needed.

Emergency Measures

Immediate action may be taken beyond the bounds of this policy under extraordinary circumstances and in order to preserve the best interests of the plans' participants by unanimous decision of the following:

- The Chair, or in the Chair's absence, Vice Chair of the Board
- The Chief Executive Officer, or in the Chief Executive Officer's absence, the Chief Operating Officer and General Counsel
- The Chief Investment Officer, or in the Chief Investment Officer's absence, Deputy Chief Investment Officer, or in the absence of both of them, the general investment consultant

Any such action must be reported to the Board of Trustees at the earliest opportunity.

Board Responsibilities – Investment Policy

Appendix 1: Asset Classes, Policy Weights and Ranges

Date Adopted: June 9, 2016

Date Amended: June 8, 2017; September 14, 2017; January 14, 2021; May 12, 2022

The System's assets are invested across nine Asset Classes that play four distinct Roles in the overall Fund. The Trustees define these Roles and Asset Classes and set target policy weights and ranges below.

	Weights		
	Minimum	Policy	Maximum
GROWTH	35%	42.5%	55%
Public Equity	20%	30%	40%
Private Equity	5%	12.5%	20%
RISK DIVERSIFIERS	0%	7.5%	12.5%
HARD ASSETS	15%	25%	35%
Real Estate	5%	10%	15%
Infrastructure	5%	10%	15%
Natural Resources	0%	5%	10%
CREDIT	5%	15%	20%
Traditional Credit	0%	5%	10%
Alternative Credit	0%	10%	15%
MONETARY HEDGE	5%	10%	15%
US Government Securities	5%	10%	15%
Cash	0%	0%	10%

Asset Class Definitions

The below Asset Class definitions are simplified and are intended to convey the general characteristics of investments held within each class. Some investment strategies involve assets and securities that span multiple asset classes.

Public Equity

Investments in publicly-traded shares of companies. May include different classes of common stock, shares of REITs, and MLPs.

Private Equity

Investments in non-publicly traded shares of companies. Investments are typically made via private limited partnerships, and may include both equity and debt securities.

Risk Diversifiers

Investments typically made through private funds that generally invest in listed assets such as stocks, bonds, and commodities, via strategies that are expected to have little correlation with declining or rising stock markets.

Real Estate

Investments providing direct exposure Real Estate, including investments through private funds.

Infrastructure

Investments typically made through private funds that generally invest in assets that meet most or all of the following criteria: provide essential public services, possess monopoly-like characteristics, provide long term contracted cash flows, and bear limited volumetric and price risk.

Natural Resources

Investments in private funds that generally invest in businesses focused on natural resources such as timberland, agriculture, and mining. Private energy investments will generally be included in Private Equity, rather than Natural Resources.

Traditional Credit

Investments in investment-grade debt instruments that are not issued by the U.S. Government. Such debt may or may not be registered for sale to the general public.

Alternative Credit

Investments in debt instruments issued by non-investment grade and unrated entities. This may include, but is not limited to high yield debt, bank loans, structured debt, and asset-backed debt. Alternative credit investments are expected to pay or accrue periodic interest and to return principal at maturity. Distressed debt and other debt or yield-oriented securities that include equity-like exposures are considered Private Equity, not Alternative Credit.

Monetary Hedges

Investments in debt instruments issued by the U.S. Government, including nominal Treasury securities and Treasury Inflation Protected Securities (TIPS), held in approximately equal proportions.

Roles in the Overall Fund

Each of the above asset classes fills a specific Role in the overall portfolio. These Roles are defined below.

Growth Assets

Growth Assets are intended to reduce the system's funding needs in the long term by appreciating in value. Growth Assets possess inherently higher expected returns than other asset classes. Growth Assets also have higher expected volatility than other asset classes, and are expected to increase funding volatility in the short run.

Risk Diversifiers

Risk Diversifiers are investments that primarily derive their return from alpha (or active manager skill) as opposed to market directionality. Risk Diversifiers are expected to provide significant risk diversification benefits away from Growth Assets.

Hard Assets

Investments in the Hard Assets category provide exposure to long-lived "real" assets, such as real estate, timber, agricultural, and infrastructure assets. Expected return levels of Hard Assets are lower than those of Growth Assets, and a substantial portion of such returns is expected to come from ongoing cash flows. Hard Assets are expected to provide inflation protection, to have low correlation with Growth Assets, and to provide diversification benefits.

Credit Assets

Credit investments provide capital to end-users via loans and the purchase of debt securities. Such investments provide for contractual returns (interest) and repayment of principal. Credit investments possess lower risk and expected returns than equity investments, but have higher risk and expected returns than monetary hedges. Credit investments are expected to provide diversification away from Growth Assets.

Monetary Hedges

The role of Monetary Hedges in the portfolio is to provide liquidity and a safe harbor in times of turbulence. These investments are cash and obligations of the U.S. Government, and are considered to be free of default risk.

Board Responsibilities – Investment Policy

Appendix 2: Rebalancing

Date Adopted: June 9, 2016

Date Amended: May 12, 2022; July 14, 2022

The Board has set target weights for each Asset Class and Role in Portfolio category in Appendix 1, and delegates the management of asset class allocation to the Investment Team. The Investment Team is expected to maintain asset class weights near target, subject to considerations such as transactions costs and the unique funding and liquidity characteristics of private market investments.

To this end, the Team is permitted to reallocate capital within existing strategies and investments for rebalancing purposes. The Investment Team is expected to consider both Role in Portfolio and Asset Class policy weights when rebalancing. The Team will provide Trustees with reports showing the Fund's current asset allocation at least monthly, and report on rebalancing activity at least quarterly.

In the specific case of the System's Risk Diversifier allocation, the Investment Team is permitted to rebalance across existing managers and strategies, consistent with the goal of maintaining diversification within the allocation. Rebalancing activity will be reported to Trustees at least quarterly.

