



Maine PERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

**Briefing to the Joint Standing Committee on
Appropriations and Financial Affairs
January 30, 2023**

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Presentation Outline

- ▶ About MainePERS, p 3
- ▶ Defined Benefit Plans, p 12
- ▶ Maine's State/Teacher Plan, p 16
- ▶ Appendix, p 24
 - ▶ Other Historic Views, p 25
 - ▶ Other Projection Views, p 29
 - ▶ NASRA Peer Comparisons, p 32
 - ▶ Valuation Reports, p 38
 - ▶ 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

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.

Values

Accountability - Respect - Collaboration

Stewardship - Agility

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

Defined Benefit Plans



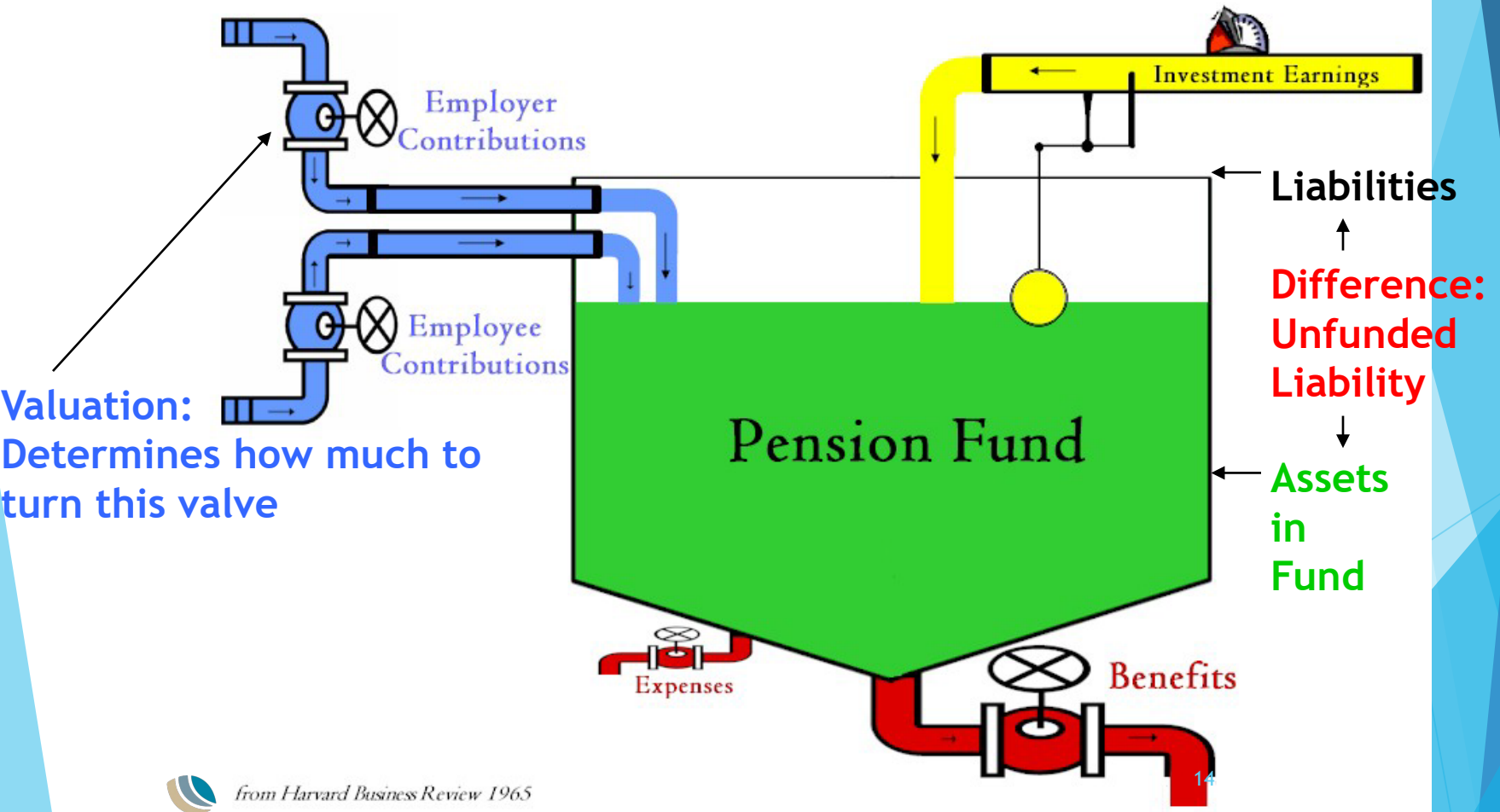
