



MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

**Briefing to the Joint Standing Committee on
Labor and Housing
January 31, 2023**

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Presentation Outline

- ▶ About MainePERS, p 3
- ▶ Defined Benefit Plans, p 24
- ▶ Maine's State/Teacher Plan, p 28
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 - ▶ State/Teacher Plan
 - ▶ Legislative Plan
 - ▶ Judicial Plan
 - ▶ Participating Local Districts Plan

About MainePERS



Statutory Purpose

- ▶ “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

Benefits Administered

▶ **Defined Benefit Plans**

- ▶ Service Retirement and Disability Retirement
- ▶ Provide a lifelong income stream in retirement based on years worked, final average salary and age at retirement
 - ▶ State sponsored plans: State/Teacher, Legislative and Judicial
 - ▶ Participating Local District plans

▶ **Defined Contribution Plans - MaineSTART**

- ▶ Provide a variable retirement benefit based on employee contributions

▶ **Group Life Insurance**

- ▶ Provide basic, supplemental, and dependent coverage



Participating Employers & Members

- ▶ MainePERS has approximately 600 employers
 - ▶ State, county and municipal governments
 - ▶ School districts
 - ▶ Others
- ▶ MainePERS has over 160,000 members
 - ▶ 52,717 active members
 - ▶ 60,672 inactive members
 - ▶ 49,166 retired members and beneficiaries

Board of Trustees

- ▶ State law specifies the composition of the 8-member Board:
 - ▶ Two are System members
 - ▶ One proposed/elected by the Maine Education Assoc
 - ▶ One proposed/elected by the Maine Service Employees Assoc
 - ▶ One is a member/retiree of a participating local district (PLD) appointed by the Maine Municipal Association
 - ▶ Four are appointed by the Governor
 - ▶ One a retiree selected from a list of nominees by the Maine Retired Teachers Association
 - ▶ One a retiree selected from a list of nominees by State and/or PLD retirees, or the Maine Association of Retirees
 - ▶ Two are appointed by the Governor knowledgeable in investments, accounting, banking, insurance or as actuaries
 - ▶ Treasurer of State is ex-officio

Labor & Housing Committee

130th Legislature - Requests

- ▶ In February 2022, pursuant to the Government Evaluation Act, the Committee reported out on its review and evaluation of MainePERS
- ▶ The Committee found that MainePERS was operating within its statutory authority
- ▶ The Committee also requested additional information for its 2023 orientation on MainePERS, specifically:
 - ▶ Progress on the Strategic Plan, including employee feedback on the culture change initiatives
 - ▶ Member satisfaction in general, and
 - ▶ The experience of the System and members under the new provisions of the law for the disability retirement program

Strategic Plan *-adopted by Board of Trustees August 11, 2022*

Goals

- I. Preservation of the Trust Fund
- II. Stability of the contribution rates
- III. Security and integrity of our information systems
- IV. Cultivation of a member-centric organization
- V. Development of stakeholder relations
- VI. Foster an engaged workforce that advances the organization's mission

<https://www.mainebers.org/about/strategic-plan>

Strategic Plan cont.

Mission

MainePERS partners with public employers to deliver retirement and related services.

Vision

MainePERS is a trusted and effective fiduciary focused on meeting the needs of active and retired members, beneficiaries and employers.

Employee Engagement in the Strategic Planning Process

- ▶ Engaged in an iterative process with staff to develop the mission, vision and organizational values for the Strategic Plan
- ▶ Staff participated in 2 rounds of small group meetings, several staff surveys, 1 public survey, and multiple All Staff meetings
- ▶ Development of the organizational values engaged all staff and was led by staff members selected by their peers

Organizational Values

Accountability - Respect - Collaboration

Stewardship - Agility

Employee Engagement cont.

- ▶ The small group meetings and surveys were constructive in refining the mission and vision statements and developing the organizational values
- ▶ Additionally, staff provided other important feedback:
 - ▶ Recognition that a change in culture is needed
 - ▶ Staff are stretched thin, and morale is fragile
 - ▶ Staff need more training and development
 - ▶ Staff need to be engaged and valued
 - ▶ Staff need a sense of community and team
 - ▶ Recognition that culture change takes time, engagement of staff, and attention by leadership

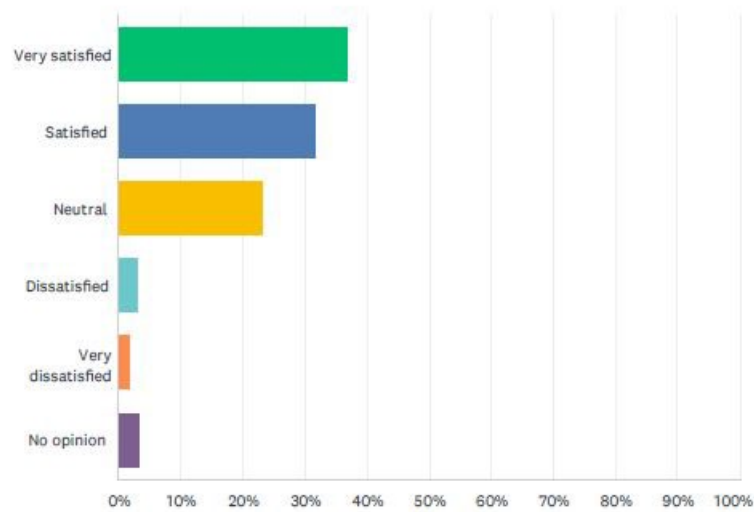
Employee Engagement cont.

- ▶ Actions taken to date:
 - ▶ Asked staff to lead the development of the organizational values and present to the Board of Trustees
 - ▶ Chartered a staff-led Organizational Values Steering Committee to lead the cultural change efforts
 - ▶ Chartered a staff-led Events Committee to lift morale and build community
 - ▶ Added 2 training specialists to support onboarding and professional development
 - ▶ Provided DEI training to engender understanding and respect
- ▶ Follow-up staff survey is currently underway
- ▶ Progress has been made, but there is more work to be done

Member Survey - Actives

Q1 Please rate your overall satisfaction with MainePERS

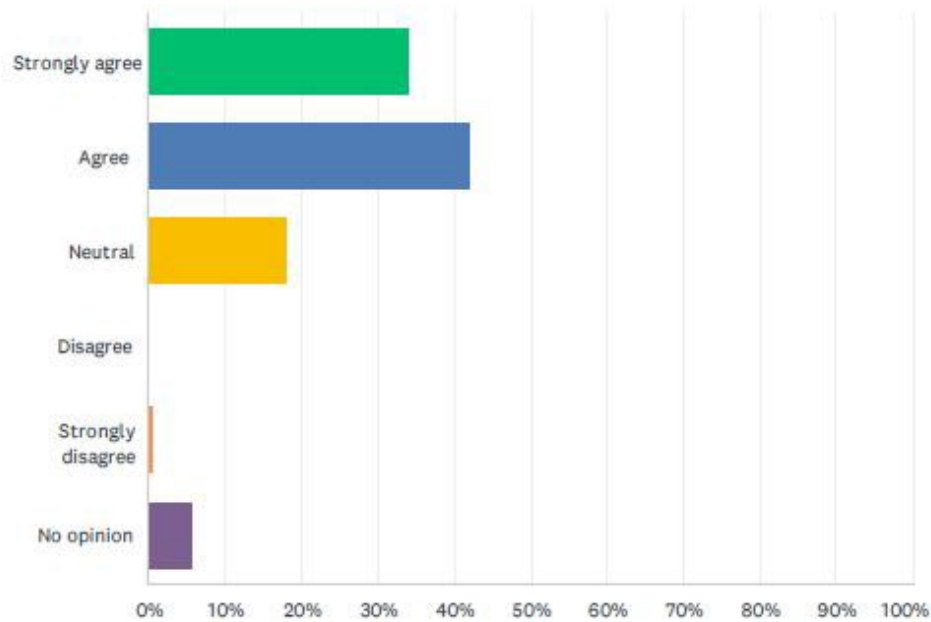
Answered: 233 Skipped: 3



ANSWER CHOICES	RESPONSES	
Very satisfied	36.91%	86
Satisfied	31.76%	74
Neutral	23.18%	54
Dissatisfied	3.00%	7
Very dissatisfied	1.72%	4
No opinion	3.43%	8
TOTAL		233

Q4 MainePERS acts with integrity

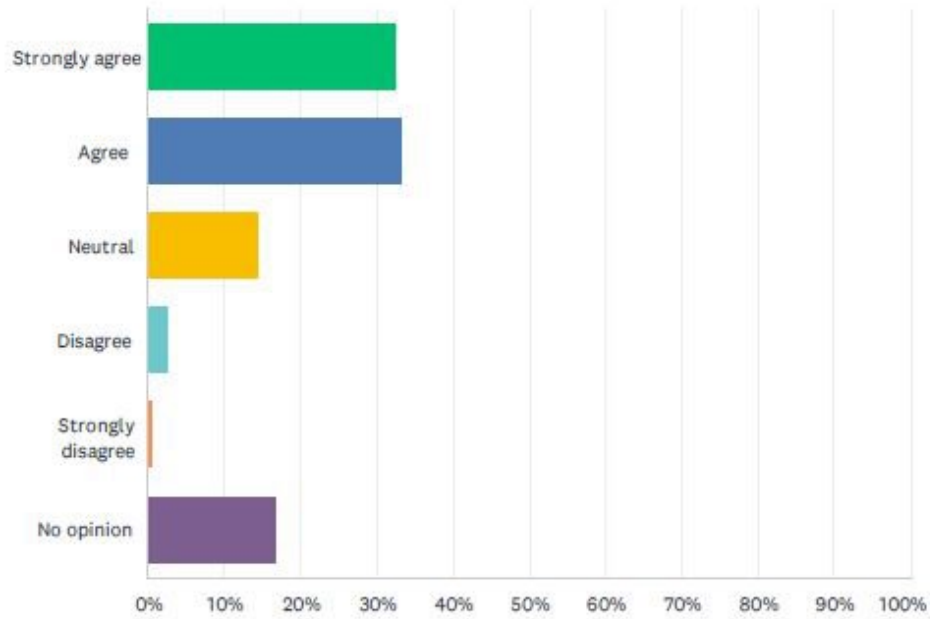
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ANSWER CHOICES	RESPONSES	
Strongly agree	33.90%	80
Agree	41.95%	99
Neutral	18.22%	43
Disagree	0.00%	0
Strongly disagree	0.42%	1
No opinion	5.51%	13
TOTAL		236

Q8 MainePERS Staff are knowledgeable

Answered: 234 Skipped: 2



ANSWER CHOICES	RESPONSES	
Strongly agree	32.48%	76
Agree	33.33%	78
Neutral	14.53%	34
Disagree	2.56%	6
Strongly disagree	0.43%	1
No opinion	16.67%	39
TOTAL		234