Board Responsibilities – Investment Policy

Appendix 3: Risk Strategy

Date Adopted: June 9, 2016

Date Amended: New

While this Risk Strategy is in development the Chief Investment Officer shall rely on the Strategic Asset Allocation and Rebalancing provisions of this policy to manage the Fund's risk.

The Investment Team and the Board believe that this approach will deliver an appropriate expected return with commensurate risk over a long term horizon. However they also recognize that the portfolio's realized risk will vary over time which may result in periods during which the fund bears substantially higher risk than the System initially targeted.

In an effort to achieve more stable (less volatile) returns, the Investment Team will seek to develop management tools and practices that they believe will be better able to keep the fund's risk in an acceptable range.

This Risk Strategy shall be updated from time to time by the Trustees to reflect recommendations developed by the Chief Investment Officer.

Nothing in the Risk Strategy shall override the Asset Classes, Policy Weights and Ranges described in Appendix 1.

Board Responsibilities – Investment Policy

Appendix 4: Policy Benchmarks

Date Adopted: June 9, 2016

Date Amended: June 8, 2017, January 14, 2021, May 12, 2022

Asset	Benchmark	Weight
Total Public Equity	Russell 3000 & MSCI ACWI ex-USA, based on ACWI weights	30%
Private Equity	Russell 3000 + 3%	12.5%
Diversifiers	0.3 Beta MSCI ACWI	7.5%
Real Estate	NCREIF Property (lagged one quarter)	10%
Infrastructure	CA Infrastructure Median	10%
Natural Resources	CA Natural Resources Median	5%
Traditional Credit	Barclays US Aggregate, ex Treasury	5%
Alternative Credit	50% BAML US HY II + 50% S&P/LSTA US Leveraged Loan Index	10%
U.S. Government Securities	50% Bloomberg Barclays U.S. Government Bond Market Index + 50% Bloomberg U.S. TIPS Index	10%

Board Responsibilities – Investment Policy

Appendix 4: Co-Investment

Date Adopted: June 9, 2016

Date Amended: June 8, 2017; January 14, 2021; May 12, 2022

Co-investments are permitted within private market asset classes, subject to the below guidelines.

Target Allocation	7.5% of total Fund. This target is a subset of the total 47.5% allocation to private market asset classes, and is not in addition to that allocation.
Asset Classes	Co-investment may be made in each of the private market asset classes.
Discretion	Investment Team has discretion to make co-investments, in conjunction with the asset class consultant.
Signatories	The Chief Executive Officer, Chief Investment Officer, and General Counsel are authorized as signatories to execute documents in connection with co-investments.
Permissible Partners	Unless otherwise authorized, co-investments will only be made alongside Funds in which the System is a current investor.
Size Limits	Unless otherwise authorized, maximum of \$25m invested into any single co-investment. Unless otherwise authorized, maximum of \$200m aggregate co-investment in a single asset class with any single General Partner. The Investment Team will provide additional co-investment portfolio reporting to Trustees for those General Partners with more than \$100m of aggregate co-investment in any single asset class.

MAINEPERS

BOARD OF TRUSTEES MEMORANDUM

TO: BOARD MEMBERS

FROM: MICHAEL J. COLLERAN, CHIEF OPERATING OFFICER & GENERAL COUNSEL
CHIP GAVIN, CHIEF SERVICES OFFICER
SHERRY VANDRELL, CHIEF FINANCIAL OFFICER

SUBJECT: MEMBER SERVICES, FINANCE, AND OPERATIONS REPORT

DATE: JANUARY 3, 2024

Content in the following paragraphs was selected to provide noteworthy information regarding the System's member services, finance, and operations.

POLICY REFERENCE

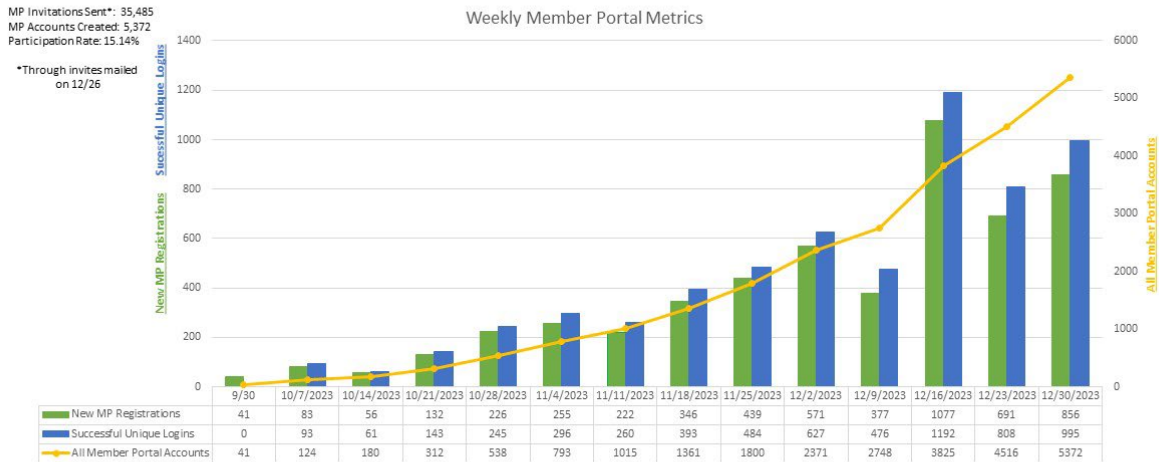
[Board Policy 4.5 – Board/Staff Relations](#)

[Board Policy 4.6 – Communications and Support to the Board](#)

MEMBER SERVICES

1. COLA: Planning for a special one-time Participating Local District COLA has begun and will be implemented with the February 2024 payroll pending approval of rulemaking by the Board of Trustees. The COLA will be communicated to affected retirees via mailed notices and emails prior to the February payroll. The COLA information also will be posted to the new MainePERS Member Portal and website www.maineopers.org
2. MEMBER PORTAL: The Member Portal has continued to grow. More than 5,000 portal accounts were registered by December 30, 2023, more than doubling the total accounts that existed at the time of the prior report to Trustees. The portal is part of Goal IV, Strategic Objectives (E) and (B) and other related components of the Strategic Plan. MainePERS is on track to have sent all expected invitations for portal participation by approximately the end of January 2024.