Defined Benefit Plans


- ▶ 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

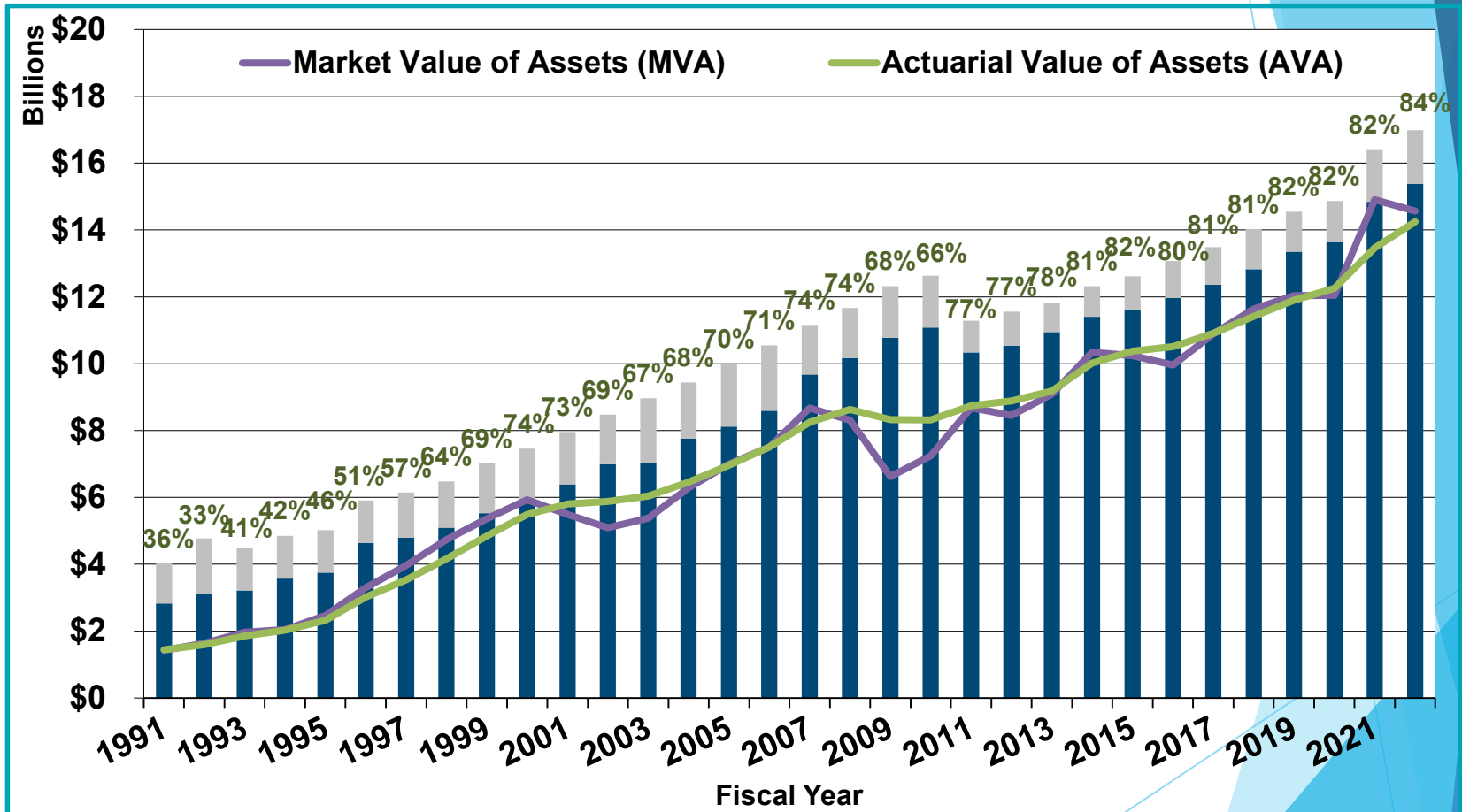
Events That Can Impact Costs

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

Maine's State/Teacher Defined Benefit Plan



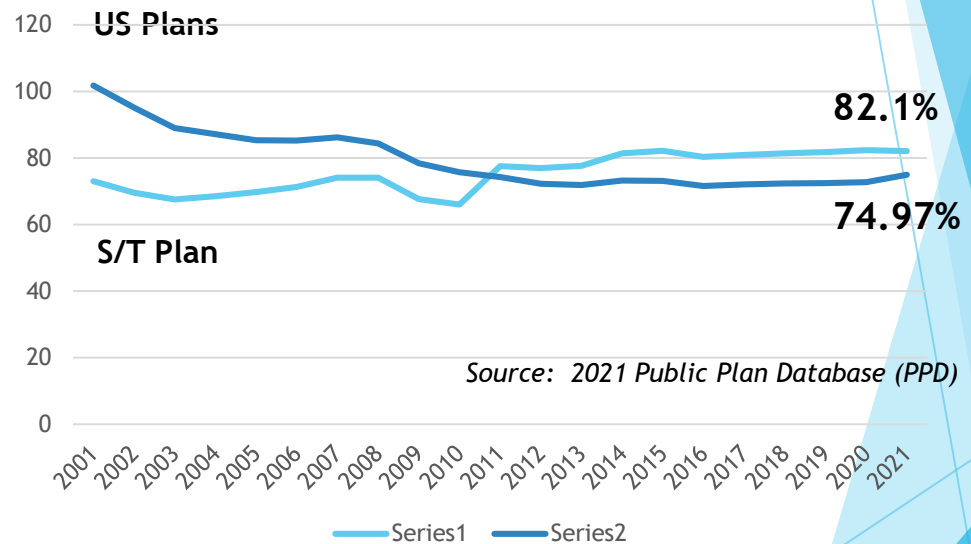
State/Teacher Funding History



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

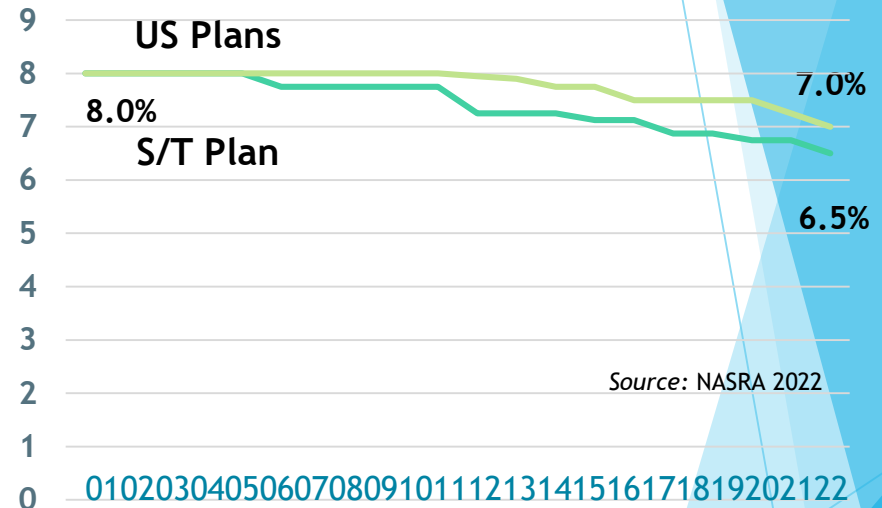


S/T Plan Earnings Assumption

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

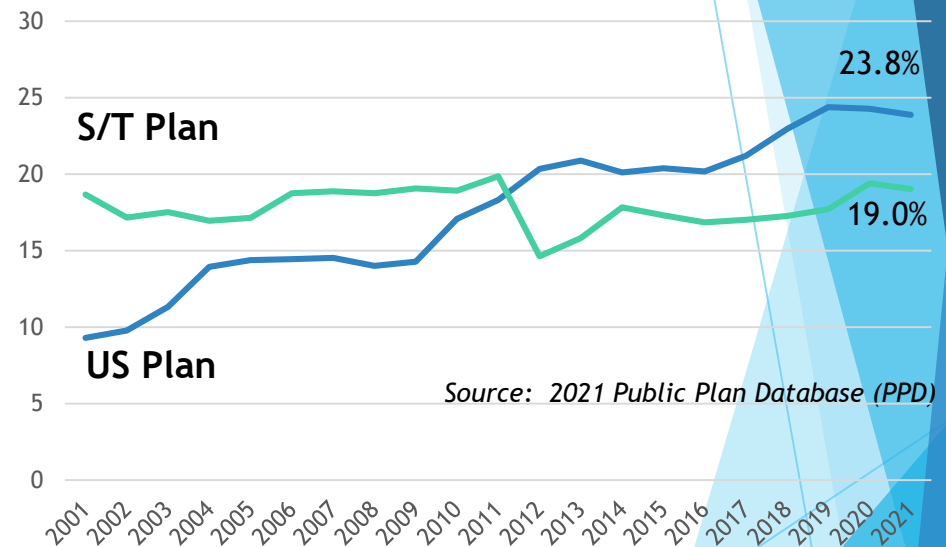


S/T Plan Contribution Rates

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

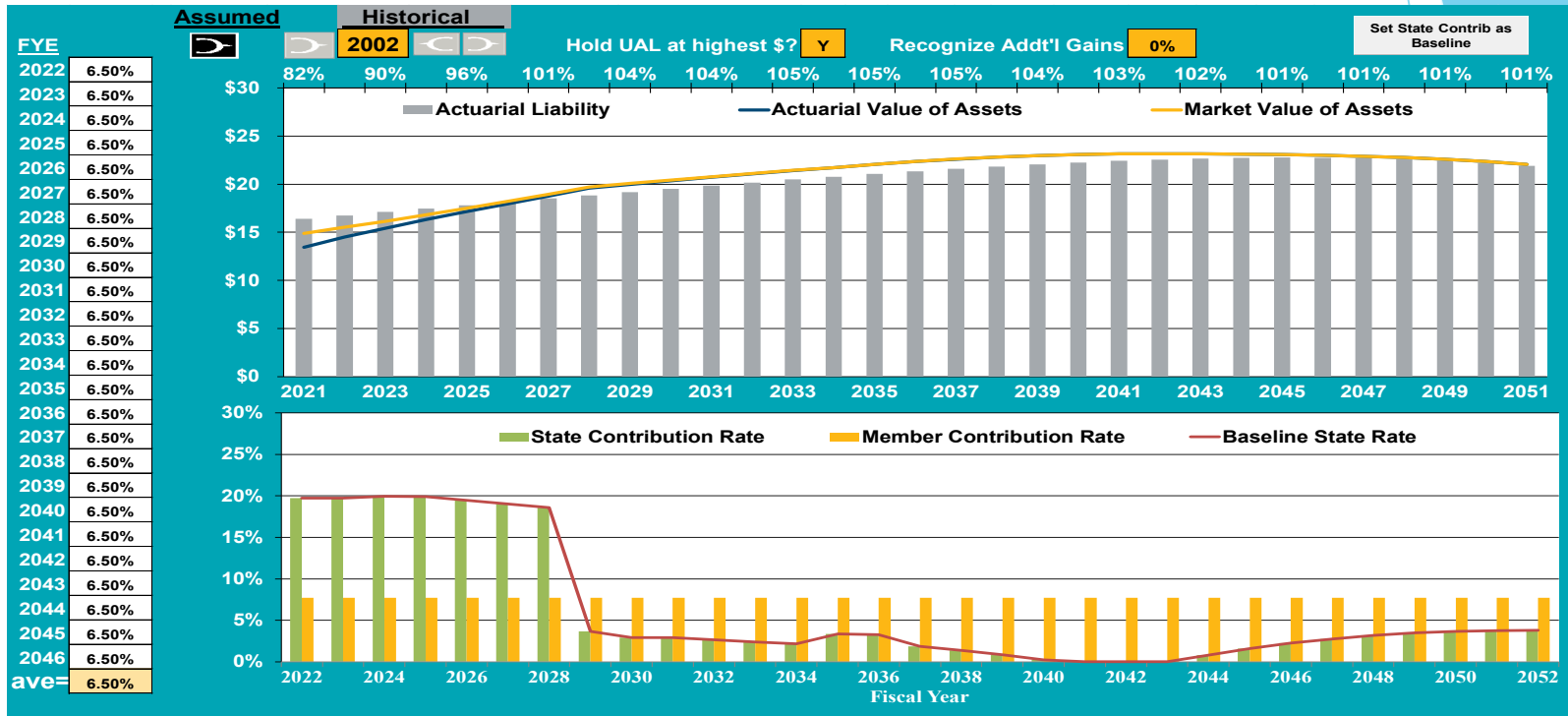
- ▶ Market Value of Assets basis, -0.62%
- ▶ Actuarial Value of Assets basis, 7.7%

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.