Active Member Responses

Indicate a desire for:

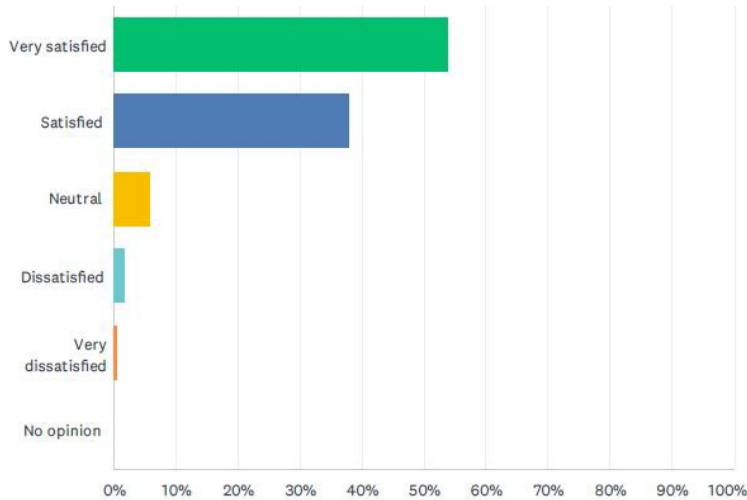
- ▶ More frequent communication
- ▶ Information that is easier to understand
- ▶ More timely responses to questions raised
- ▶ Pre-retirement informational meetings
- ▶ Retirement security planning seminars

Additionally, 73.73% of respondents indicated they would use a secure online member portal

Member Survey - Retirees

Q1 Please rate your overall satisfaction with MainePERS

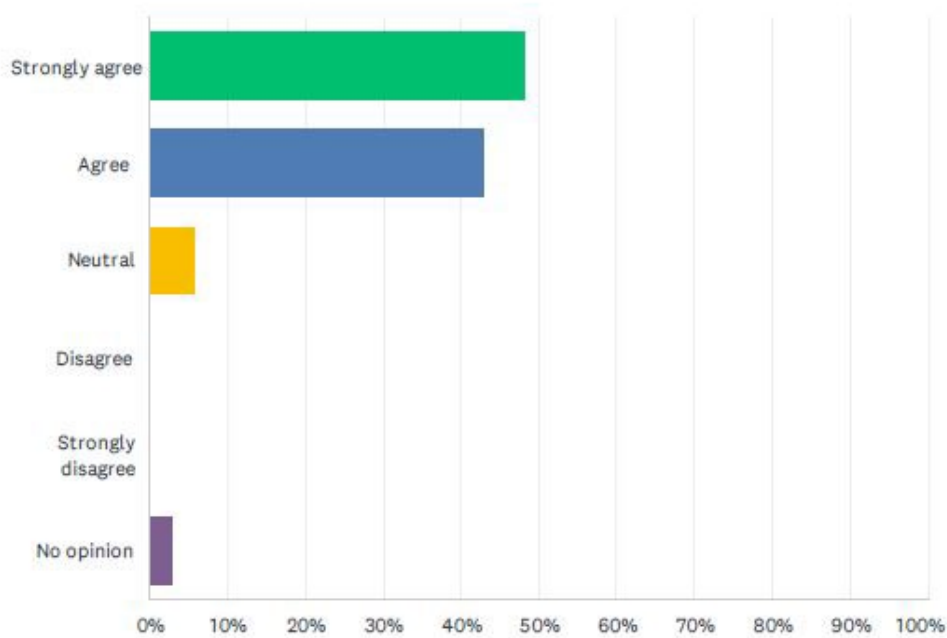
Answered: 414 Skipped: 2



ANSWER CHOICES	RESPONSES	
Very satisfied	53.86%	223
Satisfied	37.92%	157
Neutral	5.80%	24
Dissatisfied	1.69%	7
Very dissatisfied	0.48%	2
No opinion	0.24%	1
TOTAL		414

Q4 MainePERS acts with integrity

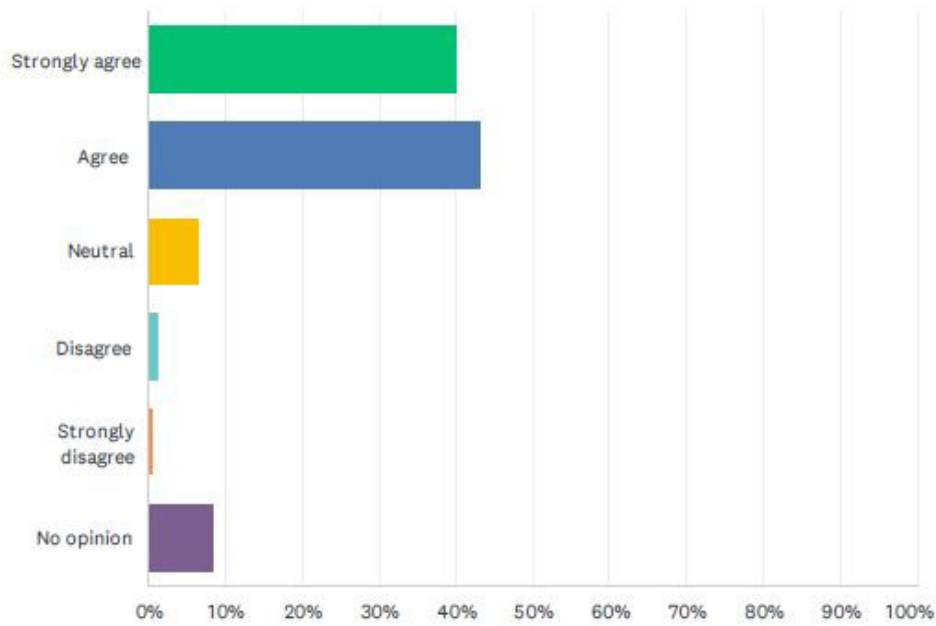
Answered: 415 Skipped: 1



ANSWER CHOICES	RESPONSES	
Strongly agree	48.19%	200
Agree	42.89%	178
Neutral	5.78%	24
Disagree	0.00%	0
Strongly disagree	0.24%	1
No opinion	2.89%	12
TOTAL		415

Q8 MainePERS Staff are knowledgeable

Answered: 414 Skipped: 2



ANSWER CHOICES	RESPONSES	
Strongly agree	40.10%	166
Agree	43.24%	179
Neutral	6.52%	27
Disagree	1.21%	5
Strongly disagree	0.48%	2
No opinion	8.45%	35
TOTAL		414

Retired Member Responses

Indicate General Satisfaction Regarding:

- ▶ Frequency of communication
- ▶ Clarity of information
- ▶ Timeliness of responses
- ▶ Retired members also:
 - ▶ want information on cybersecurity and identity theft
 - ▶ are concerned about the COLA base and cap, the Social Security WEP and GPO, and retiree health insurance*

Additionally, 67.47 % of respondents indicated they would use a secure online member portal

**Retiree Health Insurance is administered by the Office of Employee Health and Wellness, DAFS*

Disability Retirement Program Experience Report

- ▶ Public Law 2021, c. 277, effective October 2021
- ▶ Required a report on the experience of the system and its members
- ▶ MainePERS conducted an extensive first year review:
 - ▶ Program Audit
 - ▶ Evaluation of Medical Review Service Provider (UMass)
 - ▶ Member Experience Survey
 - ▶ Consensus-based Rulemaking
- ▶ Report will be presented to the Committee on Feb 2nd

Experience Report cont.

- ▶ Key takeaways:
 - ▶ Program audit demonstrates program is functioning consistent with Public Law 2021, c. 277
 - ▶ New provisions ensure member every opportunity to provide information and enable an accurate assessment of their eligibility
 - ▶ As a result, application process takes longer, but is more likely to result in a determination of approval
 - ▶ Member experience to date is positive
 - ▶ 100% agree they were treated respectfully
 - ▶ 92% agree process was easy to understand/follow
 - ▶ 92% agree the process was fair

