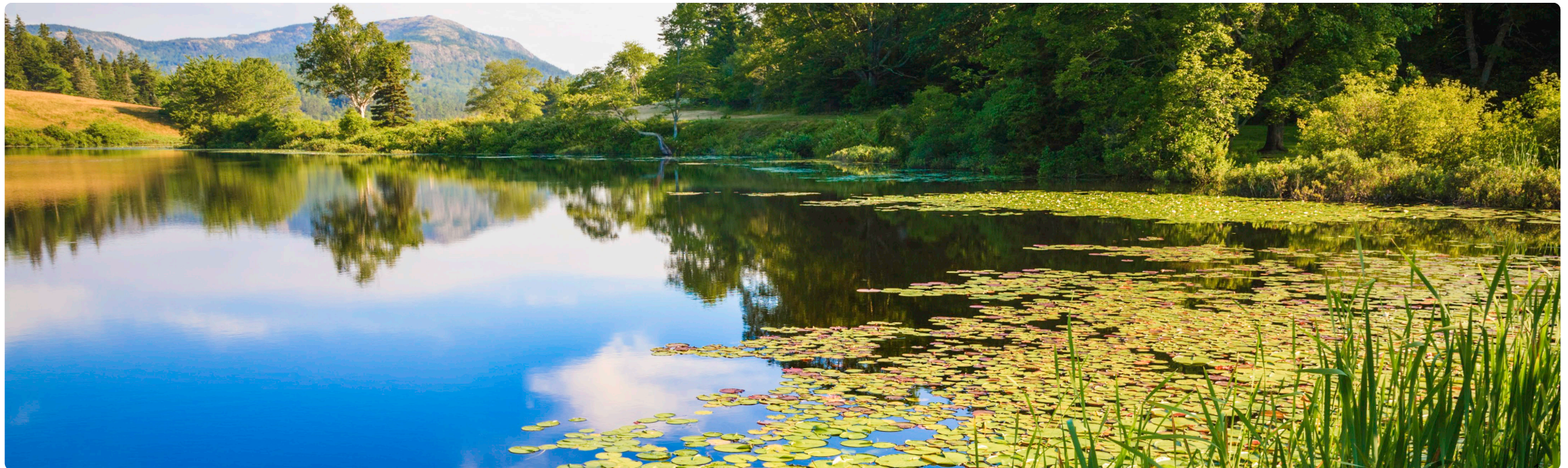




MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

**1-12-2021 Presentation to the Joint Standing
Committee on Appropriations and Financial Affairs**



MainePERS Mission and Services

Our mission is to serve the public with sound retirement services to Maine governments.

The State of Maine

- State Employee and Teacher Retirement Program (1942)
- The Legislative Retirement Program (1985)
- The Judicial Retirement Program (1984)
- Group Life Insurance

Maine Local Governments

- Participating Local District Consolidated Retirement Program (1993) and predecessor plans (1942)
- MaineSTART Defined Contribution Plans
 - 457(b), 403(b), 401(a)
- Group Life Insurance

Primary Responsibilities for State of Maine Plans

Legislature

- Establish the plans and plan administration by law
- Determine new or changes to existing benefits through law in accordance with the State Constitution
 - No new unfunded liabilities except experience losses; for example, no increasing the level of benefits for existing employees unless fully funded up front
- Fund the plan in accordance with the State Constitution based on actuarially calculated costs

MainePERS

- Calculate and collect employer/employee contributions and place into the MainePERS trust
- Administer the trust under fiduciary duty standards, the Maine Constitution, and State Law
 - Calculate plan liabilities based on sound actuarial principles
 - Manage trust assets
 - Pay benefits
- Support the Legislature in understanding the effect of bills under consideration on the Plan

Primary Guidance

Legislature for State Plans

- Maine Constitution, Art. IX, §§ 18, 18-A, 18-B
 - Retirement funds held in trust for the exclusive purpose of providing retirement benefits
 - Costs funded annually and calculated on an actuarially sound basis
 - No new unfunded liabilities except experience losses
 - Unfunded liabilities retired over a period not exceeding 20 years
 - 1996 unfunded actuarial liability must be retired by 2028
- Federal and Maine laws

MainePERS

- Maine Constitution and laws
- MainePERS Rules
- Federal laws where applicable
- Fiduciary standards
 - Prudence
 - Loyalty

How Do Defined Benefit Plans Work?

