

LD 703

An Act to Increase the Amount to which a State Employee or Teacher Retiree's Cost-of-living Adjustment is Applied from \$20,000 to the Retiree's Actual Retirement Benefit

Description

This bill would provide for a cost-of-living adjustment (COLA) on the entire benefit for retired state employees, teachers, legislators and judges.

Impact

This bill would impact retired state employees, teachers, legislators and judges with a retirement benefit that exceeds the COLA-base benefit, which is the amount subject to a cost-of-living adjustment.

Costs

The bill would increase pension costs in two ways.

First, it would create an actuarial liability, which would have to be funded up front under the State Constitution.

Second, it would increase the normal costs that are paid by the State.

These costs have not yet been determined.

Reason for Costs

Pension costs have been determined and paid based on a cap on the amount of benefit subject to COLA. The COLA-base was set at \$20,000 in 2011 and is indexed annually by the same percentage as that year's cost-of-living adjustment. The COLA-base for 2020 was \$22,810.25.

Under LD 397, retired state employees, teachers, legislators and judges would receive a cost-of-living adjustment on their entire benefit.

Since contributions have been based on a less-expensive plan with a cap on the amount of benefit subject to COLA, the bill would create an actuarial liability that does not currently exist. The Maine Constitution requires that the cost of enhancing benefits must be fully paid at the time that the enhancement is made. As a result, the increased actuarial liability must be fully-funded up front.

The cost of the plan on an ongoing basis is also more expensive because benefits being earned will be subject to COLA. As a result, the normal cost of the plan will also increase.