Defined Benefit Plans



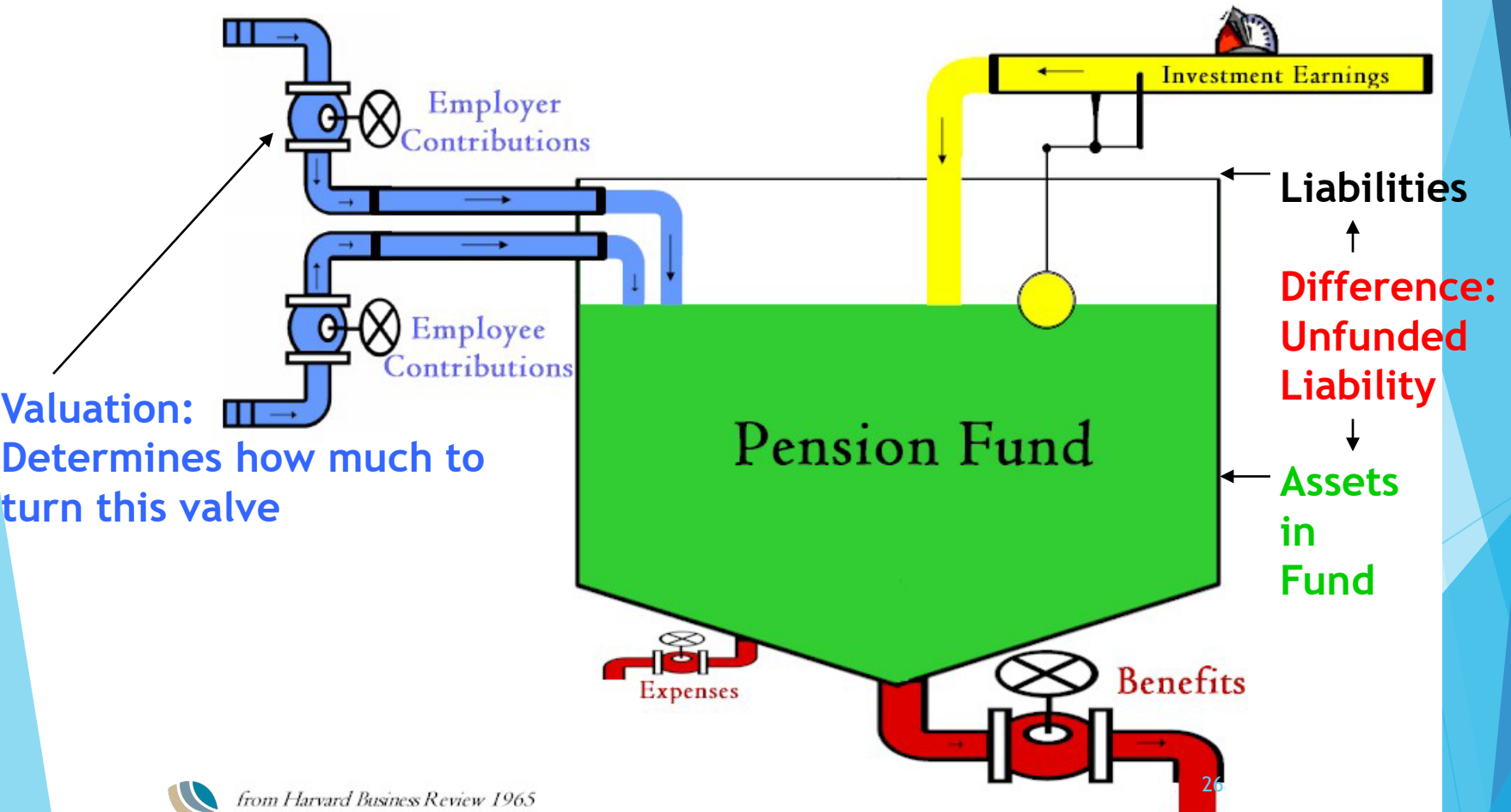
Defined Benefit Plans


- ▶ Provide members with a fixed benefit throughout retirement
- ▶ Fixed benefit is generally calculated using:
 - ▶ The average of highest 3 years of salary (AFC)
 - ▶ The number of years worked under the plan (service credit)
 - ▶ A multiplier of 2%
- ▶ Special Plans typically permit retirement with fewer years of service, at an earlier age, and/or with a different multiplier
- ▶ The monthly retirement benefit at normal retirement age is:
$$\text{AFC} \times \text{service credit} \times \text{multiplier} \div 12 = \text{monthly benefit}$$

Example: \$60,000 X 20 yrs X .02 = \$24,000/12 = \$2,000
- ▶ State of Maine plans offer a variable cost-of-living adjustment subject to a COLA base and a COLA cap



Actuarial Valuation & UAL



 from Harvard Business Review 1965

Defined Benefit Plan Costs

Normal Costs (NC)

- ▶ Cost that covers retirement benefits earned in the current year
- ▶ If nothing changes, normal costs will cover the full cost of each member's retirement benefit throughout their life

Unfunded Actuarial Liability (UAL)

- ▶ UAL costs are calculated to restore full funding if trust fund losses have occurred

Events That Can Impact Costs

- ▶ Investment Losses
- ▶ Inflation/Deflation
- ▶ Unfunded Benefit Increases*
- ▶ Longevity Increases
- ▶ Employment Trends
- ▶ NC/UAL Payments not made*

Maine's State/Teacher Defined Benefit Plan



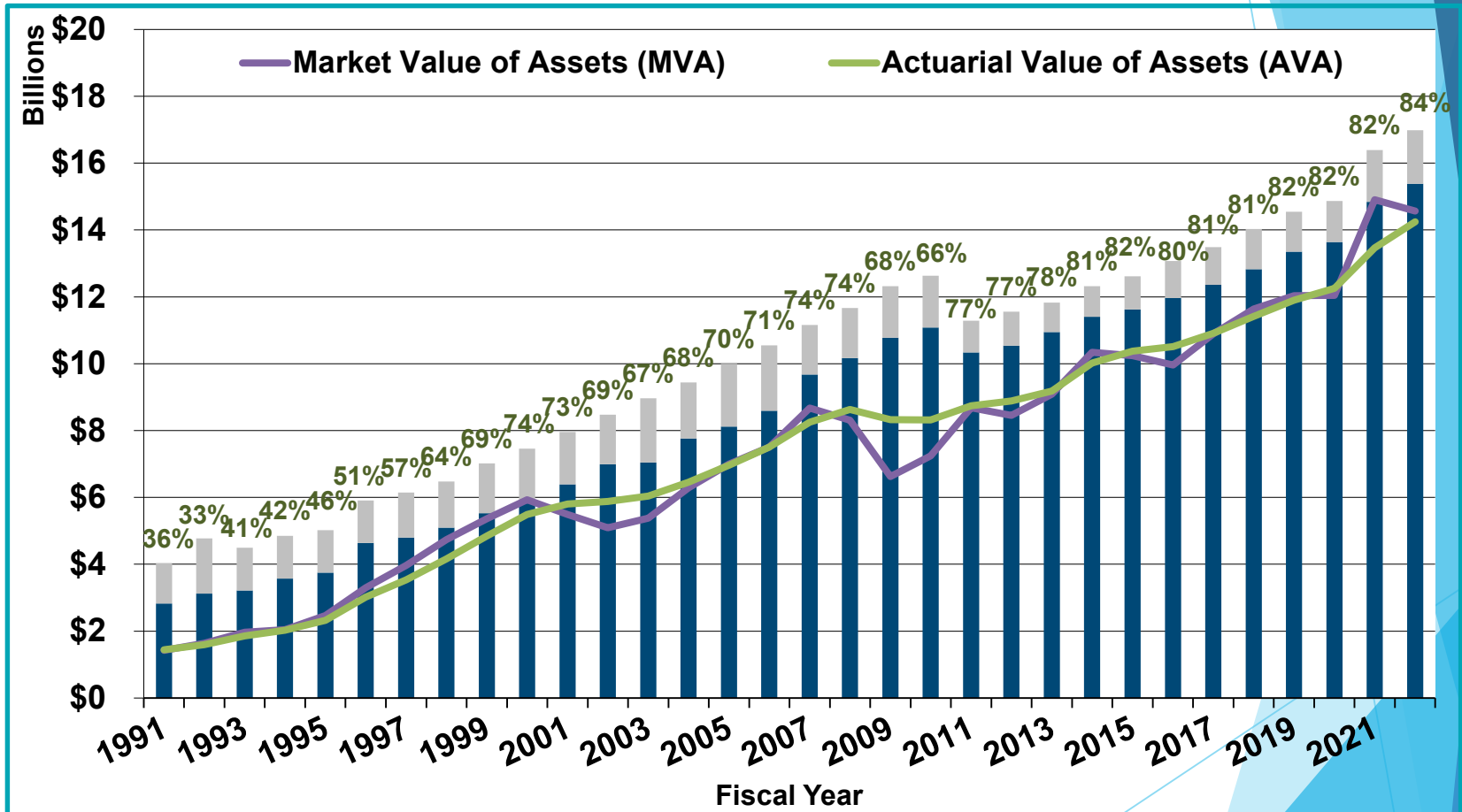
Maine's Constitution Guards the State/Teacher Plan

- ▶ Article IX, Section 18 limits the use of MainePERS trust funds to the “**exclusive benefit**” of members as pension plan recipients
- ▶ The Constitution further safeguards the plan by requiring:
 - ▶ The unfunded actuarial liability (UAL) on new benefits be funded at the time the liability is created
 - ▶ Experience losses be retired within 20 years
 - ▶ Normal costs be funded annually on an actuarially sound basis, and
 - ▶ The 1996 UAL be retired by 2028

Federal and State Laws & Regulations

- ▶ The “exclusive benefit rule” is also reflected in:
 - ▶ Maine Uniform Trust Code *18-B M.R.S. §802(1) & 5 M.R.S. §17153(3)*
 - ▶ Federal statutes and regulations that qualify MainePERS defined benefit plans for federal tax deferment *26 U.S.C. §401(a)(2) & 26 C.F.R. §1.401-2(a)(3)*
- ▶ The Maine Uniform Prudent Investor Act *18-B M.R.S. §902(1)*
 - ▶ Requires MainePERS to invest and manage trust assets as a prudent investor would
- ▶ Title 5, Part 20, State Retirement System

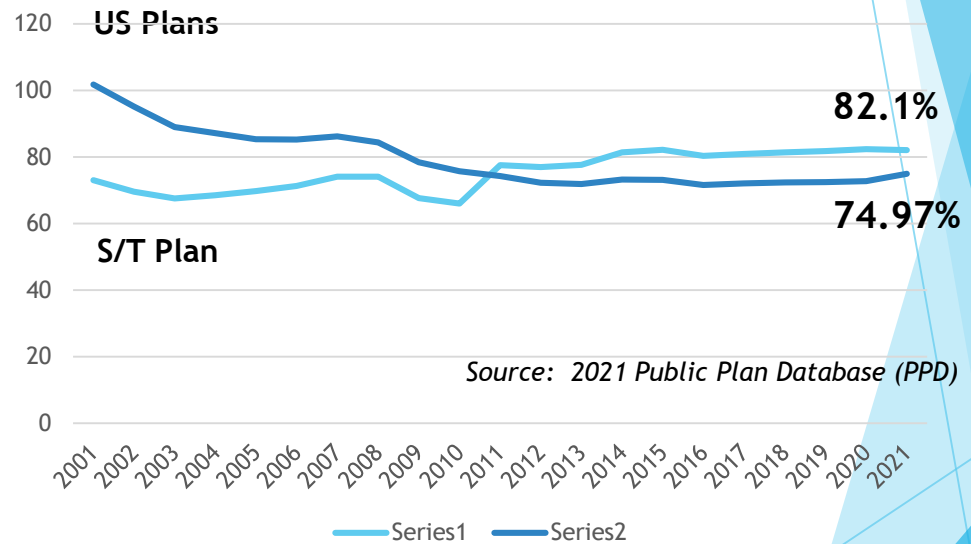
State/Teacher Funding History



How Does the S/T Plan Compare?

