
MAINEPERS

BOARD OF TRUSTEES MEMORANDUM

TO: BOARD MEMBERS
FROM: DR. REBECCA M. WYKE, CEO
SUBJECT: 5-YEAR STRATEGIC PLAN UPDATE – YEAR II
DATE: OCTOBER 15, 2024

POLICY REFERENCE

[Board Policy 4.5 – Board/Staff Relations](#)
[Board Policy 4.6 – Communications and Support to the Board](#)

In August of 2022, the Board of Trustees adopted a 5-Year Strategic Plan. Much work has been done over the past two years to implement and operationalize the Plan. The focus of this report is to update the Board on the progress made in the second year of the Plan.

This work advanced each of the six goals under the plan:

- 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

The four legislatively directed objectives in the Strategic Plan were substantially completed in the first year of the plan, including: a study on potential public plan options that include social security (Resolves 2021, c. 66 & 72), responding to the divestment legislation (PL 2021, c. 231 & 234), expanding the availability of defined contribution plans to teachers (PL 2021, c. 548), and exploring mandatory long-term disability insurance coverage (PL 2021, c. 277).

In relation to **Goal I. Preservation of the Trust Fund**, a Board Work Plan for 2024 was adopted by the Board in November 2023. The Plan maps the Board’s responsibilities as outlined in Maine Law and Board Policy to the monthly meeting agenda and includes a frequency schedule to guide the annual update of the Plan. The Trustee Charter, which was adopted by the Board in March 2023, was reviewed in November 2023. The Charter sets forth the Board’s principles, duties, and oversight responsibilities for the Governance of MainePERS and its programs. Additionally the Board reviewed and updated (as needed) more than a third of its policies in the Board Governance Manual over the past year, consistent with its three-year review cycle.

Transparency efforts regarding Board operations continued and all public meeting materials were posted on the MainePERS website in advance of meetings, in addition to agendas and minutes. These materials are archived on the website so members of the public may easily review prior meeting materials. MainePERS also posts materials for the Finance and Audit Committee and the PLD Advisory Committee online. Additionally, all Board and Committee meetings are available live via an online webinar platform.

The Board conducted its annual self-evaluation in August 2023. As part of this process the Board received its annual education on best practices in Board governance. Following receipt of the Board's input on educational needs, an Education Plan was developed and presented to the Board in September 2023. The Plan includes educational presentations during Board Meetings, trustee seminars conducted by national associations, and materials for self-study. As part of this plan fiduciary education was offered by the Board's governance consultant in April 2024, outlining the legal framework of the Trustee's fiduciary duties and focusing on three case studies. Quarterly investment and annual actuarial practices education continued. The Board also received "mission moments" -- introducing the Board to various programs under MainePERS -- on a variety of topics, including: the pension administration system project; the disability retirement compassionate allowance list; the appeals program; the legislative process; investment team activities; state-sponsored plans and sub-plans; and group life insurance.

Two new Trustees were welcomed to the Board in February 2024. Onboarding for the Trustee from MEA was completed last fall and onboarding for the Trustee from MSEA occurred in the first part of this year. These orientations were delivered by senior management over several meetings, and the topics covered included the governance framework, fiduciary duties, actuarial valuation, rate-setting, cost-of-living increases, finances, investments, member services and employer services.

Through its Finance and Audit Committee the Board reviewed the 2023 Annual Comprehensive Financial Report prior to its acceptance by the Board, with MainePERS receiving a "clean" audit for the year from its external auditor, Berry Dunn. For the twentieth year in a row MainePERS was awarded a certificate of achievement for excellence in reporting from the Government Finance Officers Association. The FY 2025 Annual Administrative Operations and Investment Operations Budgets were reviewed by the Finance and Audit Committee prior to their adoption by the Board. The budgets were developed to support ongoing operational needs as well as the 5-Year Strategic Plan, in particular the development of the new pension administration system. FY 2024 ended within the overall budgets as approved by the Board.

The Finance and Audit Committee also oversaw the outsourced internal audit program. Audits were completed for cash receipts and disbursements, facilities policies and physical plant security, and member statement and estimate processes. The Committee reviewed the 2024-25 internal audit plan and the updated enterprise risk management plan. Additionally, the Committee reviewed the progress on employer account reconciliations, now at 85%, as well as status updates on employer reporting issues.

With assistance from the Board's general investment consultant, Cambridge Associates, the investment team reviewed the long-term capital market assumptions and the strategic asset allocation with the Board in January 2024. And, an internal working group was formed to explore strategies for pre and post-2028 system liabilities planning.