MainePERS effective January 2, 2024, newly began incorporating the portal into its daily work to serve members. That is, MainePERS staff are engaging callers in navigating to and registering to use the portal when it would serve the reason a person is contacting us, such as to obtain a document or update their contact information. The portal will gain greater visibility when it is publicly published online, becomes searchable via internet browsers, and is posted on the MainePERS website. Those steps are all anticipated in late January or February, 2024. We continue to solicit feedback from registrants to inform our efforts to improve Member Portal offerings.



- PENSION ADMINISTRATION SYSTEM (PAS) PROJECT:** Linea, the 3rd party advisor to MainePERS on this project, reports the overall PAS project is green, indicating overall stability and progress toward completion. MainePERS agrees. The PAS project supports Goals III and IV among other elements of the Strategic Plan.

Below is an excerpt of Linea’s most recently bi-weekly status report

Overall		Scope	
Schedule		Resources	
Project Lead	Denise Myers	Project Sponsor	CEO Rebecca Wyke
Project Start	July 17, 2023	Project End	Aug 20, 2024
Reporting Period	Nov 27, 2023 – Dec 22, 2023	Reporting Date	Dec 22, 2023
Audience	Chip Gavin, Michael Colleran, Joy Childs, Valerie Scott, Lauren Fowler, Donna Giatas, Timothy Poulin, Sherry Vandrell	Next Meeting Date	Dec 27, 2023

MainePERS as of January 3 had completed the fact-finding and information gathering discussion sessions of the fall, was deeply engaged in reviewing documentation based on those discussions to be incorporated in an eventual request for proposals, and had started drafting the RFP in collaboration with Linea. The Request for Proposals is scheduled to be released in the first half of CY2024.

Since the last Trustee meeting, no risks monitored by Linea have changed in their severity ratings. All remained stable. The project leader for Linea has been updated since the last report. The overall project per Linea’s status report remains green.

FINANCE

1. EMPLOYER REPORTING. Employers submitted defined benefit payrolls on time at a 97% rate in December. This compares to a rate of 87% for the same period last year. The number of accounts now fully reconciled through October data is now 499, or 76%. This is a slight increase in the number reported last month.

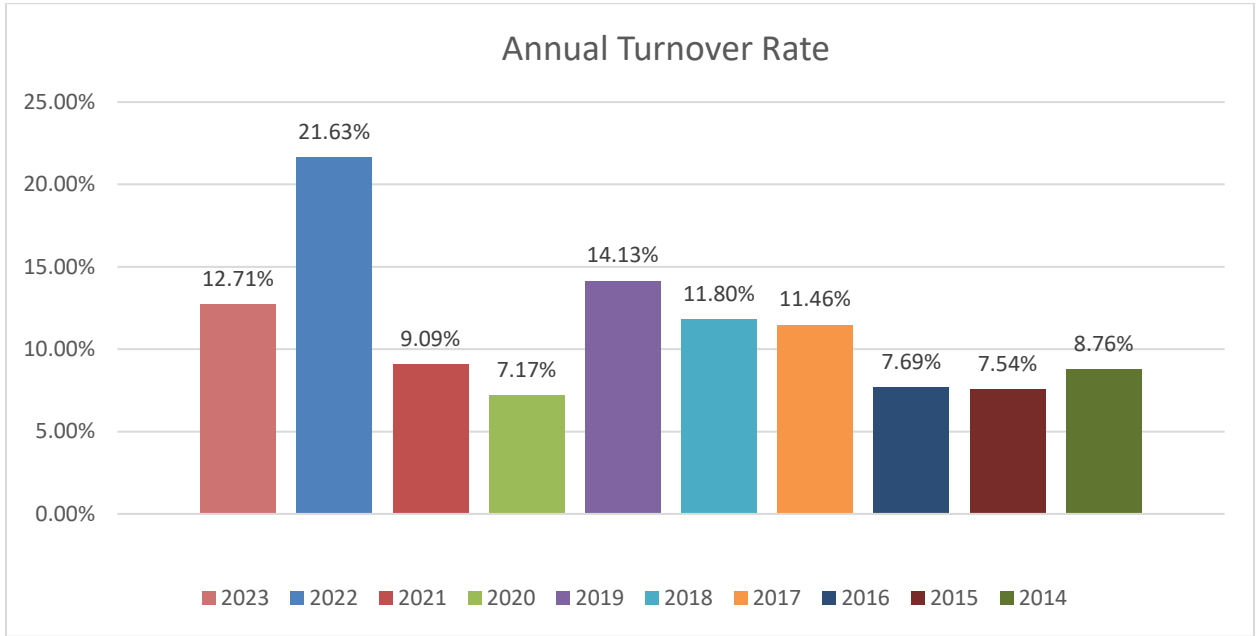
Last month we reported that another large employer has fallen behind in reporting due to a change in the business office staff along with a payroll application upgrade. This employer is actively engaged with our employer reporting training specialist to learn the process of filing payrolls and is making estimated payments. They have already made progress since we identified the issue by getting one delinquent report submitted and a second file is being reviewed by our staff now to make sure it is good to accept.

We have begun the process of engaging BerryDunn to assist us with reviewing payroll data submitted by one of our larger school districts where data integrity issues are a concern. This same employer also remains behind in filing reports with us.

2. EMPLOYER AUDITING. No audits were opened or completed in the month of December due to holiday schedules and other conflicts. The audit staff used the time to assist other parts of the organization with projects and followed up on the status of unresolved findings. The percentage of resolved findings to date remains at 95%
3. ACCOUNTING AND FINANCE. CliftonLarsonAllen continued the review of facilities management and controls throughout December, and that work is expected to be complete in January. Requests for estimates for two additional reviews have been sent to the two audit firms under contract, and I'm awaiting responses.