- ▶ The S/T Plan is well funded compared to the average of public pension plans, and is in the top 25th percentile of all public plans
- ▶ In FY22, Maine's S/T Plan is 83.9% funded

S/T and US Plan Funding Levels

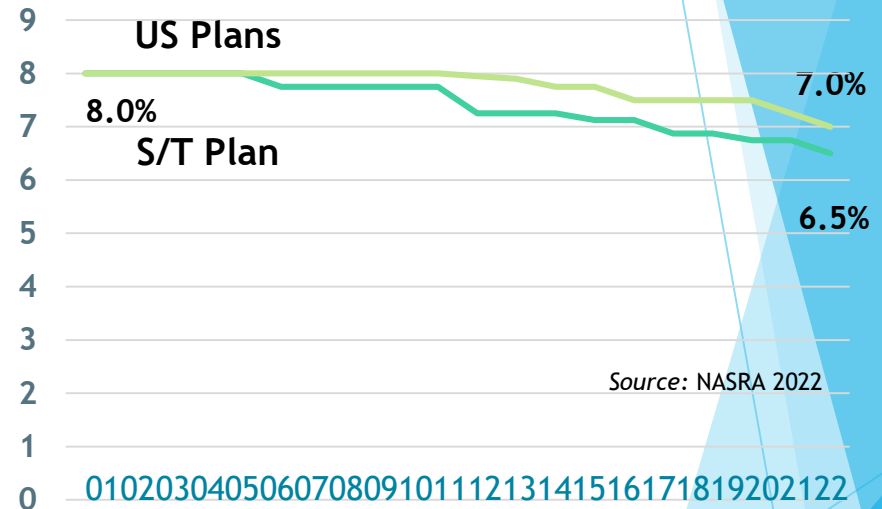


S/T Plan Earnings Assumption

Lowering Risk

- ▶ MainePERS has lowered risk by lowering the earnings assumption
 - ▶ Annual costs increase, because less is anticipated to be earned
 - ▶ However the earnings assumption is more likely to be met, therefore strengthening the plan
- ▶ Most states are working towards the MainePERS' rate, U.S. median currently at 7.0%

Plan Earnings Assumptions

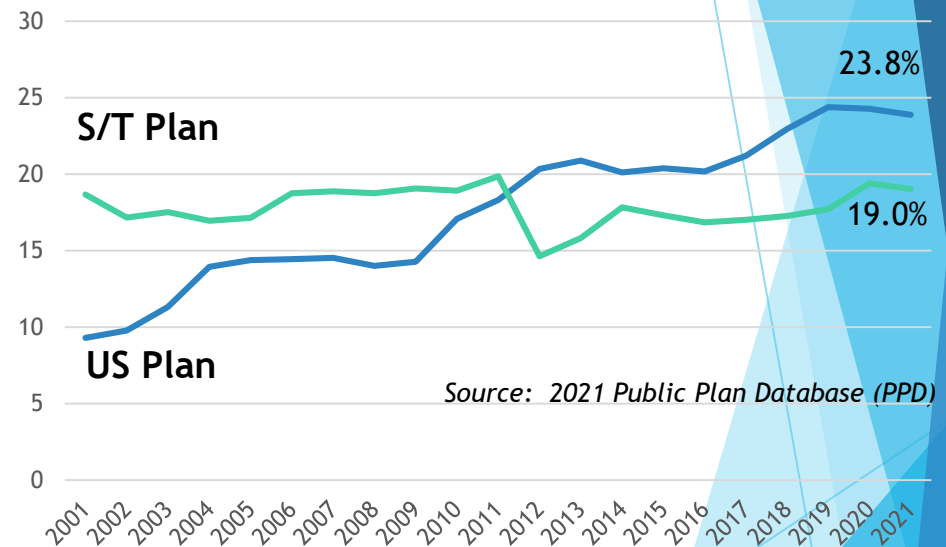


S/T Plan Contribution Rates

Stabilizing Rates

- ▶ S/T plan rates have stayed consistent over time because:
 - ▶ The UAL for new benefits must be funded at the time created
 - ▶ The State of Maine has consistently paid the full normal and UAL costs (ARC, Annual Required Contribution)
 - ▶ MainePERS has been de-risking the plan

S/T Plan ARC v US Plans Average as a % of Payroll



S/T Plan FY2022 Valuation

Investment Return

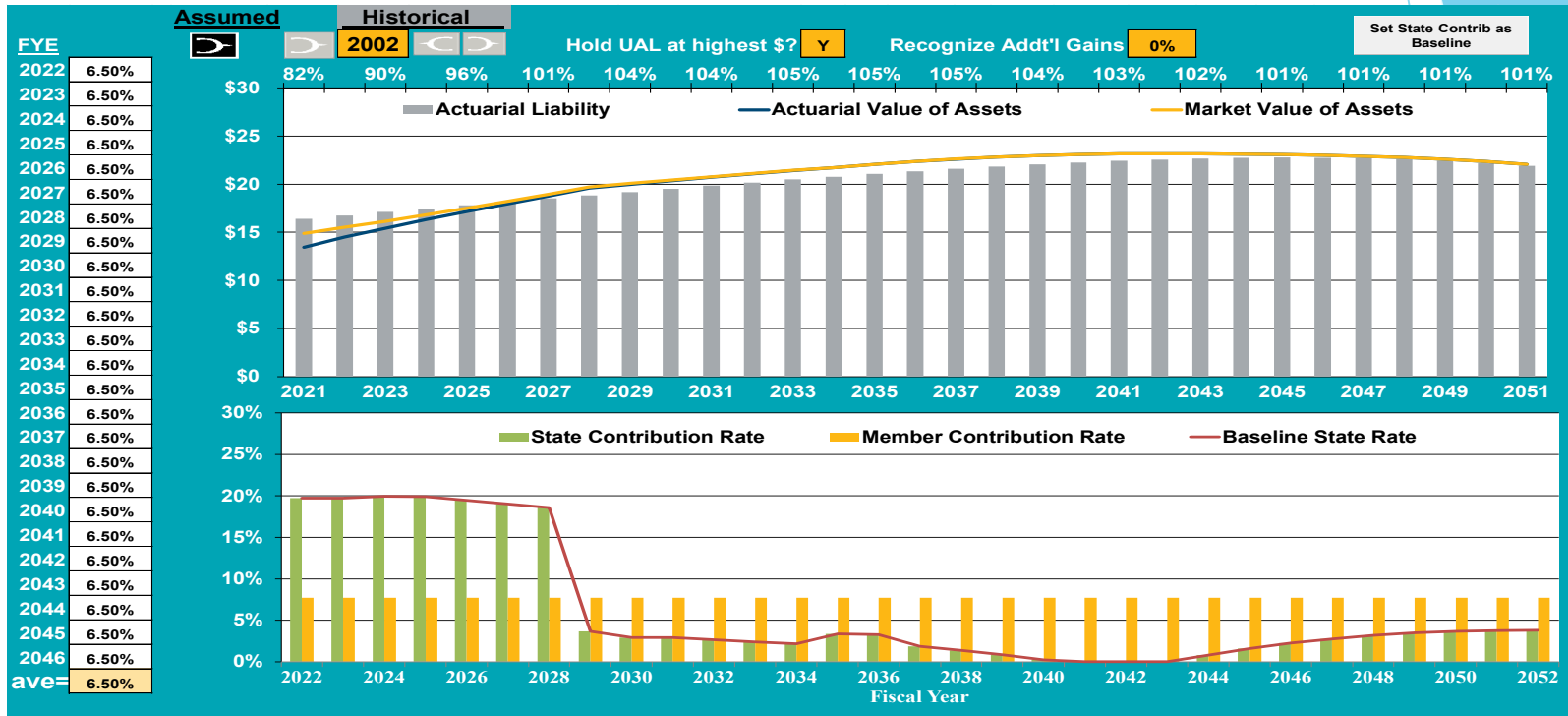
- ▶ Market Value of Assets basis, -0.62%
- ▶ Actuarial Value of Assets basis, 7.7%

Actuarial Funded Ratio, 83.9%

Actuarial Calculated Contribution Rate, 20.65%

S/T Plan Funding Projection

- ▶ In 2028, the 1996 UAL will be fully retired



All State Sponsored Plan Costs for FY24 & FY25

- By law, the annual state contribution towards the 1996 UAL may not be lower than the previous year

	6/30/20 (FYs 2022-2023)	6/30/22* (FYs 2024-2025)	Increase
Normal	\$176,278,025	\$230,543,751	\$ 54,265,726
UAL	<u>\$685,107,220</u>	<u>\$747,542,411</u>	<u>\$ 62,435,191</u>
Total	<u>\$861,385,245</u>	<u>\$978,086,162</u>	<u>\$116,700,917</u>

*Total costs include approximately \$171M that will be paid by local school units.