Staff reviewed compliance with the divestment legislation and related investment policy statement provisions, updated the status of fossil fuel investments, and presented the second

annual Divestment Report to the Board in December 2023. Staff also met with the Joint Standing Committee on Labor and Housing to discuss the divestment report for FY 2023, and separately engaged with the divestment advocates on several occasions. In response to a request by the advocates, staff researched an investment decision implemented by CalSTRS to invest a portion of their public equity allocation into a low carbon emission index and reported their findings to the Board in July and September of 2024.

From an investment perspective, inflation remained muted during FY 2024, increasing the likelihood that the Federal Reserve would begin to reduce interest rates. This prospect combined with excitement over artificial intelligence to drive stock markets to record highs. Investment returns reported by the System's custodian for the 1, 5, and 10-year periods ending 6/30/24 were 8.0%, 8.5%, and 7.5%. The preliminary trust fund balance at FY 2024 year end was \$19.7 billion, and for the first time the System's investments surpassed \$20 billion in July of 2024. For the sixteenth consecutive year, MainePERS received the Public Pension Coordinating Council's Recognition Awarded for Funding, in recognition of adherence to best practices in maintaining plan funding.

Under **Goal II – Stability of the Contribution Rates**, the Board reviewed and approved the FY 2023 actuarial valuations in October 2023. On an actuarial basis for FY 2023, the State Employee and Teacher Plan had an investment return of 7.15% (market value of assets, 6.05%) and is 85% funded. The calculated employer contribution rate was stable at 20.53%. The Board also adopted the FY 2026 and FY 2027 composite employer contribution rates at 19.70% and 19.73%, respectively. The Legislative and Judicial Plans remain fully funded at 144.5% and 109.9%, respectively. In anticipation of the FY 2024 valuation, the Board also reviewed the economic assumptions in June 2024.

MainePERS administered the award of two cost-of-living adjustments for the State-sponsored Plans. The Consumer Price Index-Urban (CPI-U) for the twelve months ended June 30, 2023 was 3.0%. Pursuant to Maine law, the Board of Trustees awarded an annual cumulative COLA of 3% in September 2023. Additionally, the Legislature approved a one-time COLA of 3% that was awarded in November, 2023.

The Participating Local District (PLD) Advisory Committee reviewed the actuarial valuation approved by the Board for the PLD Consolidated Plan. On an actuarial basis for FY 2023, the Plan remained 91.2% funded. The calculated contribution rate was stable at 18.6%. Additionally, the employer/employee rates for the Participating Local District Consolidated Plan were recommended by the PLD Advisory Committee and established pursuant to the authority granted by the Board to the Chief Executive Officer. The aggregate rate for the PLD Consolidated Plan remains stable at 18.6% and for the first time the Committee voted to recommend that all sub-plans be assessed at the 58% employer and 42% employee risk allocation goal for the Plan. Additionally the Committee voted to further consolidate plan offerings by eliminating sub-plan 4N, as there were no employees enrolled in the plan.

MainePERS also administered the award of two COLA adjustments for the PLD Consolidated Plan. Pursuant to Maine law and rule, the Board of Trustees awarded an annual cumulative COLA of 2.5% in September 2023. The PLD Advisory Committee recommended and the Board of Trustees authorized the awarding of an additional 0.5% one-time COLA, which was processed in February 2024.

Employers and other stakeholders were informed of funding trends through scheduled meetings with representatives of State government and the PLD Advisory Committee, as well as other communications. The Legislative committees of jurisdiction were also informed through the Annual Report to the Legislature in March 2024.

For **Goal III – Security and Integrity of our Information Systems**, staff have been focused on procuring a new pension administration system (PAS). MainePERS' current system is at end of life and in need of replacement. Planning for this transition began in fall 2022. Supported by our PAS procurement consultant, Linea, a Request for Proposals (RFP) was developed and issued in May 2024 for a new cloud-based PAS system and finalists are being reviewed with a contract award anticipated in early October 2024. An organizational change management firm was hired to support project leadership in engaging the staff throughout the transition and a PAS project manager has also been hired. The additional support staff approved by the Board in the FY 2025 budget are in the process of being hired.

Staff also worked with the current PAS vendor, Vitech, to make forty-four updates and enhancements to the system, which will be needed until the new system is designed and implemented. In preparation for the conversion of our data to the new system, staff is undertaking a data cleansing project and is part-way through seventy-two items identified for correction.

We successfully completed the final phase of an audit of our compliance with the National Institute of Standards and Technology (NIST) cybersecurity framework and nearly a dozen cybersecurity tests, including internal and external penetration testing. Staff also received monthly cybersecurity training to educate and guard against various threats. Additionally, we were able to renew our cyber-insurance policy for the same coverage at a reduced premium.