OPERATIONS

1. ADMINISTRATION: Our recently-promoted Director of Human Resources and Administration, Lynn Clark, will be introduced to the Board during the January meeting.
2. FACILITIES: We successfully completed hydrostatic testing of the fire department connection to our automatic sprinkler system, which is required every five years. We continue work with an engineering firm developing an RFP for a generator for our Augusta facility. Our Portland landlord has begun window sill replacement in conjunction with our lease renewal.
3. DOCUMENT CENTER: We now have updated contact information for more than 15,000 members and retirees since the beginning of our member portal mailing campaign in August.
4. HUMAN RESOURCES: We had no new employees start in December and one termination at the end of the month, the retirement of Rebecca Grant. We are recruiting for three openings. As shown in the chart below, retention improved significantly in 2023 compared to 2022.



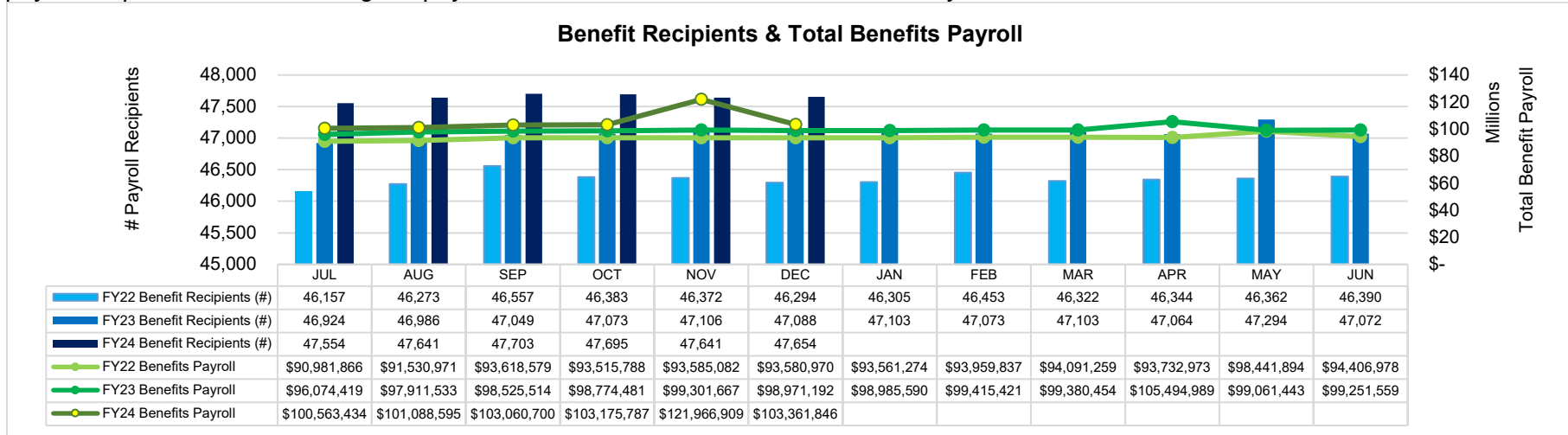
The turnover rate is measured by dividing terminations by positions on a monthly basis and aggregating annually.

RECOMMENDATION

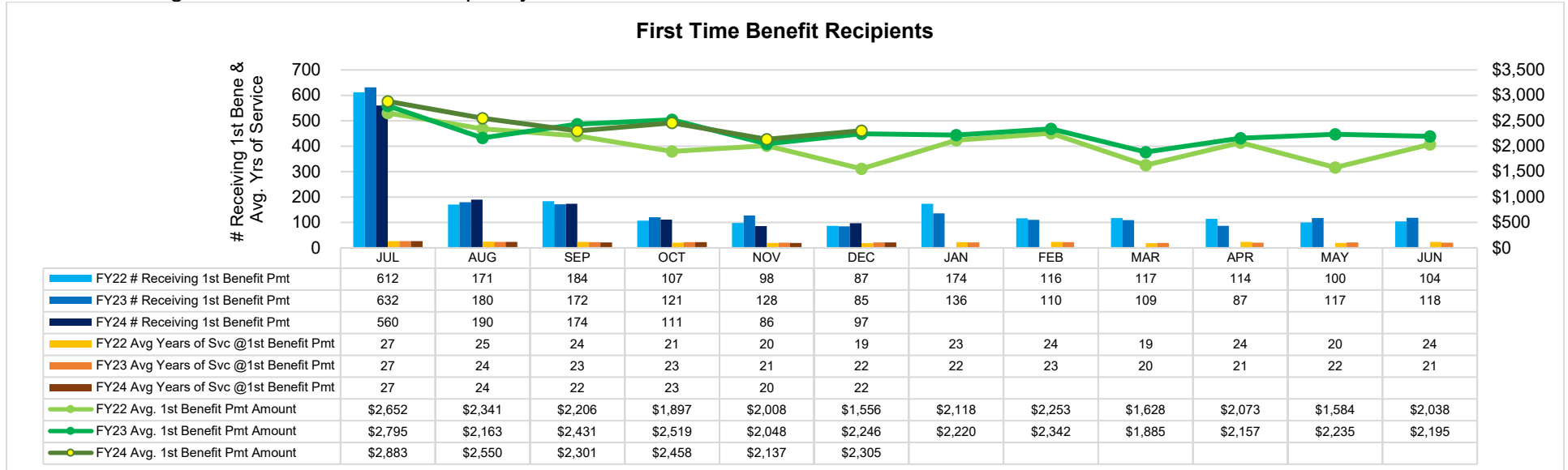
No Board action is recommended at this time.