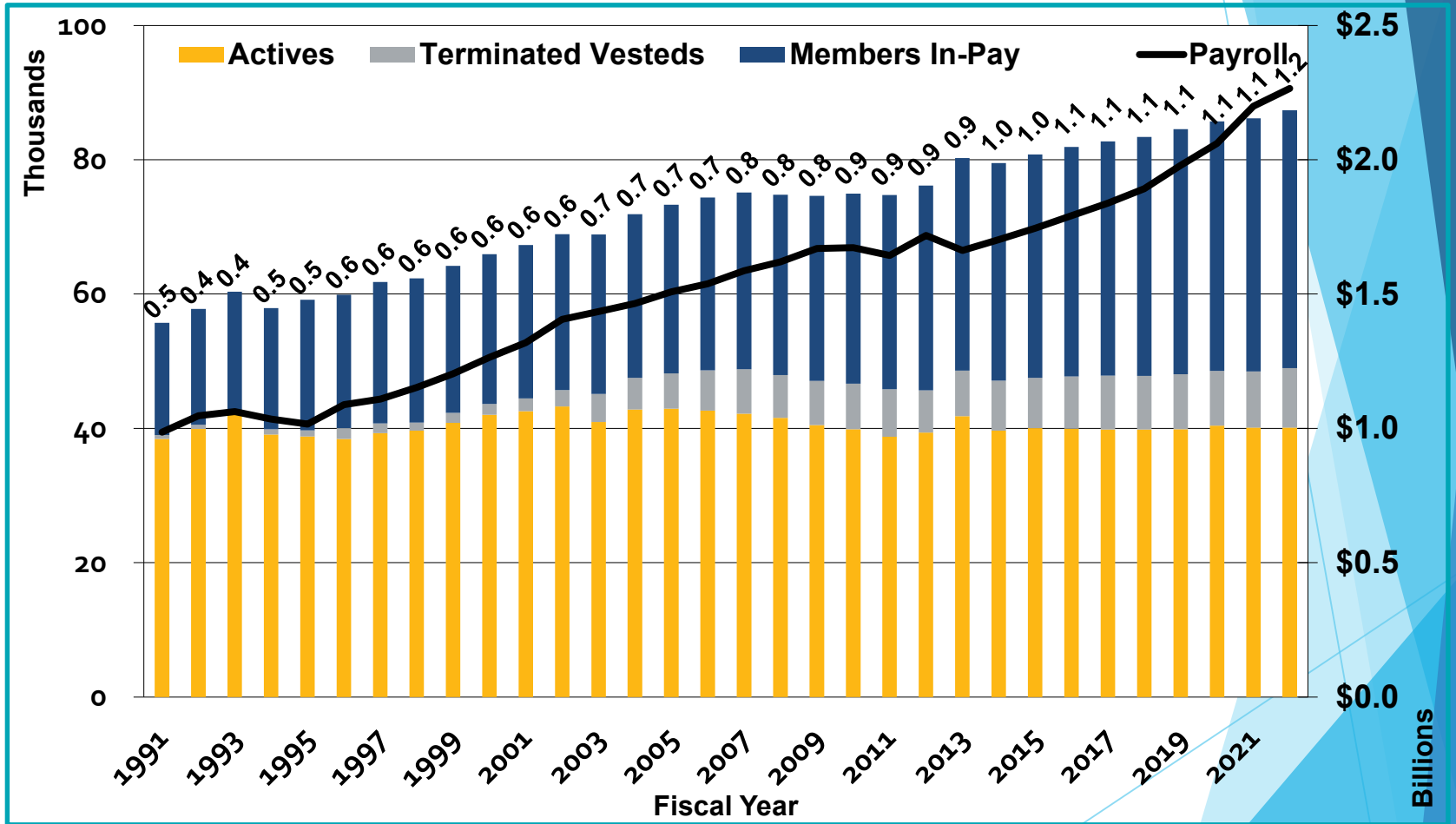
Appendix



Other Historical Views

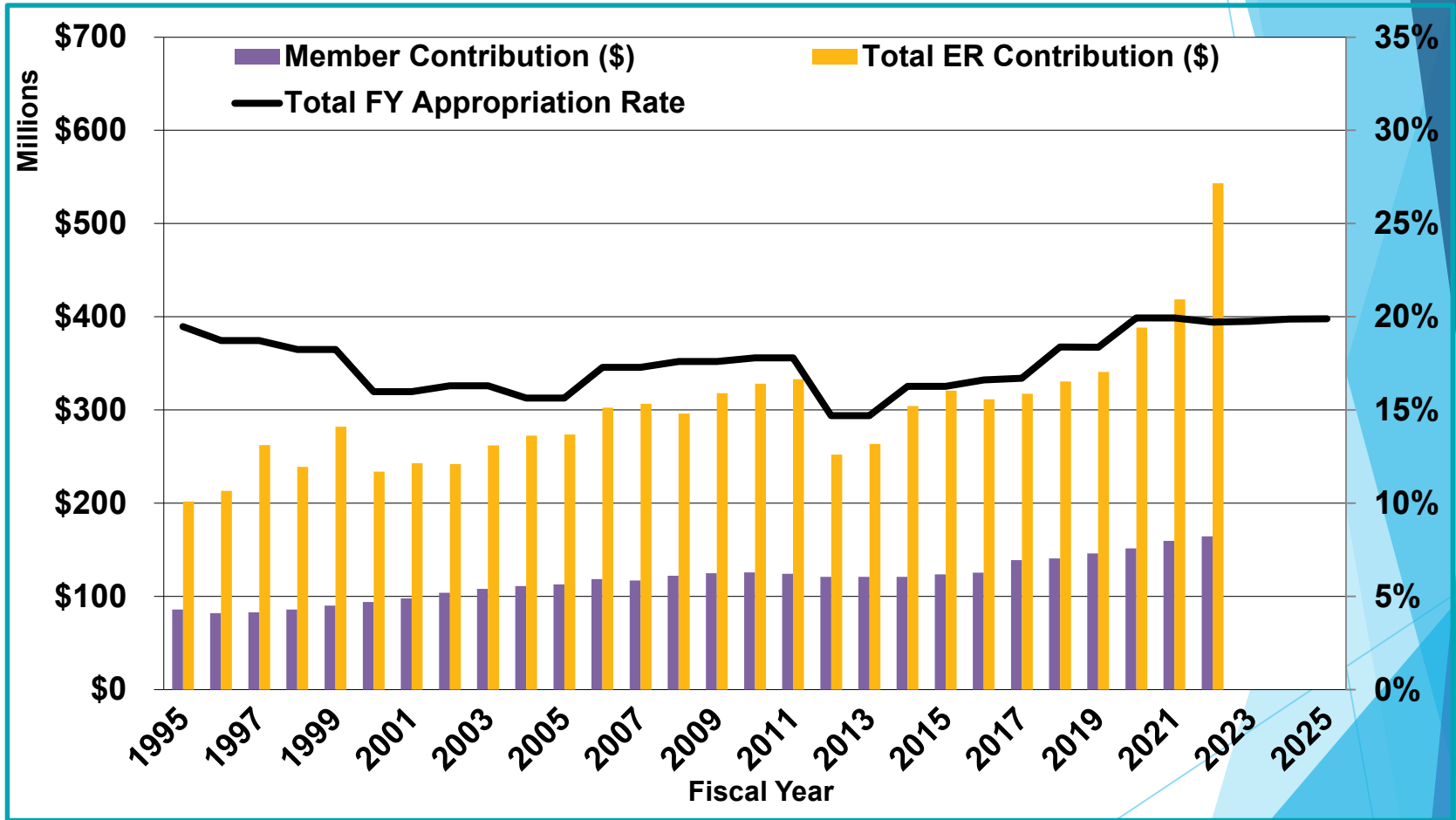


State/Teacher Membership



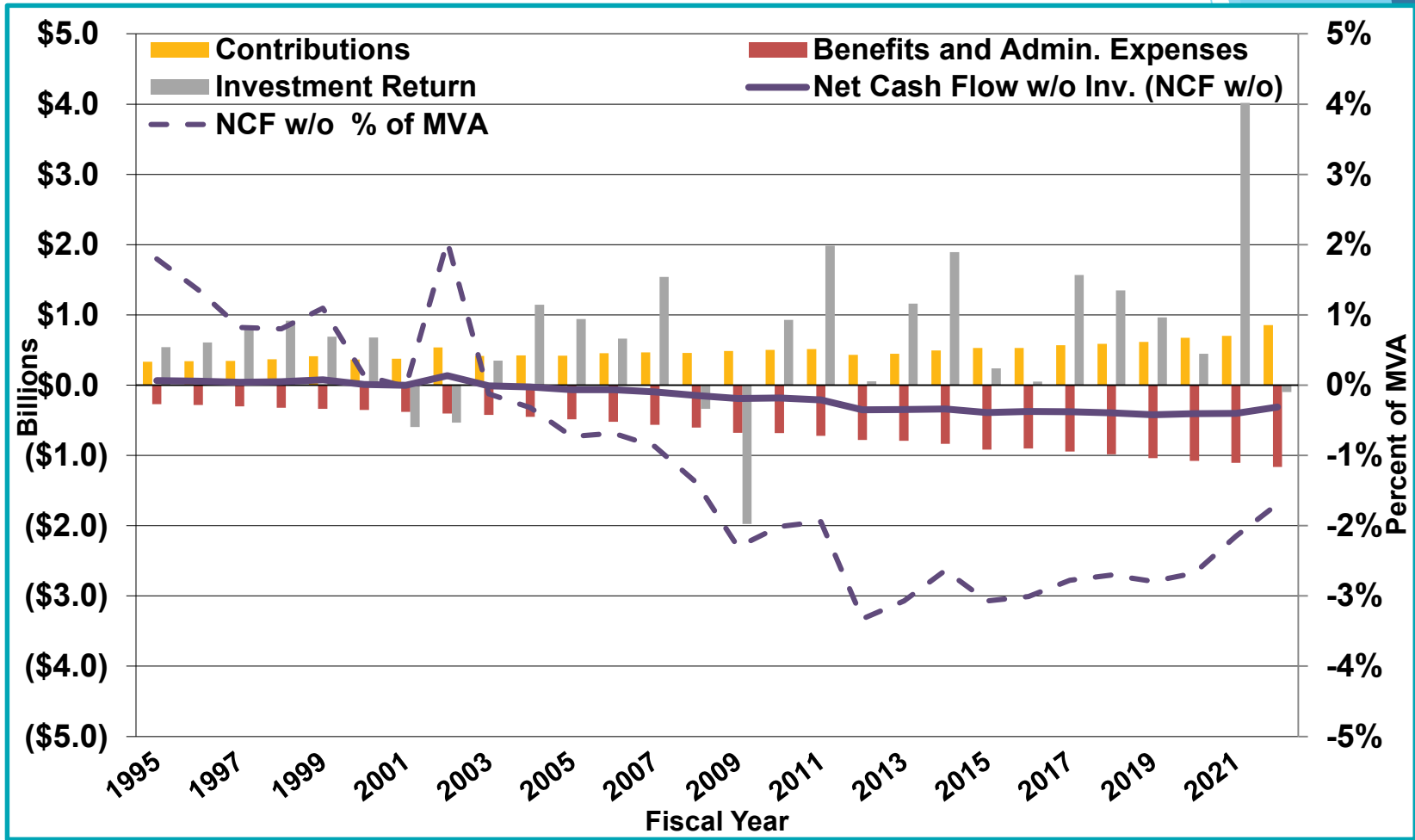
source: Cheiron 40

State/Teacher Contributions



source: Cheiron 41

State/Teacher Cash Flows

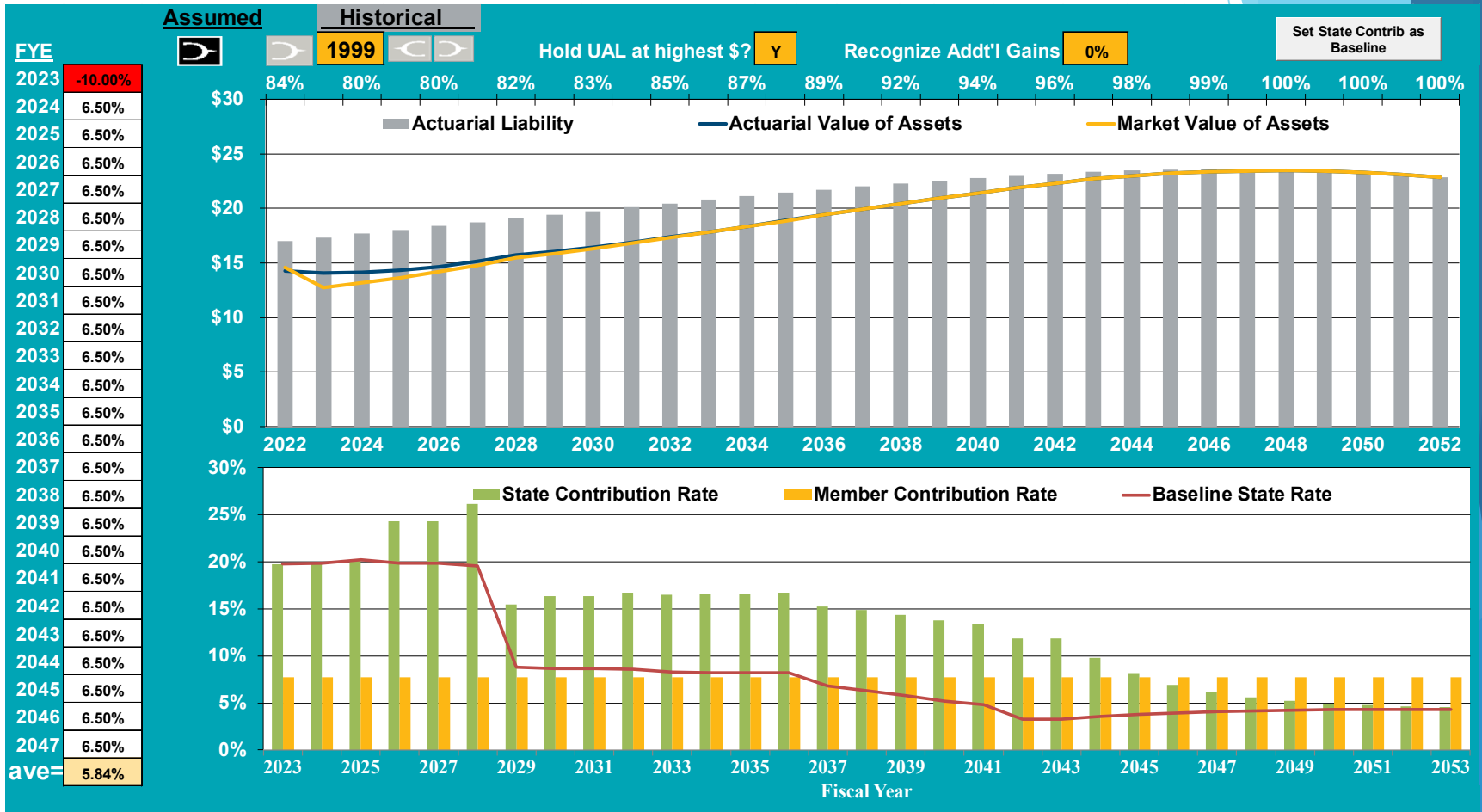


source: Cheiron 42

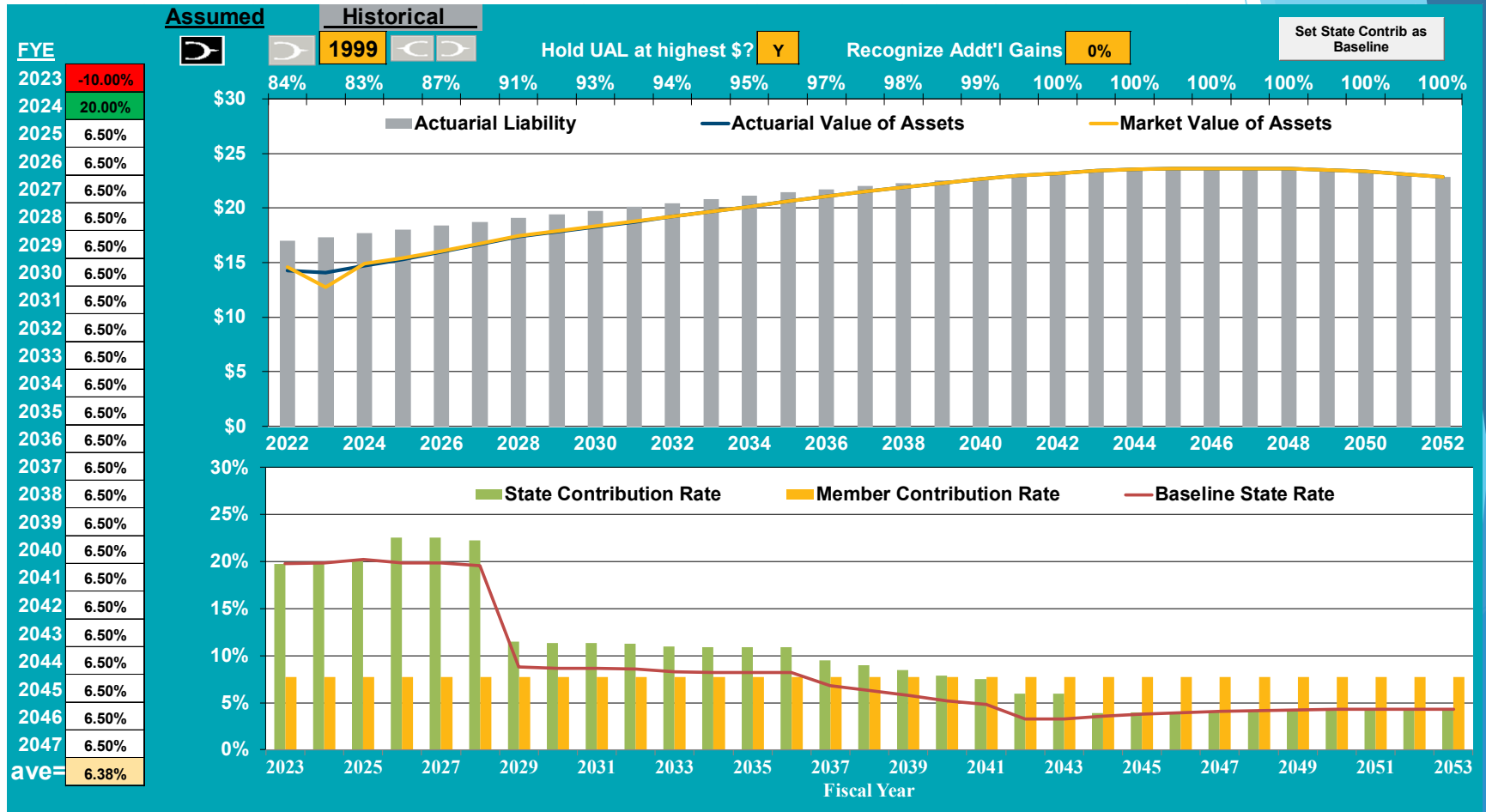