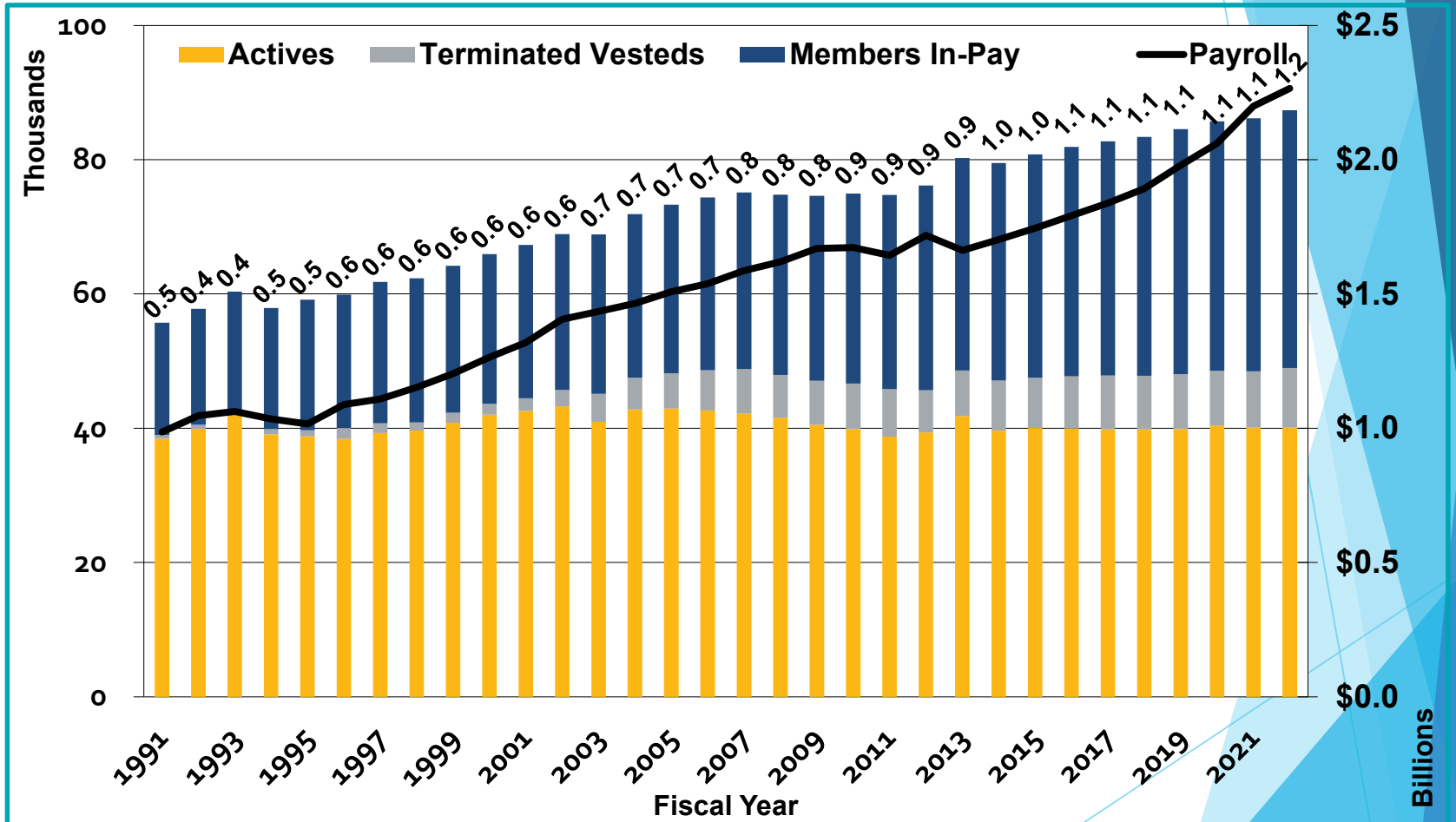
Appendix



Other Historical Views

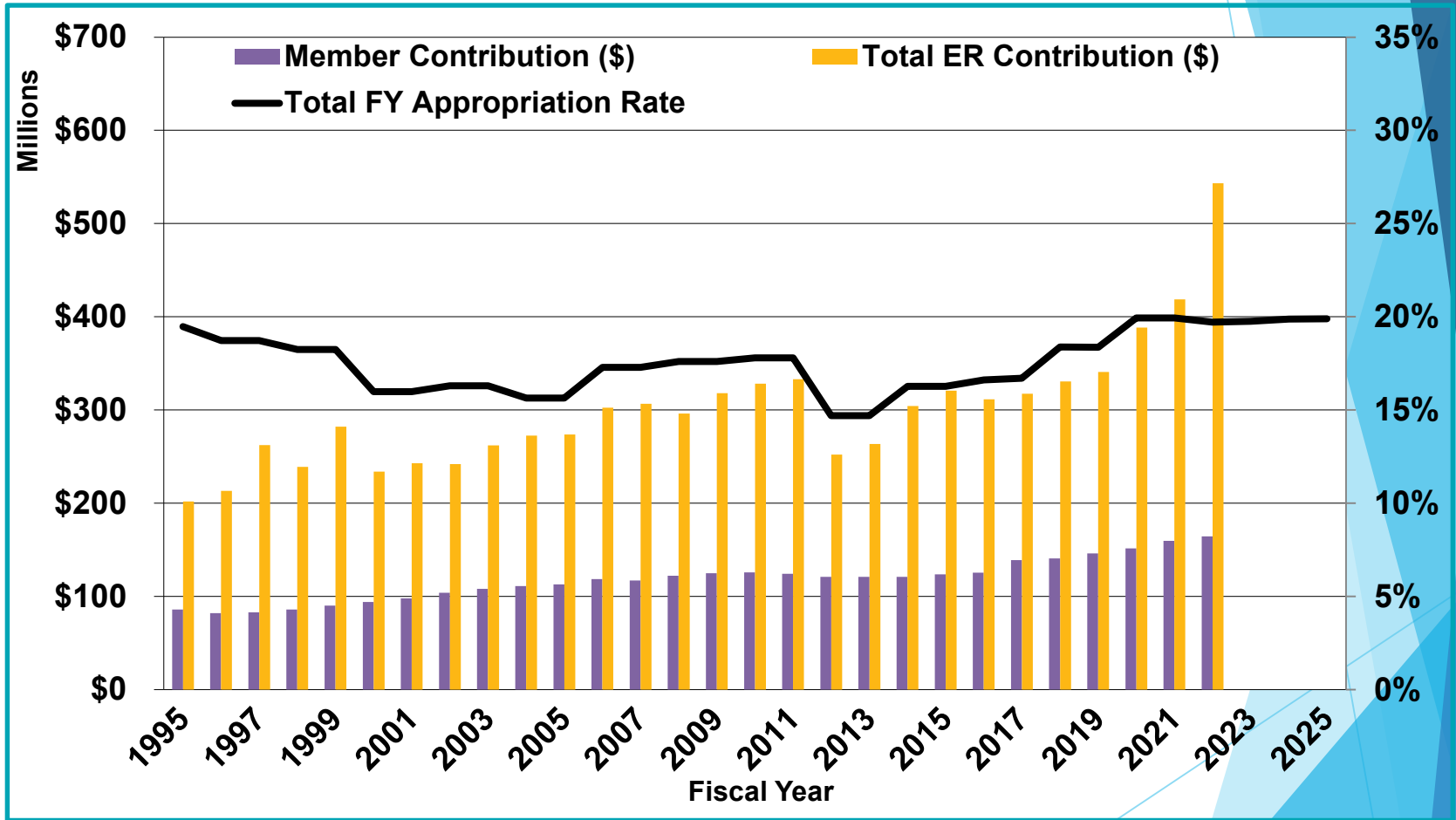


State/Teacher Membership



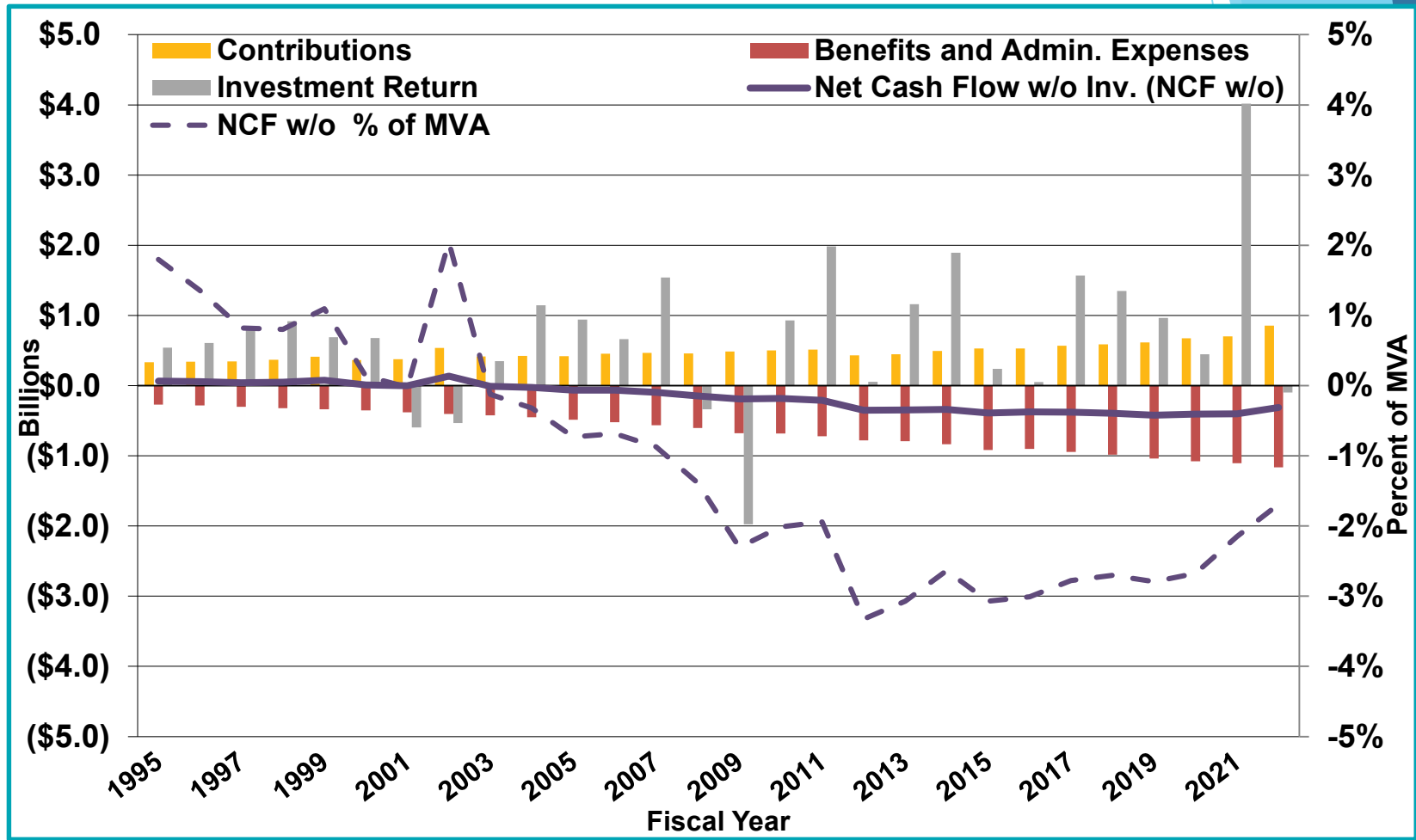
source: Cheiron 26

State/Teacher Contributions



source: Cheiron 27

State/Teacher Cash Flows

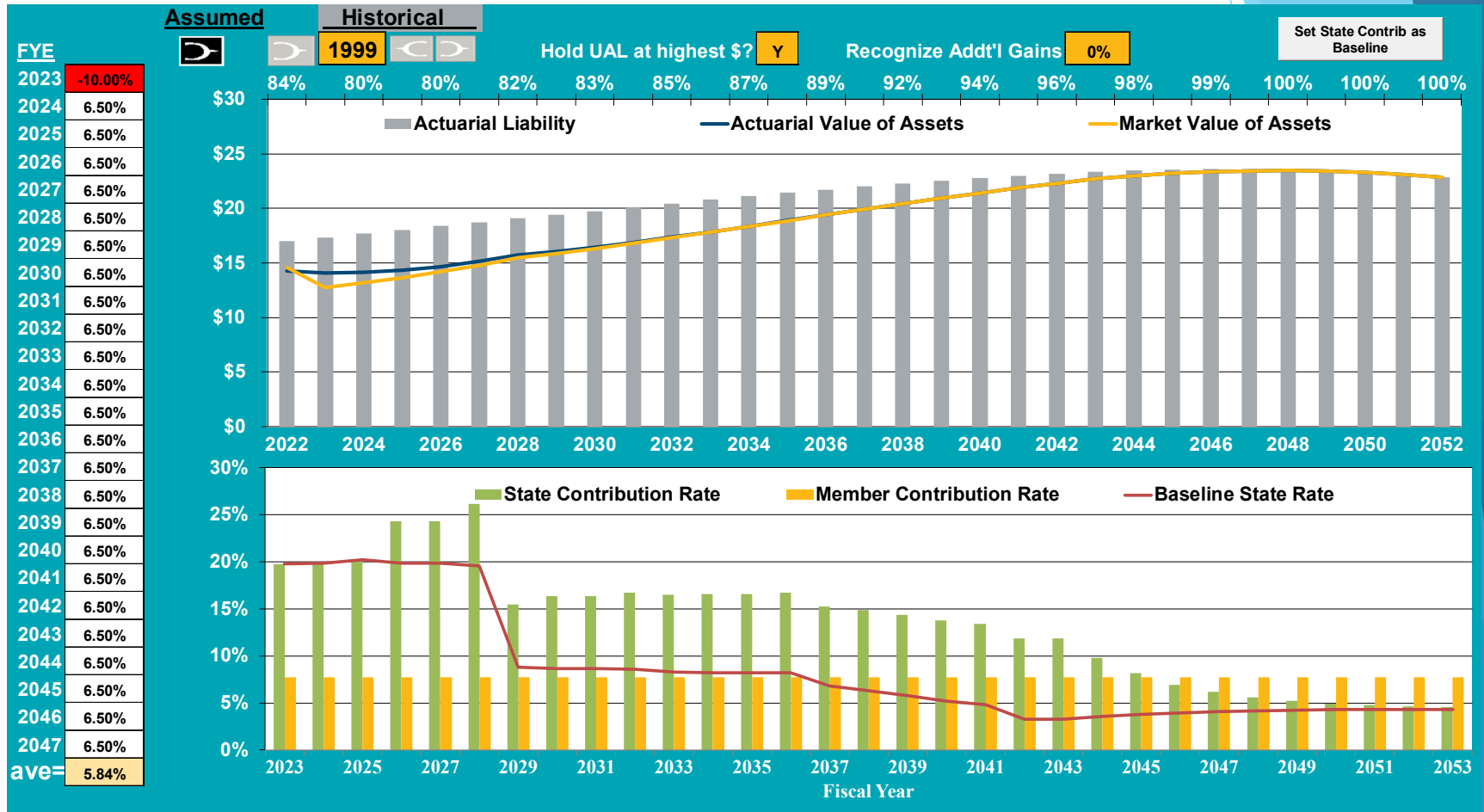


source: Cheiron 28