RETIREMENT SERVICES

BENEFITS PAYROLL: Regular monthly pension benefit payments were made to 47,654 recipients in December, totaling \$103,361,846. *Note: Special payments paid outside of the regular payroll run are not reflected in the "Benefits Payroll" total.*



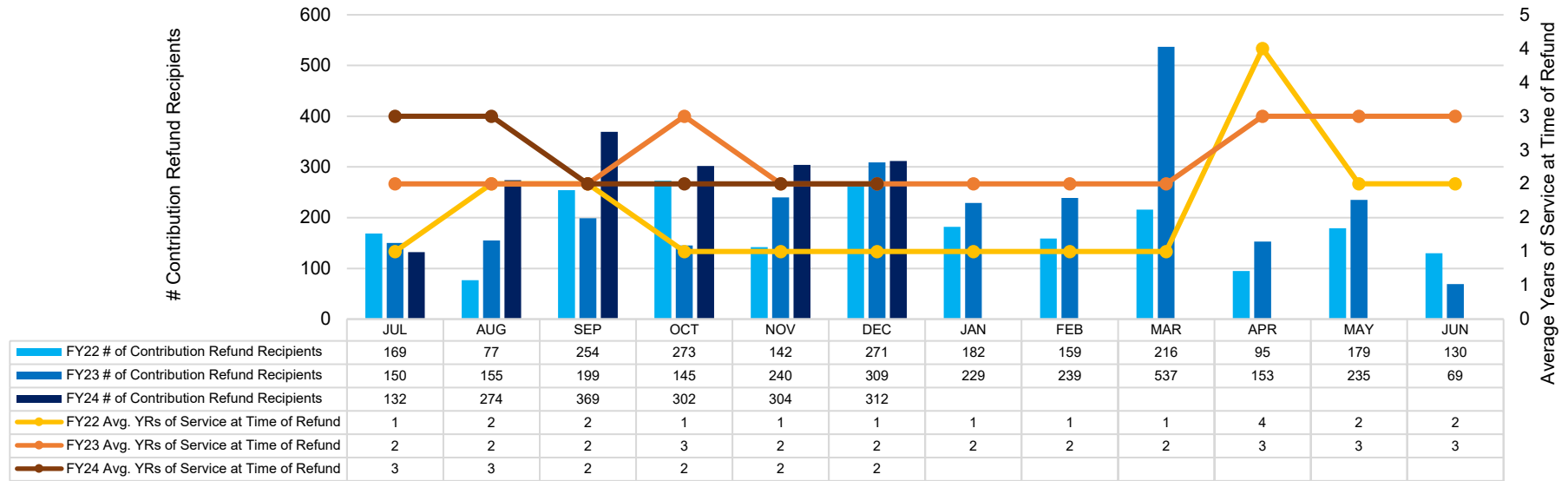
FIRST TIME BENEFIT RECIPIENTS: Ninety-seven (97) individuals received their first benefit payment in December. The average benefit amount was \$2,305. First time recipients averaged twenty (22) years of service. The count of new recipients, payment amount, and service are comparable to data seen during the same month in recent prior years.



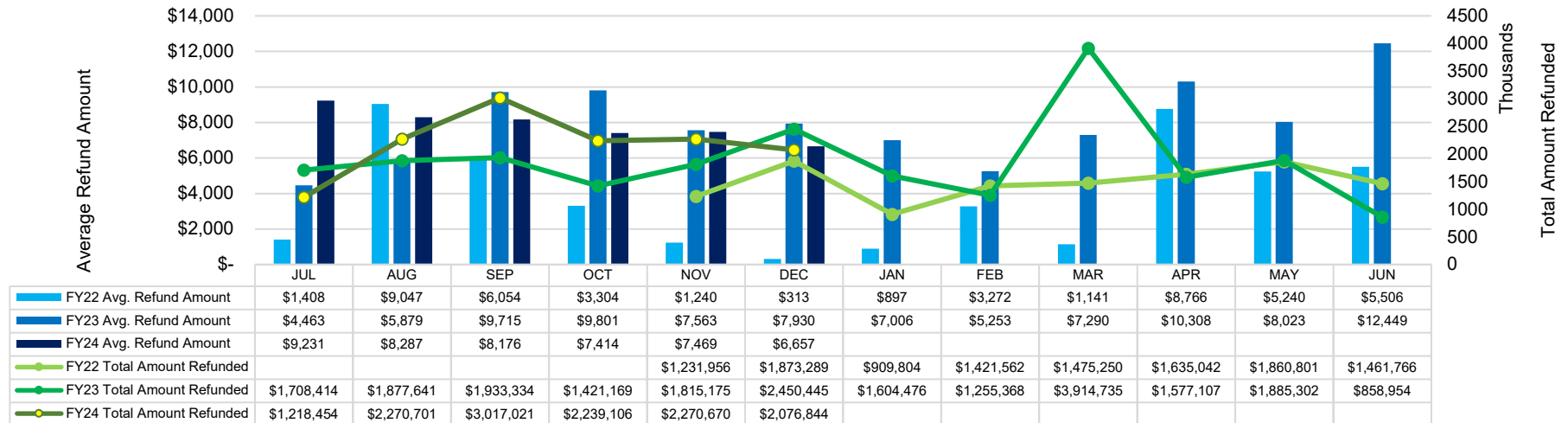
RETIREMENT SERVICES: continued

CONTRIBUTION REFUNDS: Three hundred twelve (312) former members received a refund of their contributions in December. The average refund was \$6,657 as the result of an average two (2) years of service. The aggregate amount refunded was \$2,076,844.