Other Projection Views



State/Teacher w/ loss



State/Teacher w/ loss then gain

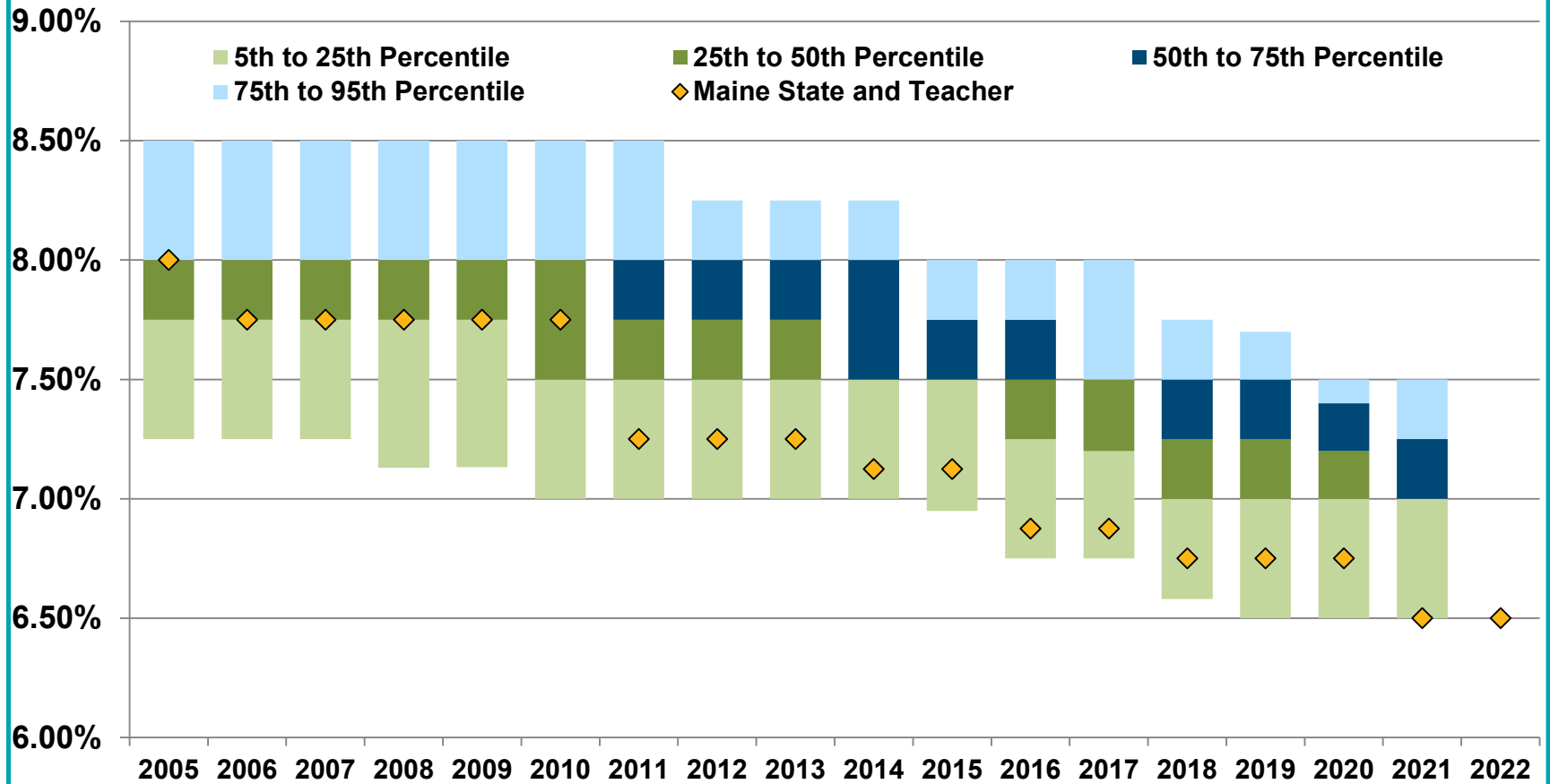


NASRA Peer Comparisons

National Association of State Retirement Administrators



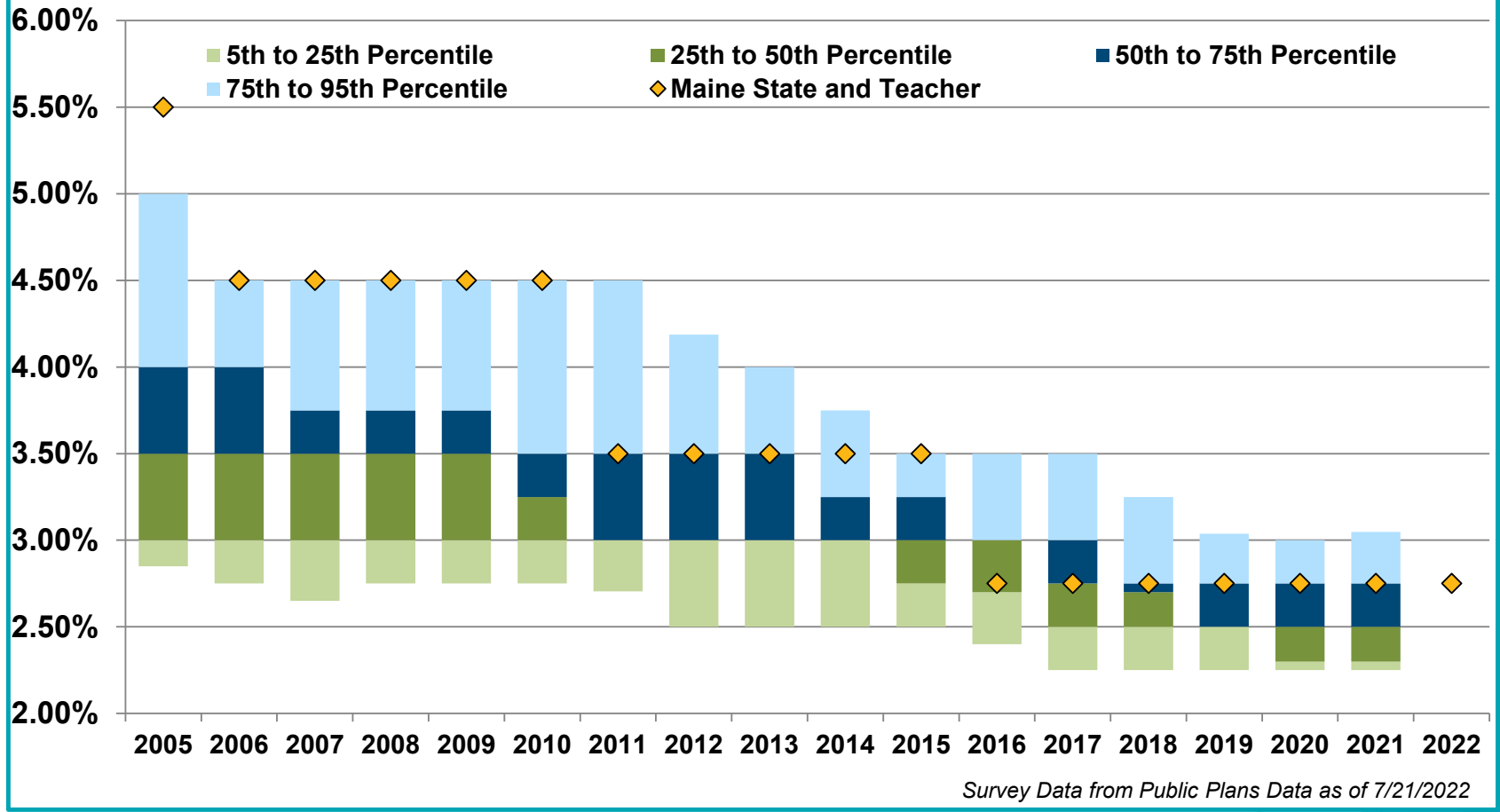
Discount Rate



Survey Data from Public Plans Data as of 7/21/2022

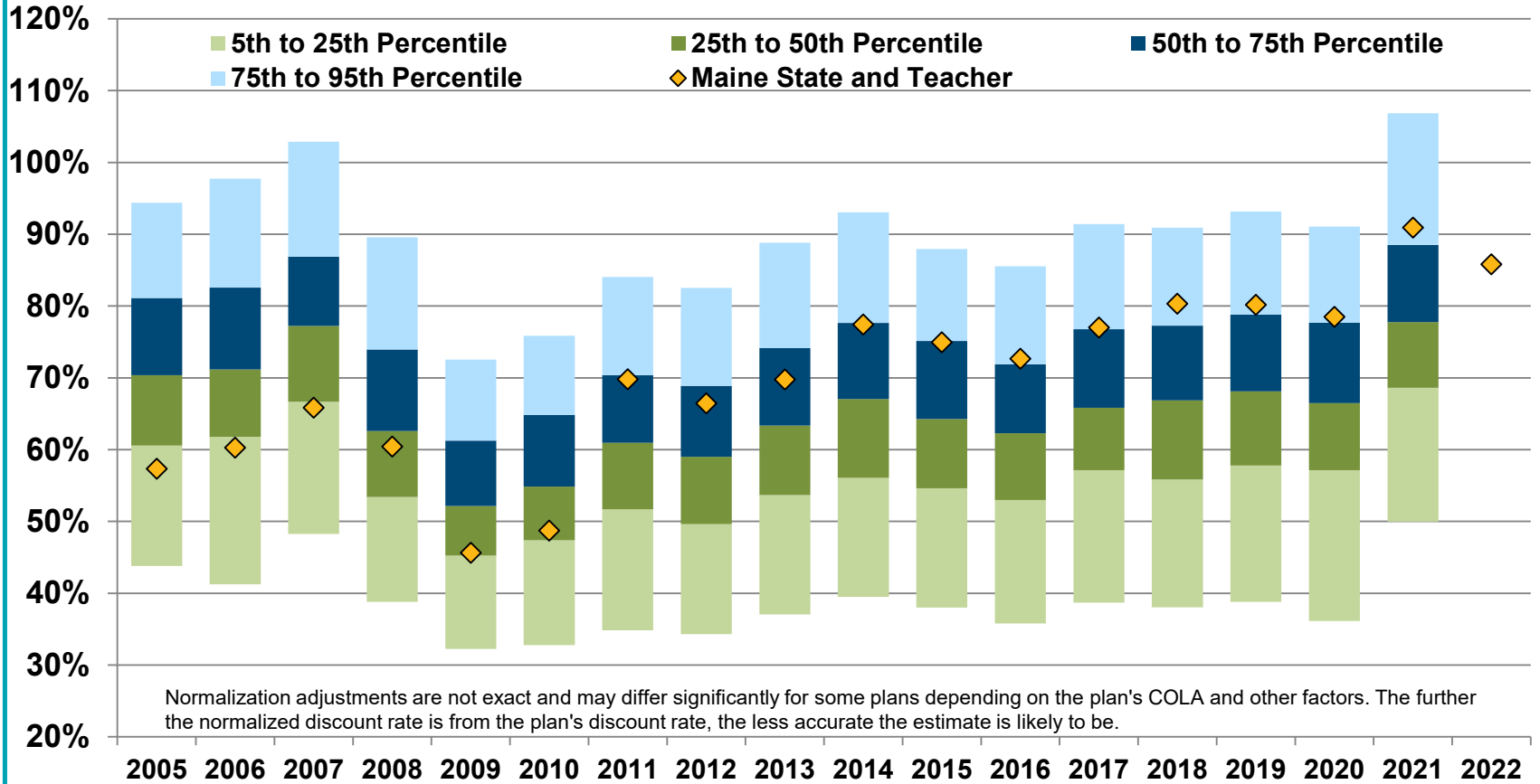
State Employee and Teacher Only