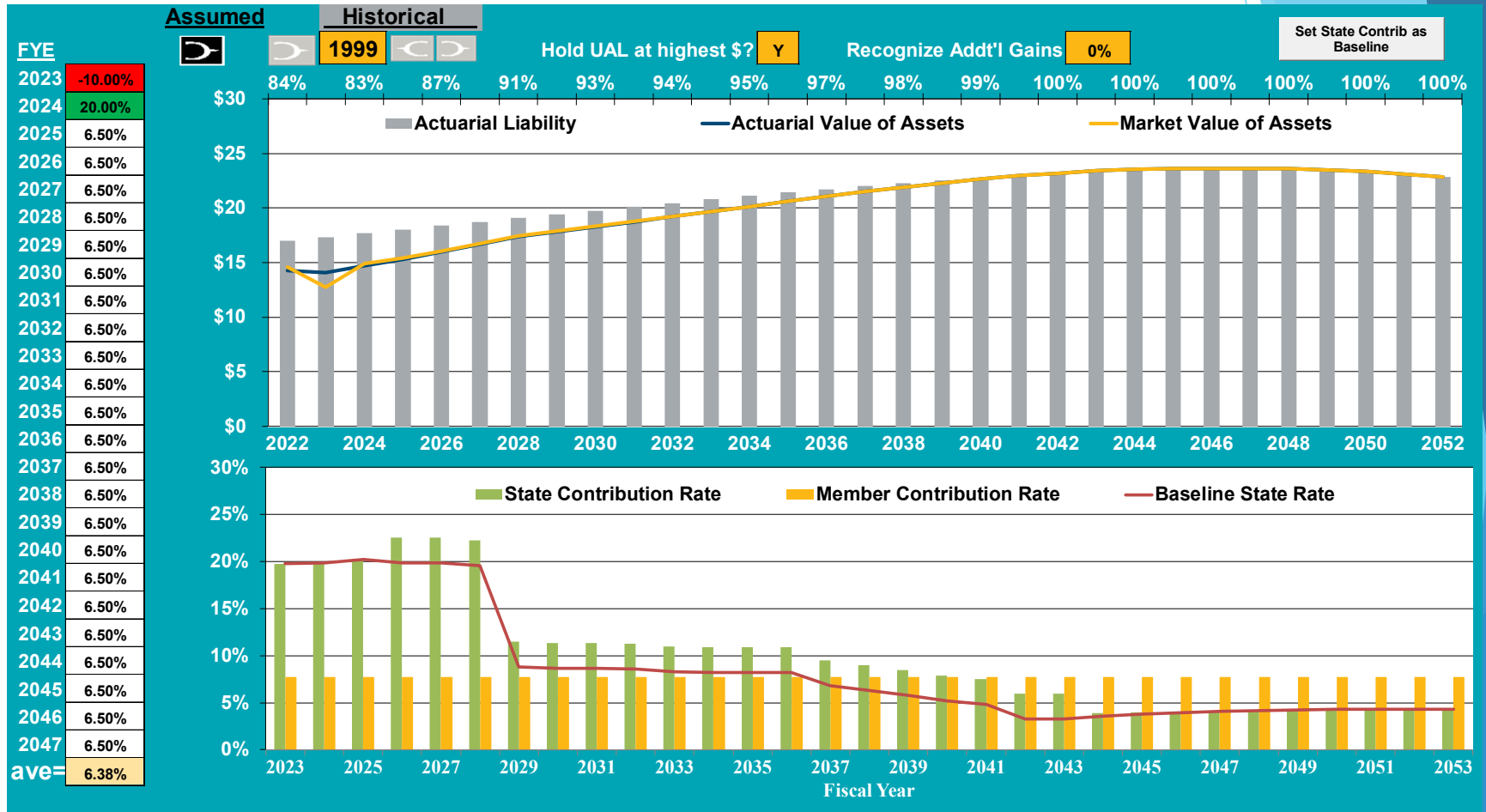
Other Projection Views



State/Teacher w/ loss



State/Teacher w/ loss then gain

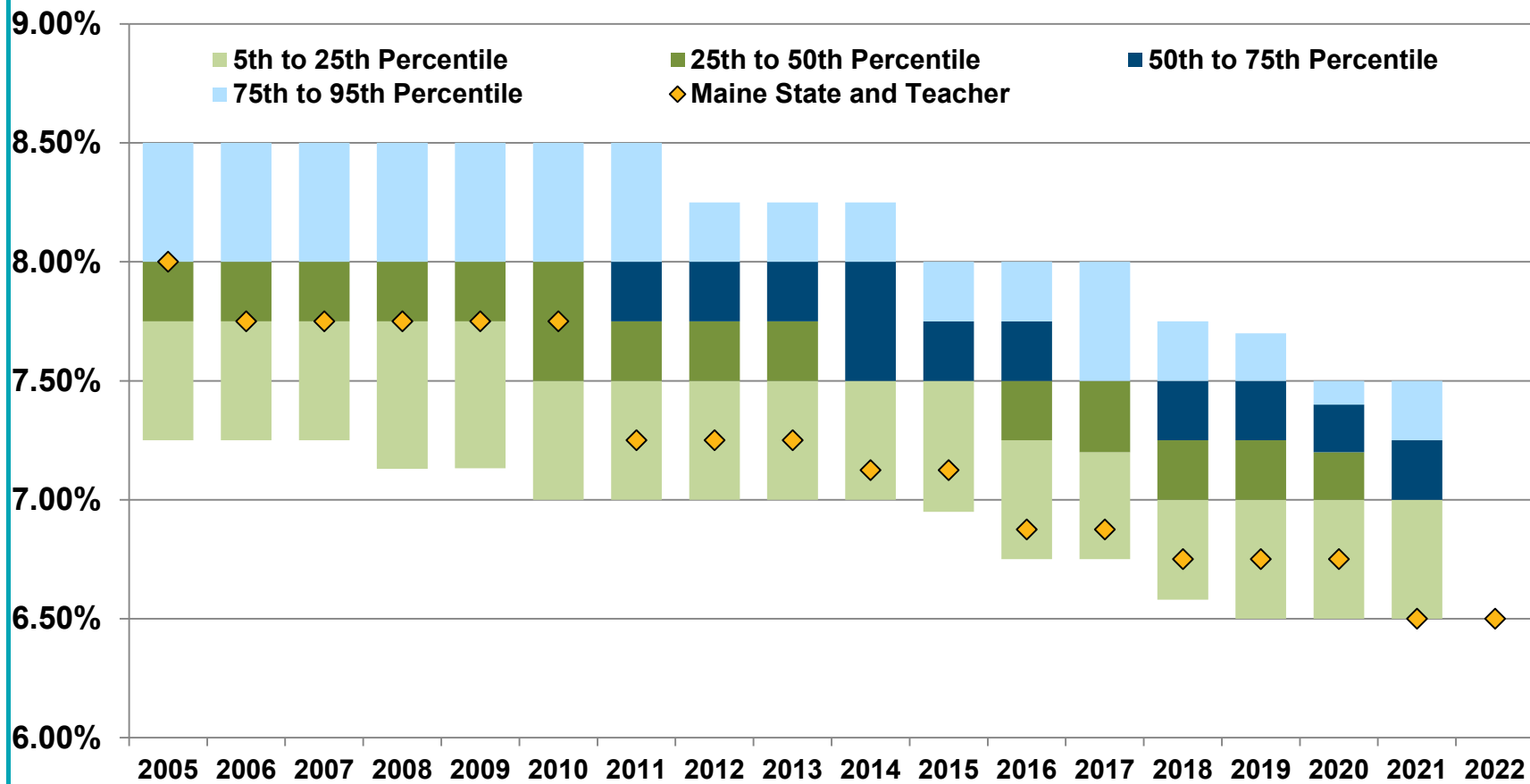


NASRA Peer Comparisons

National Association of State Retirement Administrators



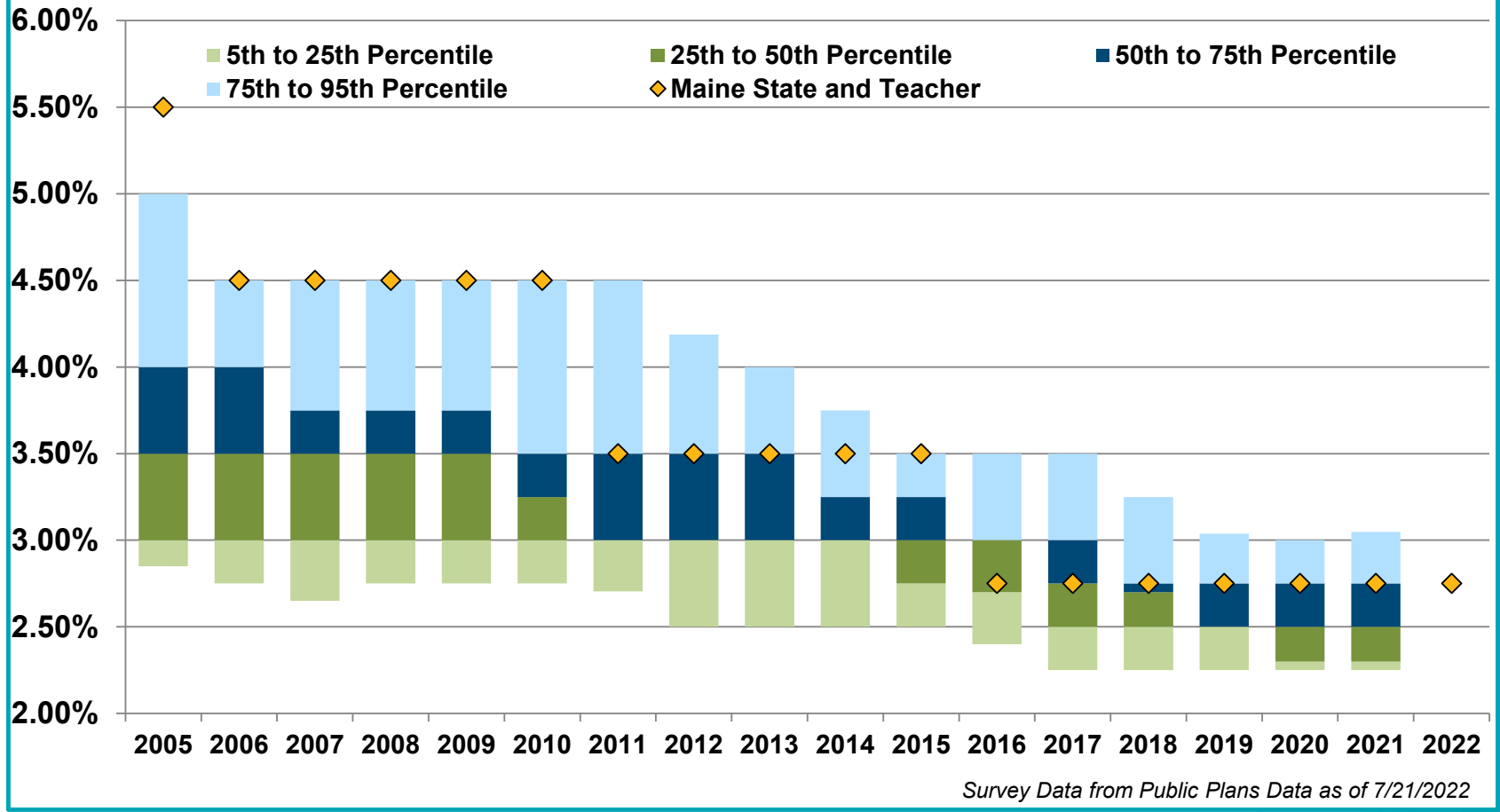
Discount Rate



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