Contribution Refunds Issued: Total Number & Average Years of Service



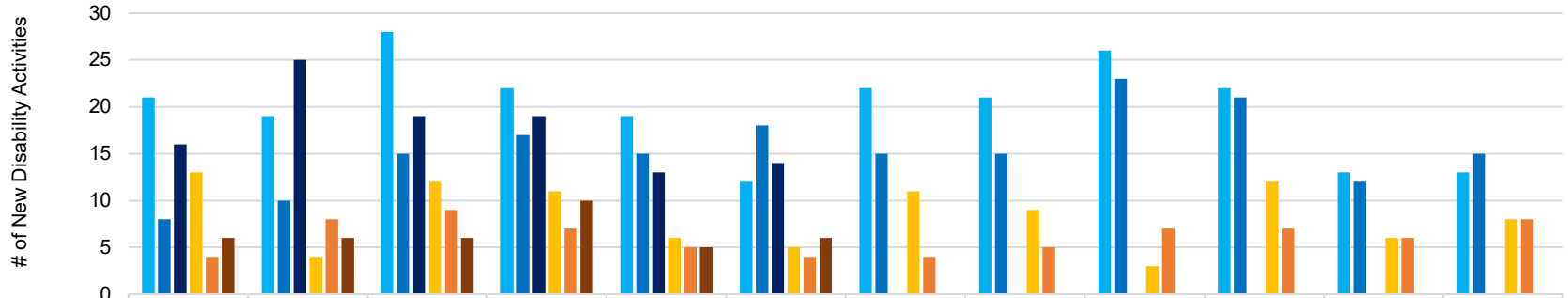
Contribution Refund Average Amount and Total Amount Refunded



DISABILITY SERVICES

Fourteen (14) intake interviews were completed in December with varying levels of detail and duration. Intakes included three (3) State members, six (5) Teacher members, four (4) PLD members and one (1) other. Six (6) new disability retirement applications were received in December.

Disability Applications and Intakes

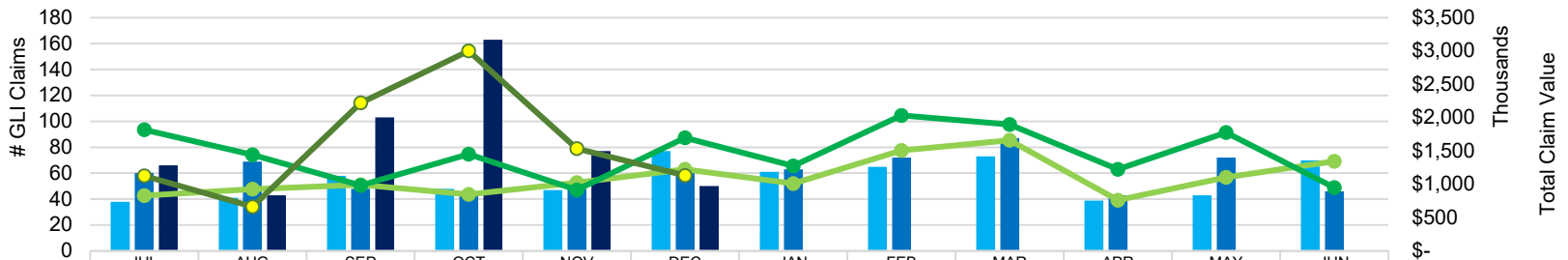


	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
FY22 # Disability Intake Interviews	21	19	28	22	19	12	22	21	26	22	13	13
FY23 # Disability Intake Interviews	8	10	15	17	15	18	15	15	23	21	12	15
FY24 # Disability Intake Interviews	16	25	19	19	13	14						
FY22 # Disability Retirement Applications	13	4	12	11	6	5	11	9	3	12	6	8
FY23 # Disability Retirement Applications	4	8	9	7	5	4	4	5	7	7	6	8
FY24 # Disability Retirement Applications	6	6	6	10	5	6						

SURVIVOR SERVICES

Fifty (50) life insurance claims were sent to our carrier (The Hartford) in December with a total value of \$1,131,030 in payments due to beneficiaries. Of the claims, forty-seven (47) were retirees claims, two (2) were active members claims and one (1) was an active dependent claim.

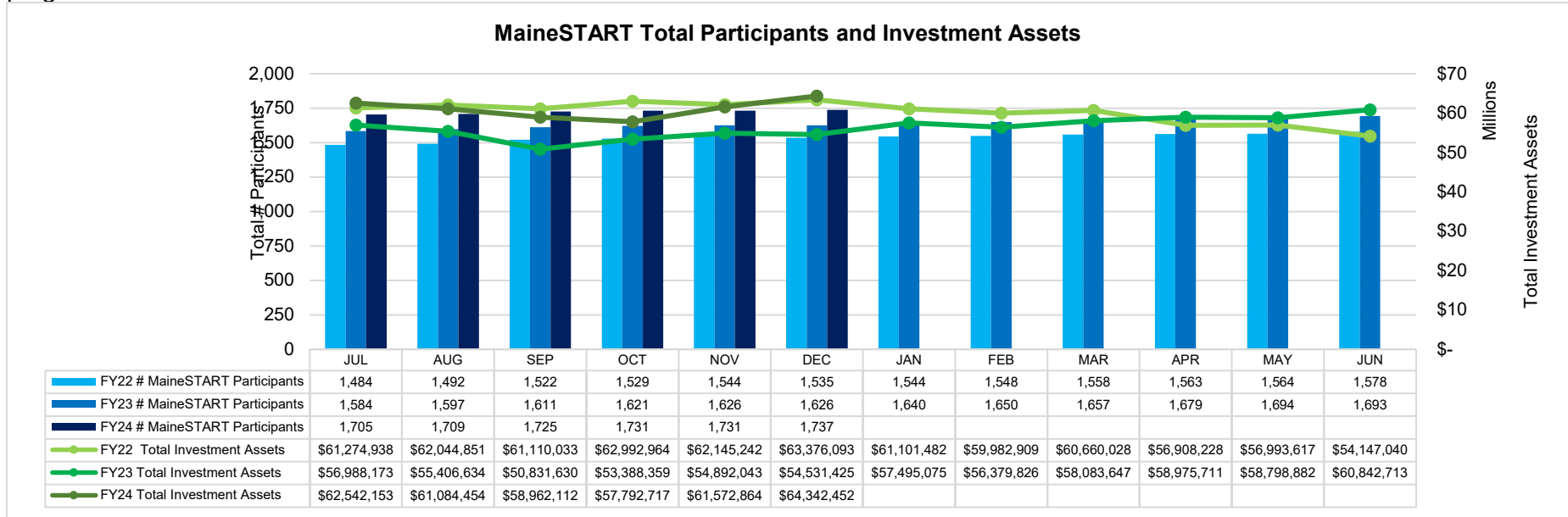
Group Life Insurance Claim Numbers and Total Claim Values