Inflation



State Employee and Teacher Only

MVA Funded Ratio - Normalized

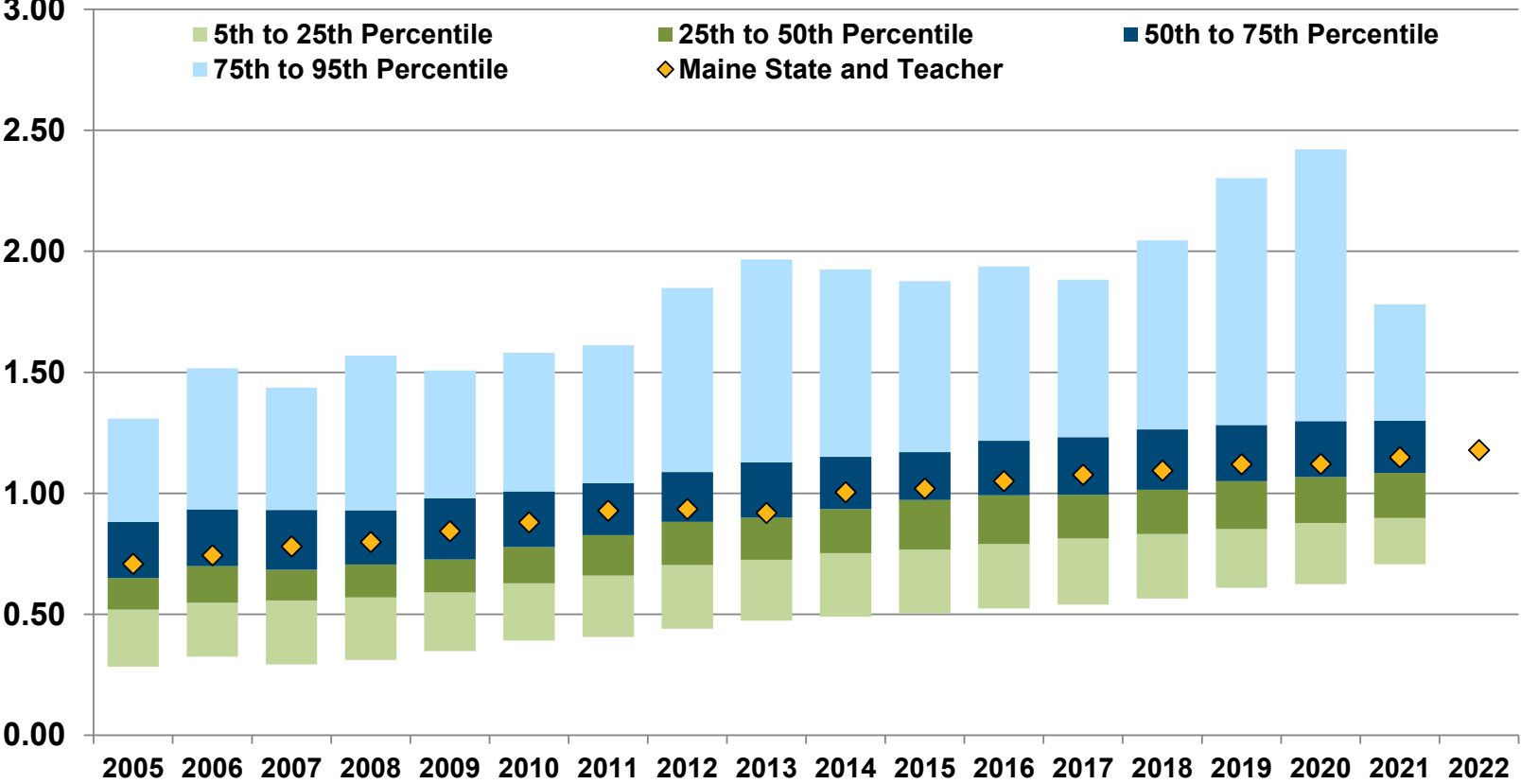


Normalization adjustments are not exact and may differ significantly for some plans depending on the plan's COLA and other factors. The further the normalized discount rate is from the plan's discount rate, the less accurate the estimate is likely to be.