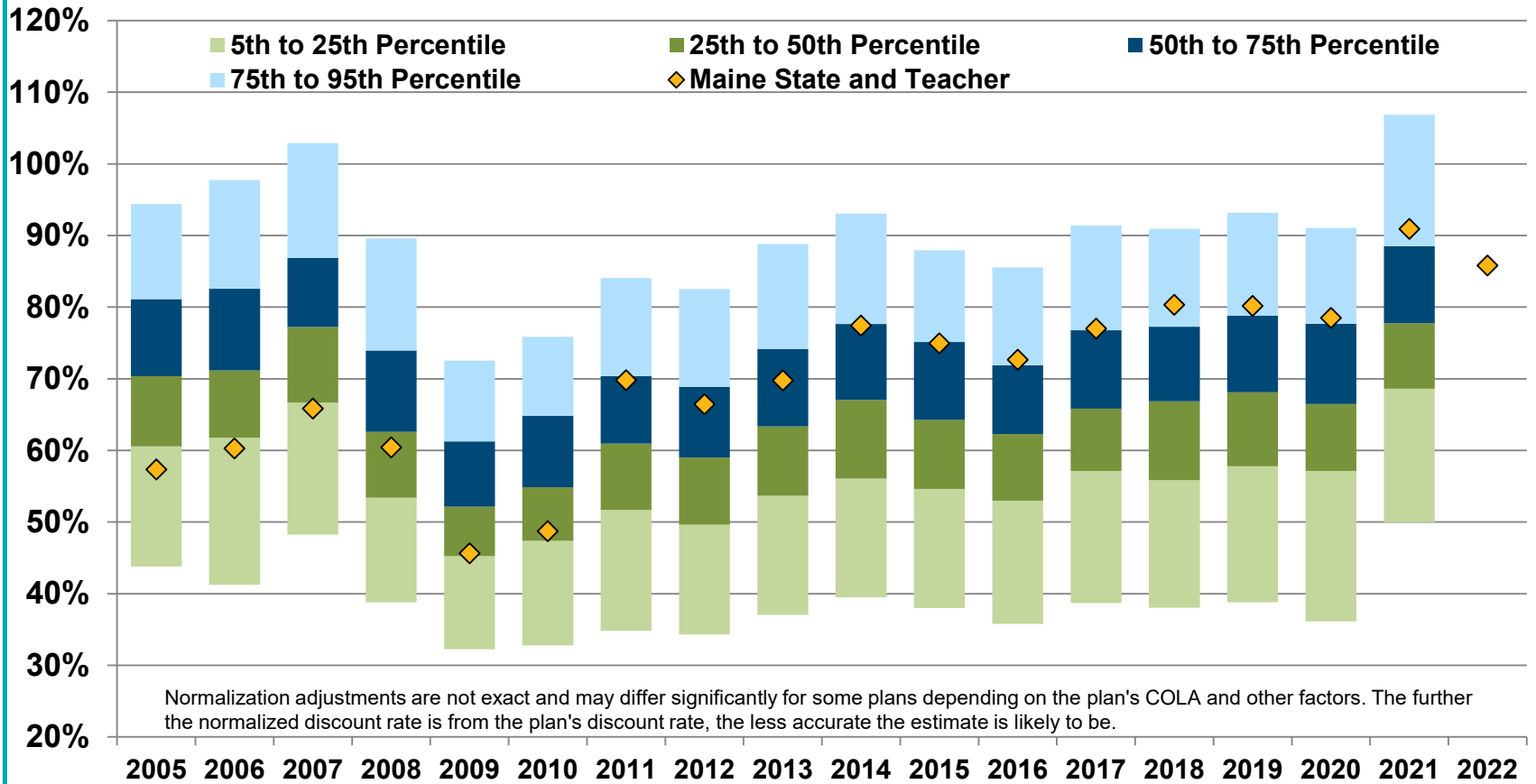
State Employee and Teacher Only

Inflation



State Employee and Teacher Only

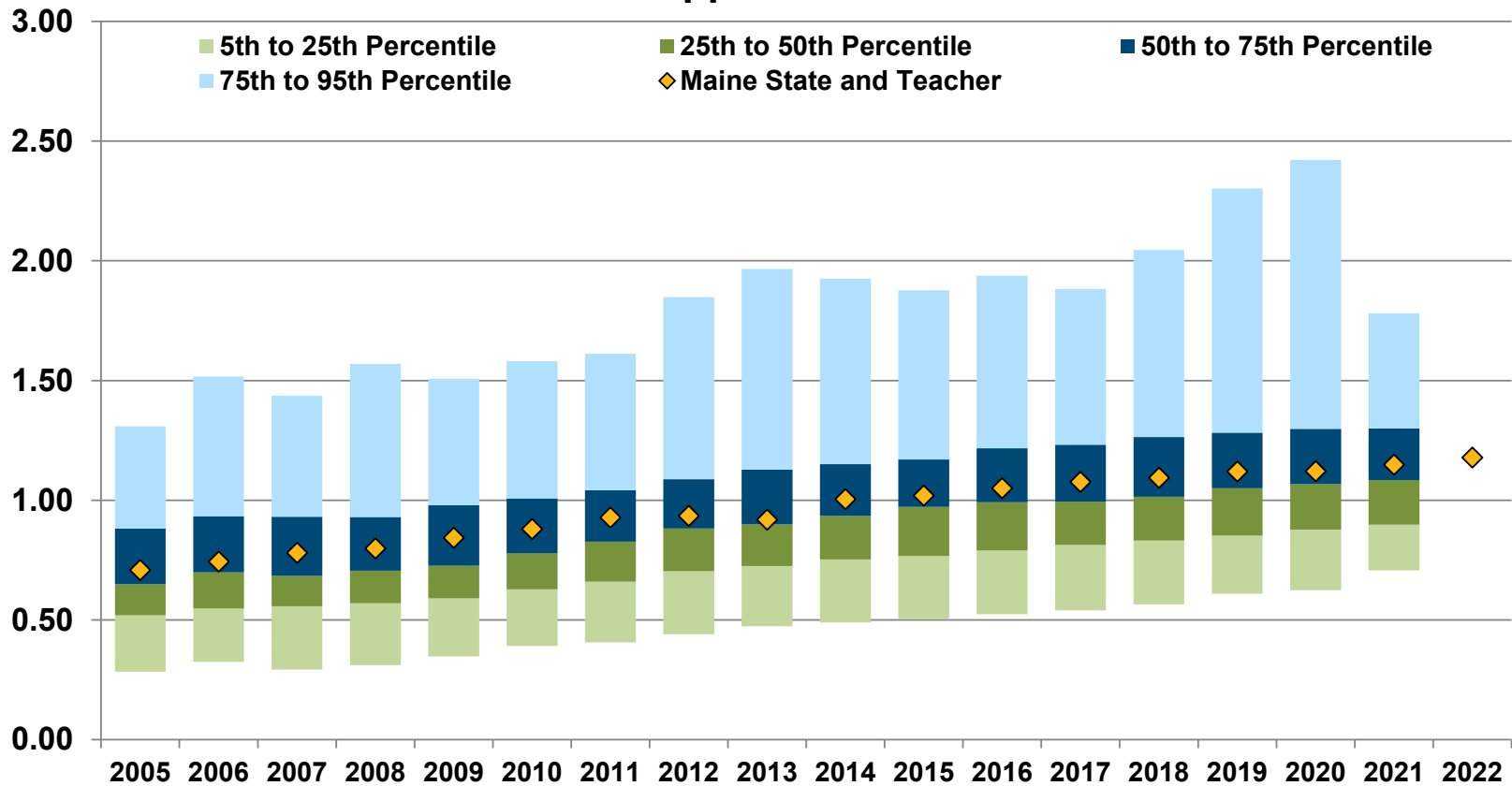
MVA Funded Ratio - Normalized



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

State Employee and Teacher Only

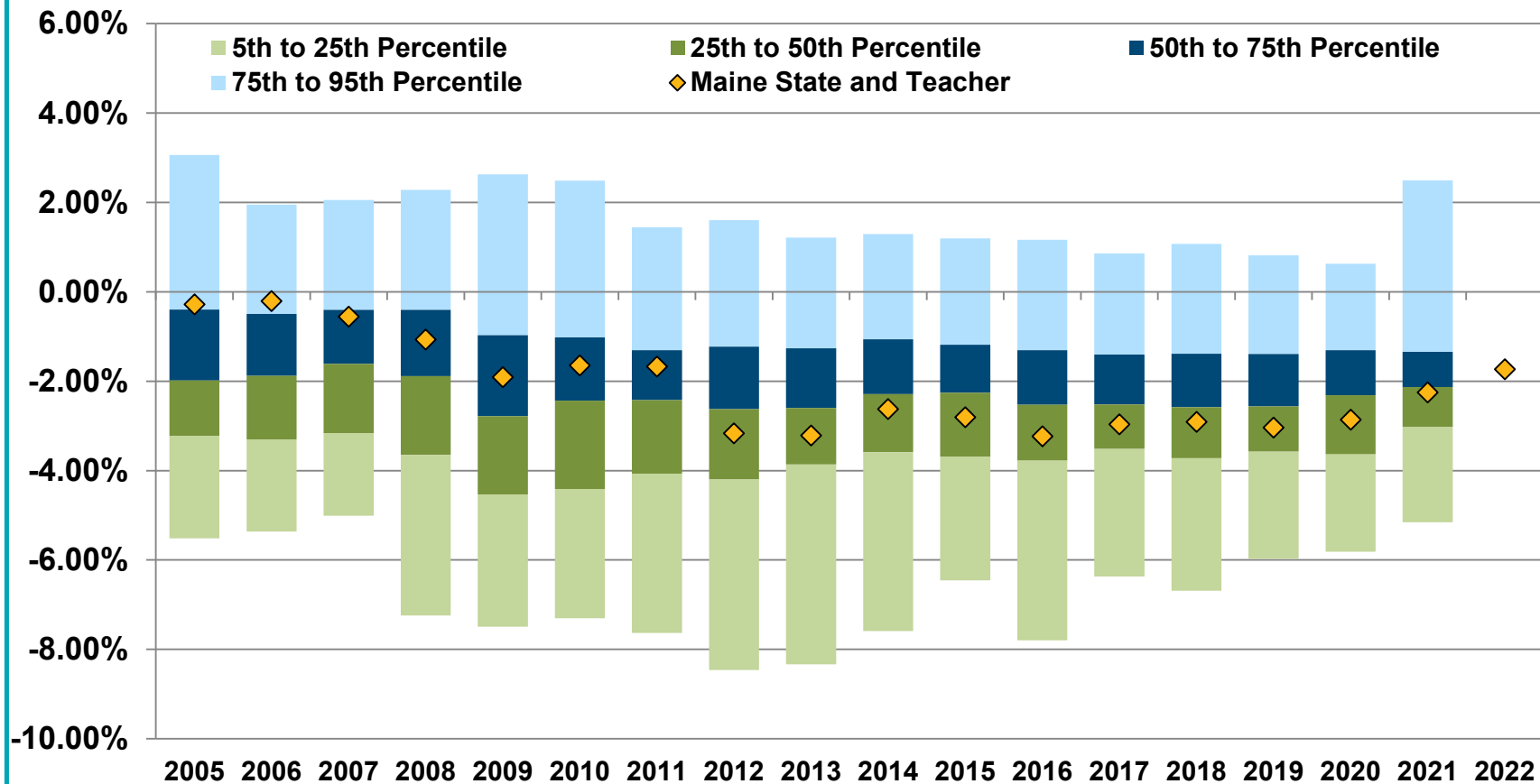
Support Ratio



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

(all dollars are in millions) *except for average salary & benefit		June 30,			
		2021	2022	2022	2021 to 2022
<u>Membership</u>	<u>Valuation</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 39

Valuation Results: Legislative

<i>(all dollars are in thousands)</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>Ratemaking</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 40

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 41

Valuation Results: Consol. PLD

<i>(all dollars are in millions)</i> <i>*except for average salary & benefit</i>		June 30,	June 30,	
		2021	2022	2021 to 2022
<u>Membership</u>	<u>Valuation</u>	<u>Valuation</u>		<u>% change</u>
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%
<u>Assets and Liabilities</u>				
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%		
<u>Composite Contribution</u>		<u>for FY 2023</u>	<u>for FY 2024</u>	
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%	

source: Cheiron 42