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
FY22 # Life Insurance Claims Filed	38	41	58	48	47	77	61	65	73	39	43	70
FY23 # Life Insurance Claims Filed	60	69	48	45	48	64	63	72	87	43	72	46
FY24 # Life Insurance Claims Filed	66	43	103	163	77	50						
FY22 Total Claim Value	\$830,400	\$928,180	\$993,600	\$848,665	\$1,024,430	\$1,226,560	\$1,012,780	\$1,509,130	\$1,660,260	\$762,745	\$1,104,050	\$1,345,580
FY23 Total Claim Value	\$1,820,300	\$1,444,925	\$983,345	\$1,452,840	\$916,000	\$1,695,725	\$1,273,690	\$2,033,603	\$1,898,640	\$1,223,055	\$1,776,990	\$948,865
FY24 Total Claim Value	\$1,129,025	\$664,345	\$2,223,120	\$2,999,780	\$1,535,415	\$1,131,030						

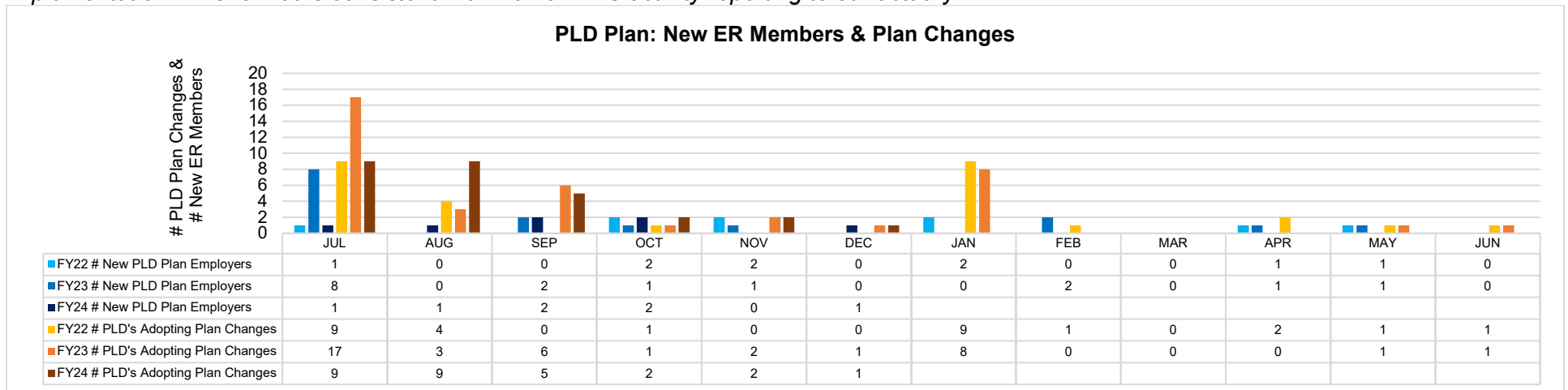
DEFINED CONTRIBUTION PLAN SERVICES

MaineSTART had one thousand seven hundred thirty-four (1,734) participants at the end of December with \$64,342,452 of investment assets in the program.



PLD PLAN ADMINISTRATION

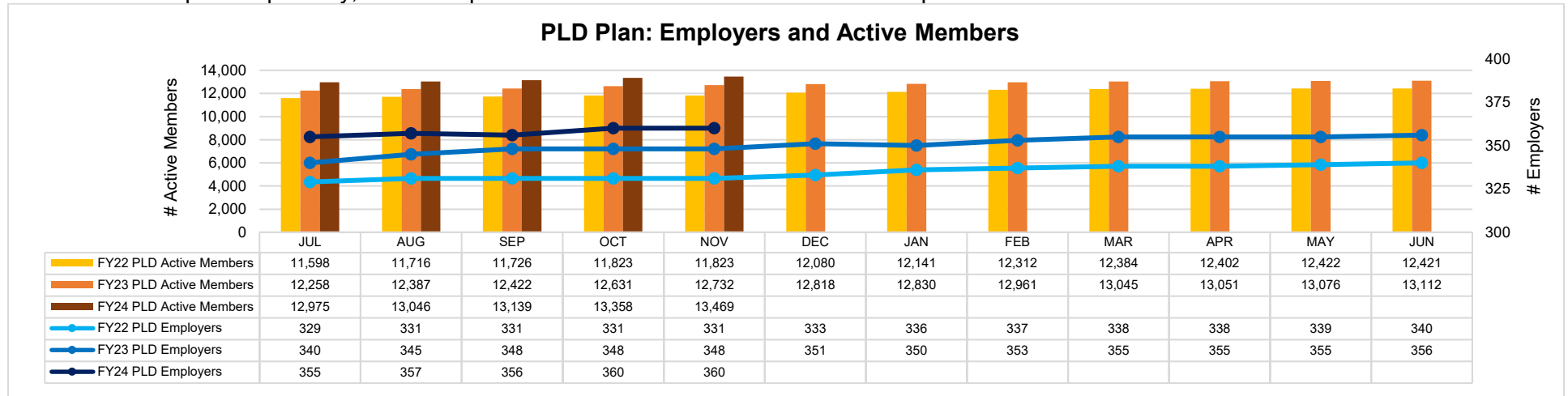
There was one (1) new employer joined the PLD Retirement Program effective December 1, 2023. There was one (1) employer plan changes effective in December 01, 2023. *Note: This metric reflects PLD employer changes (joining, returning, adopting plan changes) in the month of their implementation. This format is consistent with MainePERS activity reporting to our actuary.*