Survey Data from Public Plans Data as of 7/21/2022

State Employee and Teacher Only

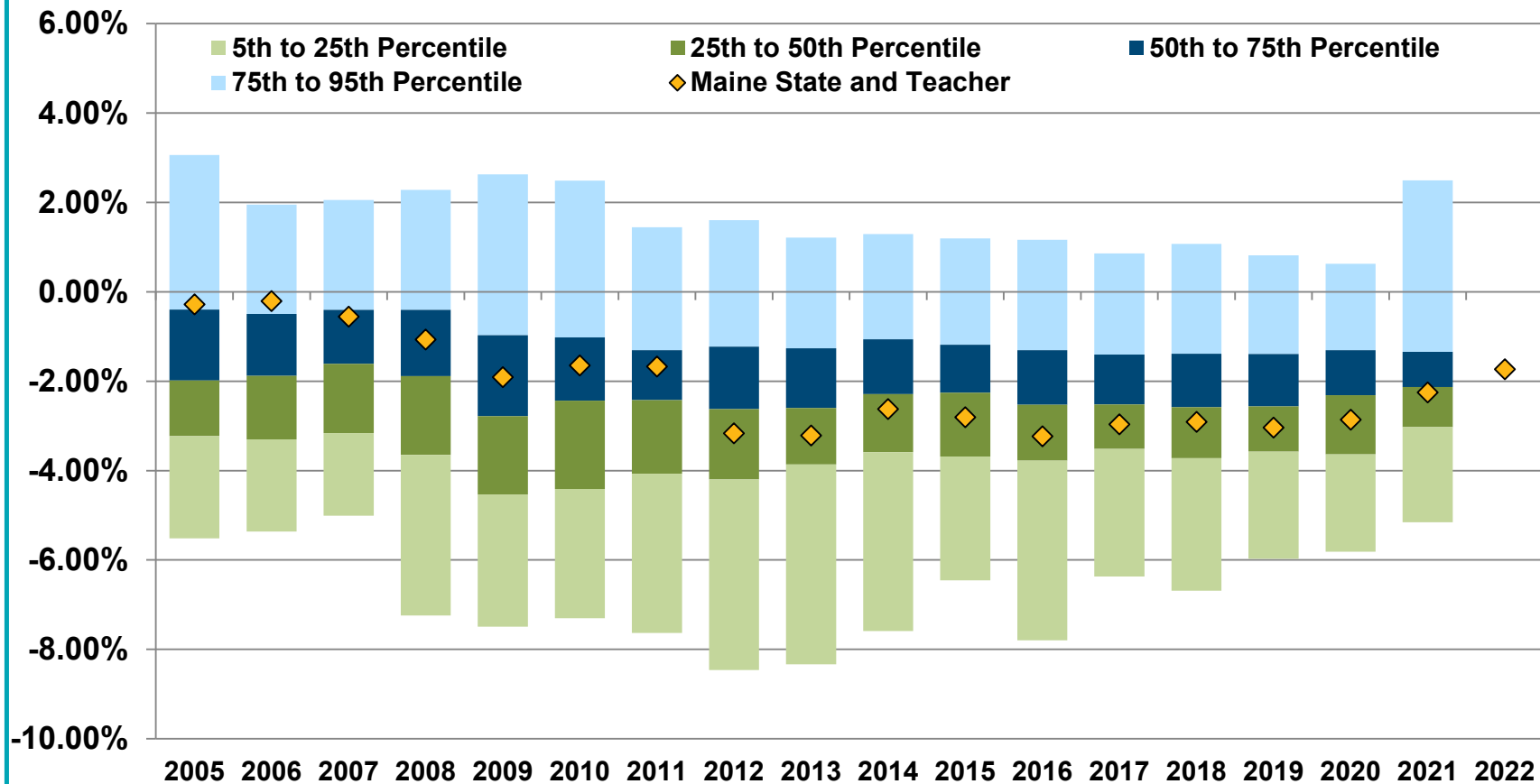
Support Ratio



Survey Data from Public Plans Data as of 7/21/2022

State Employee and Teacher Only

Net Cash Flow Rate



Survey Data from Public Plans Data as of 7/21/2022

Valuation Results

State/Teacher, Legislative, Judicial and Consolidated PLD Plans

Valuation Results: S/T Plan

<i>(all dollars are in millions)</i>		June 30,			
<i>*except for average salary & benefit</i>		<u>2021</u>	<u>2022</u>	<u>2022</u>	<u>2021 to 2022</u>
<u>Membership</u>	<u>Valuation</u>	<u>Valuation</u>	<u>Valuation</u>	<u>% change</u>	
Actives	40,099		40,121		0.1%
Payroll	\$ 2,199	\$ 2,260	\$ 2,265		3.0%
Average Salary *	\$ 54,851		\$ 56,463		2.9%
In Pay Status	37,690		38,408		1.9%
Total Annual Benefits	\$ 884	\$ 951	\$ 931		5.4%
Average Benefit *	\$ 23,456		\$ 24,250		3.4%
<u>Assets and Liabilities</u>					
Actuarial Liability	\$ 16,392	\$ 16,936	\$ 16,982		3.6%
Actuarial Value of Assets	\$ 13,461	\$ 14,262	\$ 14,248		5.8%
Unfunded Actuarial Liability (UAL)	\$ 2,931	\$ 2,674	\$ 2,734		-6.7%
Actuarial Funded Ratio	82.1%	84.2%	83.9%		
Market Value of Assets (MVA)	\$ 14,901	\$ 14,414	\$ 14,569		-2.2%
MVA Funded Ratio	90.9%	85.1%	85.8%		
Accrued Liabilities	\$ 14,841	NC	\$ 15,383		3.7%
Unfunded Accrued (using MVA)	\$ (60)	NC	\$ 814		NC
Accrued Funded Ratio	100.4%	NC	94.7%		
<u>Total Contribution</u>					
Normal Cost Rate	4.64%	4.64%	4.58%		
UAL Rate	17.08%	15.93%	16.07%		
Total Calculated Rate	21.72%	20.57%	20.65%		

source: Cheiron 53

Valuation Results: Legislative

<i>(all dollars are in thousands)</i> <i>*except for average salary & benefit</i>		June 30,			
		<u>2021</u>	<u>2022</u>	<u>2022</u>	<u>2021 to 2022</u>
<u>Membership</u>	<u>Valuation</u>	<u>Valuation</u>	<u>Valuation</u>	<u>% change</u>	
Actives	178		174		-2.2%
Payroll	\$ 2,802	\$ 2,879	\$ 2,801		0.0%
Average Salary *	\$ 15,742		\$ 16,099		2.3%
In Pay Status	222		223		0.5%
Total Annual Benefits	\$ 502	\$ 618	\$ 529		5.4%
Average Benefit*	\$ 2,261		\$ 2,372		4.9%
<u>Assets and Liabilities</u>					
Actuarial Liability	\$ 10,678	\$ 11,192	\$ 10,977		2.8%
Actuarial Value of Assets	\$ 15,049	\$ 15,739	\$ 15,788		4.9%
Unfunded Actuarial Liability (UAL)	\$ (4,371)	\$ (4,547)	\$ (4,811)		10.1%
Actuarial Funded Ratio	140.9%	140.6%	143.8%		
Market Value of Assets (MVA)	\$ 16,659	\$ 15,907	\$ 16,143		-3.1%
MVA Funded Ratio	156.0%	142.1%	147.1%		
Accrued Liabilities	\$ 10,309	NC	\$ 10,791		4.7%
Unfunded Accrued (using MVA)	\$ (6,350)	NC	\$ (5,352)		-15.7%
Accrued Funded Ratio	161.6%	NC	149.6%		
<u>Total Contribution</u>					
Normal Cost Rate	5.74%	5.74%	3.46%		
UAL Rate	-5.74%	-5.74%	-3.46%		
Total Calculated Rate	0.00%	0.00%	0.00%		

source: Cheiron 54

Valuation Results: Judicial

<i>(all dollars are in thousands)</i> <i>*except for average salary & benefit</i>		June 30,			
		<u>2021</u>	<u>2022</u>	<u>2022</u>	<u>2021 to 2022</u>
<u>Membership</u>	<u>Valuation</u>	<u>Valuation</u>	<u>Valuation</u>	<u>% change</u>	
Actives	60		60		0.0%
Payroll	\$ 8,745	\$ 8,986	\$ 8,694		-0.6%
Average Salary *	\$ 145,752		\$ 144,897		-0.6%
In Pay Status	85		90		5.9%
Total Annual Benefits	\$ 4,730	\$ 5,099	\$ 5,350		13.1%
Average Benefit *	\$ 55,647		\$ 59,449		6.8%
<u>Assets and Liabilities</u>					
Actuarial Liability	\$ 75,788	\$ 77,615	\$ 77,426		2.2%
Actuarial Value of Assets	\$ 81,208	\$ 83,665	\$ 83,933		3.4%
Unfunded Actuarial Liability (UAL)	\$ (5,420)	\$ (6,050)	\$ (6,507)		20.1%
Actuarial Funded Ratio	107.2%	107.8%	108.4%		
Market Value of Assets (MVA)	\$ 89,894	\$ 84,557	\$ 85,821		-4.5%
MVA Funded Ratio	118.6%	108.9%	110.8%		
Accrued Liabilities	\$ 71,860	NC	\$ 73,878		2.8%
Unfunded Accrued (using MVA)	\$ (18,033)	NC	\$ (11,943)		-33.8%
Accrued Funded Ratio	125.1%	NC	116.2%		
<u>Total Contribution</u>					
Normal Cost Rate	12.17%	12.21%	12.71%		
UAL Rate	-7.48%	-8.12%	-9.03%		
Total Calculated Rate	4.69%	4.09%	3.68%		

source: Cheiron 55

Valuation Results: Consol. PLD

<i>(all dollars are in millions)</i> <i>*except for average salary & benefit</i>		June 30, 2021	June 30, 2022	2021 to 2022
Membership		Valuation	Valuation	% change
Actives		11,704	12,362	5.6%
Payroll		\$ 664	\$ 738	11.2%
Average Salary *		\$ 56,713	\$ 59,704	5.3%
In Pay Status		10,093	10,400	3.0%
Total Annual Benefits		\$ 178	\$ 190	6.6%
Average Benefit *		\$ 17,615	\$ 18,224	3.5%
Assets and Liabilities				
Actuarial Liability		\$ 3,719	\$ 3,944	6.0%
Actuarial Value of Assets		\$ 3,389	\$ 3,597	6.1%
Unfunded Actuarial Liability (UAL)		\$ 330	\$ 347	5.0%
Actuarial Funded Ratio		91.1%	91.2%	
Market Value of Assets (MVA)		\$ 3,751	\$ 3,678	-2.0%
MVA Funded Ratio		100.9%	93.3%	
Accrued Liabilities		\$ 3,347	\$ 3,674	9.8%
Unfunded Accrued (using MVA)		\$ (404)	\$ (3)	-99.2%
Accrued Funded Ratio		112.1%	100.1%	
Composite Contribution		for FY 2023	for FY 2024	
Total Normal Cost Rate		14.1%	14.2%	
UAL Rate		4.6%	4.5%	
Total Calculated Rate		18.7%	18.7%	
Final Aggregate Employer Paid		10.8%	10.9%	
Final Aggregate Member Paid		7.8%	7.8%	