Our outdated tape back-up environment was modernized with implementation of the ExaGrid immutable replication solution to bolster data security and seamless business continuity. The email infrastructure was migrated to cloud-based Microsoft Office 365 and we replaced our legacy intranet with SharePoint, allowing for more efficient search and retrieval of information.

Development of a comprehensive member education, communications, and service model that supports planning for retirement security is a key strategic objective under **Goal IV – Cultivation of a Member-centric Organization**. This past year MainePERS conducted 40 webinars that were attended by more than 800 members. This included the launch of a new PLD member webinar, which completes the webinar series for new and mid-career members, as well as a new PLD special plan member webinar. The benefit estimator, introduced over a year ago, was updated to improve modeling across various plans. To date, members have used the benefit estimator to generate more than 21,000 scenarios to support their retirement planning. Additionally, a series of upgrades were made to the phone system menu this past summer that have greatly enhanced answer rates and reduced hold times. For the month of August, 96% of calls to the main line were answered with an average answer time of 41 seconds.

Staff continue to monitor key workflow metrics on a weekly basis and have eliminated many of the backlogs in existence when the Strategic Plan was developed. In the Year I update for the Plan we reported the queue of service retirement estimates, necessary for placing a member on the payroll with a preliminary benefit upon retirement, were reduced from 1,011 at the end of March 2023 to 264 at the end of July 2023. We have been able to maintain that progress and that queue currently stands at 152 as of mid-September 2024. Last year we also reported that

we were able to eliminate the backlogs in member requests for benefit verifications, beneficiary elections, and member account statements and processing times for these requests continue to be current.

The most significant remaining backlog is in moving retired members from a preliminary to a final benefit. The roots of this backlog are complex and the solution lies in streamlined processes, additional staffing, and enhanced technology. The staff conducted a process review over the past year and in August began implementing several process changes to better manage this work. The Board also approved additional staff positions to keep pace with our expanding membership rolls, while plans to procure a new pension administration system are well underway.

Other process improvements include a new, no cost increase contract with our group life insurance vendor that improves efficiency by assigning the vendor some of the functions previously performed by staff. Additionally, we've reorganized this work internally to move employer account reconciliations to the employer reporting team, providing a single point of contact for employers and freeing up member services staff to focus on other work.

In Year I we reported that MainePERS conducted an extensive review of the disability retirement program following the implementation of Public Law 2021, c. 277. Both the law and the review focused on the application process for disability retirement. In January 2023 MainePERS began using the Social Security Administration's compassionate allowance list to identify conditions appropriate for expedited processing when feasible. Although the standards for a disability benefit differ between SSA and MainePERS, the compassionate allowance list identifies diseases and other medical conditions that can expedite application processing for certain individuals. Our most recent survey of members who have completed the disability application process since the prior survey was conducted in July 2024. Ninety-one percent (91%) of those responding were satisfied or very satisfied that the process was fair and 94% agreed or strongly agreed that they were treated with respect and had their questions responded to in a timely manner.

Over the past year staff focused on the processes required for those already receiving a disability retirement benefit and developed proposed changes that were adopted by the Board. These changes provide guidance on the definition of "earnings" and streamlined the annual process for applying compensation limitations and offsets to disability retirement benefits. Taken together, the changes serve to reduce the burden of compliance for members receiving a disability retirement benefit, while also reducing the amount of personal information collected. Additionally, staff worked to restructure and revise program information for members to provide greater clarity as well as discrete guidance for those applying for a disability retirement benefit and for those receiving a disability retirement benefit.

Perhaps one of the most significant achievements highlighted in the Year I update on the Strategic Plan was the development and launch of the member portal for which a phased rollout began in fall 2023. To date over 22,500 members have registered for the portal. Members use the portal to access forms, and review member statements and tax information. Members have also used the portal to update their own demographic information with nearly 2,500 transactions to date. As part of the member portal rollout, MainePERS conducted a campaign to update member demographic information to support the use of multi-factor authentication in registering for the portal. Over 47,000 active and retired members without a telephone number and/or email address on file were contacted to update their information and more than 18,000 members complied.

MainePERS conducted its most recent annual member survey for active and retired members in April 2024. Ninety-two percent (92%) of retirees and 51% of active members indicated they were “satisfied” or “very satisfied” with MainePERS. Over 90% of retirees and 61% of active members stated they “agree” or “strongly agree” that MainePERS acts with integrity. And, 80% of retirees and 43% of active members “agree” or “strongly agree” that MainePERS staff are knowledgeable.