PLD PLAN ADMINISTRATION – Continued

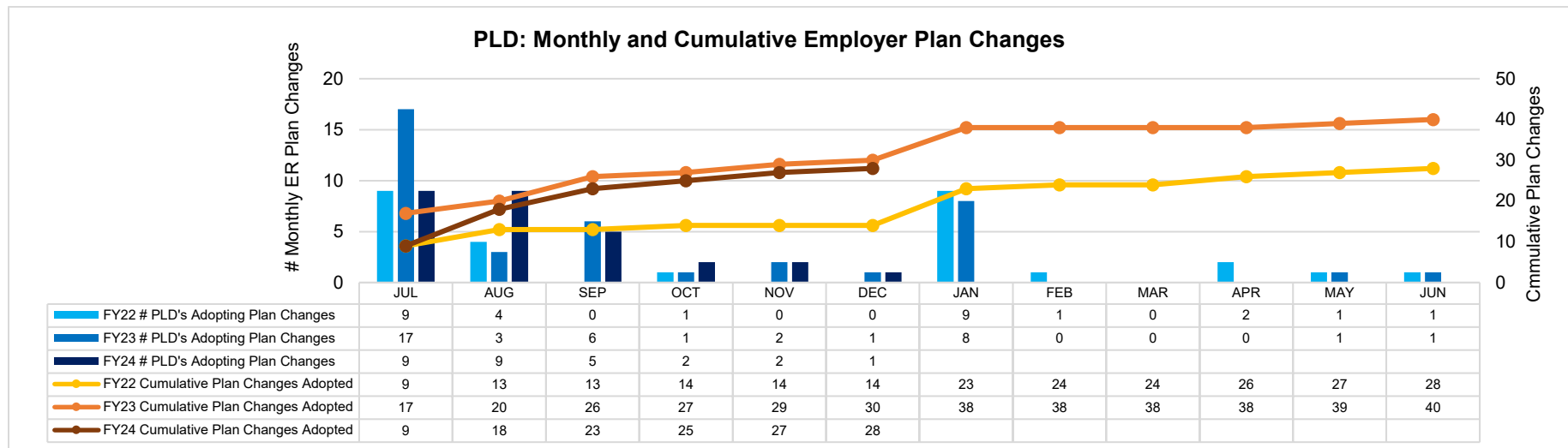
PLD Plan - Cumulative Employer and Member Numbers

PLD employers remain unchanged at 360 through November; PLD Employee numbers increased 0.8% (111 employees) month-over-month. This metrics will be reported quarterly; the next update will be included in the March 2024 report.



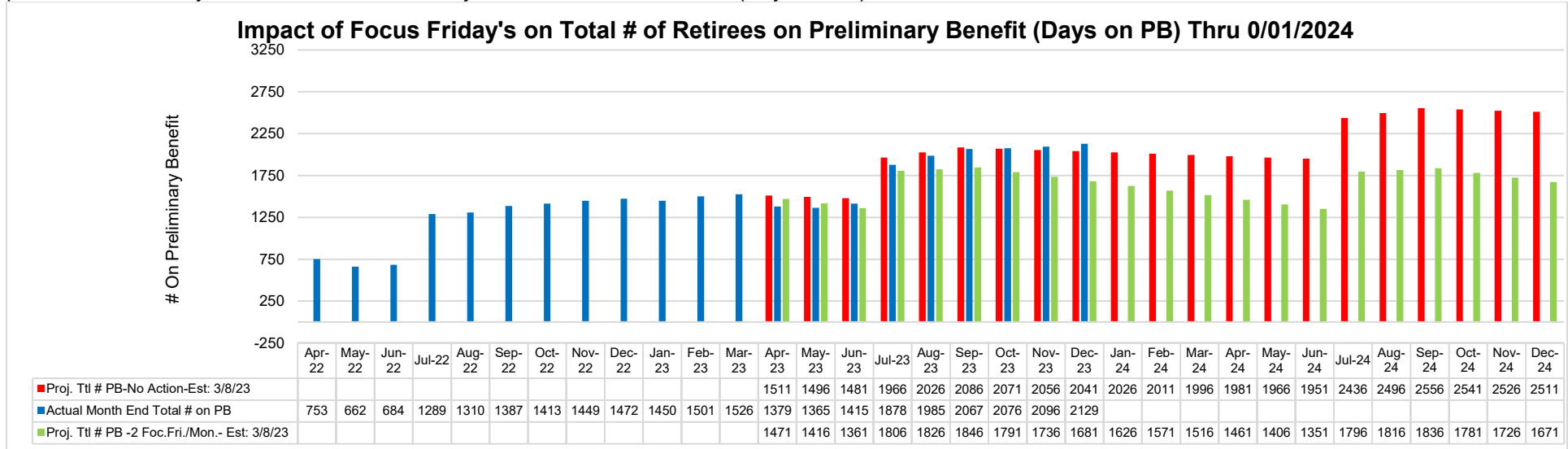
PLD PLAN - MONTHLY AND CUMULATIVE EMPLOYER PLAN CHANGES

There was one (1) new employer joined the PLD Retirement Program effective December 1, 2023. There was one (1) employer plan changes effective in December 01, 2023 bringing total plan change this FY to 28. *Note: This metric reflects PLD employer changes (joining, returning, adopting plan changes) in the month of their implementation. This format is consistent with MainePERS activity reporting to our actuary.*



FOCUS FRIDAY IMPACT ON BACKLOG REDUCTION

PRELIMINARY TO FINAL BENEFIT (PB TO FINAL) BACKLOG THROUGH JANUARY 1, 2024: The backlog projections and reporting below are based on a data point that counts days since an initial Preliminary Benefit disbursement date (Days on PB) occurred.



SERVICE RETIREMENT ESTIMATE BACKLOG THROUGH JANUARY 1, 2024: The backlog projections and reporting below are based on data that count the total number of open Service Retirement Estimate workflows.