Under **Goal V – Development of Stakeholder Relations**, MainePERS staff have continued to focus on improving stakeholder relations with our 500 plus employers. Improvements in employer support included the addition of a second employer training specialist, continued development of the employer training program and materials, updated documentation including employer information on our website, and more frequent email communications. As noted under Goal I, progress on employer account reconciliations continues, currently at 85% versus 73% last year and 51% the year before. We are also partnering with one of the large payroll application vendors to assist in developing reporting tools that will be used by their clients (our employers) and hope to expand to additional vendor partnerships as we work to develop the new pension administration system. Last year, when we reported on the employer satisfaction survey, seventy-nine percent (79%) of employers were “satisfied” or “very satisfied” with MainePERS. The next employer survey will be this October.

MainePERS worked closely with the Participating Local District (PLD) Advisory Committee, whose membership includes five employer representatives and five employee representatives. The Committee reviewed information on the PLD Consolidated Plan, developed contribution rates, and implemented two cost-of-living increases over the past year. Additionally, onboarding orientations were provided to several new members of the Committee.

MainePERS also worked closely with member organizations representing our active and retired members. Regular articles were drafted by MainePERS for the newsletters of the Maine Association of Retirees and MEA-Retired. I was also the keynote speaker for the Maine Association of Retirees Annual Meeting in May 2024, and spoke at the MEA-Retired Annual Meeting that same month.

In the last legislative session, MainePERS reported to the Labor and Housing Committee on divestment, ESG, the Social Security windfall elimination provision (WEP) and government pension offset (GPO), disability retirement, and the member portal, as well as providing our annual report on operations. We also worked closely and collaboratively with members of the Committee and other stakeholders on legislation impacting MainePERS members. Senior leaders met with legislators, members of the Governor’s administration, labor unions, and other stakeholders on request to discuss issues related to services, legislation and investments. Stakeholders were also kept informed via email on important issues.

At the time the Strategic Plan was being developed, a sixth Goal was recommended by staff and adopted by the Board of Trustees, **Goal VI – Foster an Engaged Workforce that Advances the Organization’s Mission**. The Organizational Values Steering Committee was chartered in fall 2022 to guide the work of institutionalizing the organizational values developed by the staff as part of the strategic planning process. The Steering Committee is staff-led and promotes interdepartmental communication and collaboration as we work to bring all MainePERS staff into one cohesive team. This past year the Committee focused on three areas for improvement: employee-facing system policies, organizational communication, and collaboration on system-wide projects. The Committee’s sub-committee on policies reviewed

33 employee-facing policies for alignment with the organizational values. Proposed changes were then reviewed by senior management and supervisors, and were largely adopted. The communications sub-committee held a series of eight focus groups with staff and reported their findings to senior management and supervisors. Senior management, in collaboration with supervisors, developed a consensus response to all staff that included commitments related to the findings. Another sub-committee is focused on organizational collaboration for system-wide projects, such as the PAS system, and is in the process of developing its recommendations.

The staff-led Events Committee continues to plan social engagements and employee recognition events. The senior management team also organized and staffed the third annual cookout as a thank you to our employees for their work on behalf of our members. This past year we introduced a bi-monthly employee newsletter to keep everyone up to date on staff comings and goings, upcoming events, important reminders, and other items of interest. In addition, we have implemented monthly lunch and learn sessions, topics have included: MainePERS governance, the strategic plan, and organizational values; NextGen 529 plans; Social Security and the impacts of the WEP and GPO; the MaineStart program; an HR open house; and a variety of user application sessions hosted by our IT team.

In Year I we revamped the onboarding program for new staff to include education on MainePERS' governance, mission, vision, and strategic plan, which is led by senior managers. Members of the Organizational Values Steering Committee also participate by discussing the organizational values. Recently we expanded the program to include cross-departmental introductions as part of the onboarding process to promote communication and collaboration among departments.

A working group of staff, supervisors, and senior management reviewed the performance review process for bargaining unit employees and made recommendations to streamline the process and enhance employee participation. The performance review process now includes a voluntary self-evaluation for staff to reflect on their performance and highlight accomplishments. Work on diversity, equity and inclusion (DEI) continues with four of our staff completing a DEI certification course in the past year. Additionally, all staff are now receiving monthly DEI trainings through our online training academy.

Employee turnover was down in 2023 compared to 2022, 12.71% versus 21.63%. The most recent employee satisfaction survey was conducted in February 2024. The survey's response rate was 67%, of those responding 86% stated they "agree" or "strongly agree" they are satisfied with their job compared to 74% last year.

Conclusion

Over the past two years, much has been accomplished to move the 5-Year Strategic Plan adopted by the Trustees forward and the momentum is accelerating. The focus over the next three years will largely be on the development of the new pension administration system to ensure a successful implementation. On behalf of the staff at MainePERS, I am pleased to offer this update on the progress of the Plan and look forward to accomplishing even more in the year to come.