- State of Maine **defined benefit plans** provide plan members in the plan with a fixed retirement benefit throughout retirement based on
 - Average of their highest 3 years salary
 - The number of years worked under the plan (service credit)
 - A multiplier of 2% (unless otherwise specified)

Example of most common benefit terms:

$\$54,000 \times 2\% \times 20 \text{ years} = \$21,600 / 12 = \$1,800 \text{ per month}$

Types of Retirement Benefits

Service Retirement

- State Employee and Teacher Plan contains several plans with different terms
 - Teachers
 - State Employees
 - Regular
 - 25 & Out Plan
 - 1998 Special Plan
 - Fire Marshals
 - 3 closed plans (State Police, Inland F&W, and Forest Rangers)

Disability Retirement

- Provided for members with permanent disability existing while in service
- Benefit is based on a percentage of average final compensation, typically 59%
- Service credit continues to accrue, with the retiree crossing over to service retirement when the two benefit amounts are equal

State of Maine Plan Funding

The State of Maine's commitment to full funding of the State/Teacher plan is a remarkable success story

- <20% funded in the 1980s
- State/Teacher Plan funding today is funded in the top 25% of state-wide public plans

The Judicial Plan remains well funded because full contributions have been made throughout the life of the Plan.

The Legislative Plan is well funded because of consistent contributions and term limits.

Valuation at 6-30-2020	State/Teacher	Legislative	Judicial
Membership			
Active members	40,395	179	58
Active member payroll	\$2.061 B	\$2.814 M	\$7.804 M
Average salary	\$51,011	\$15,721	\$134,547
Retirees/Others in Pay Status	37,151	206	83
Total Annual Retiree Benefits	\$.86 B	\$462 thou	\$4.602 M
Average Retiree Benefit	\$23,143	\$2,241	\$55,450
Assets and Liabilities			
Actuarial Liability	\$14.865 B	\$9.729 M	\$72.197 M
Actuarial Value of Assets	\$12.250 B	\$13.679 M	\$74.766 M
Unfunded Accrued Liability (UAL)	\$2.615 B	(\$3.950) M	(\$2.569) M
Actuarial Funding Ratio	82.4%	140.6%	103.6%
Employer Contributions			
Normal Cost Rate	3.88%	2.83%	12.17%
UAL Rate	16.27%	(17.12)%	(4.02)%
Member Contributions (with exceptions)	7.65%	7.65%	7.65%

2021 MainePERS Focus

- Maintaining long-term plan funding
- Disability Program / Long-term disability insurance
- Data clean-up
- Continue responsible investing
- Monitoring for plan impacts from COVID-19

How Plan Funding is Calculated

- Funding goal is 100% or higher, i.e. there are enough or more assets to pay for all pension liabilities owed
- Plan funding = $\text{Trust Fund Assets} / \text{Liabilities or Benefits Owed}$
- Assets
 - Trust fund assets are adjusted for 3 year smoothing of gains and losses
- Liabilities
 - Total of all future liabilities “discounted” back to the present value
 - Assumption for longevity, future inflation, employee turnover and others affect total liabilities
 - Discount rate is MainePERS assumed earnings rate on trust assets (currently 6.75%)

How Pension Costs Are Calculated

Normal Costs

- Cost that cover retirement benefits earned in the current period or year
- If nothing ever changes, normal costs will cover the full cost of each member's retirement throughout their life
- Events that can change normal costs
 - Life span increases/decreases
 - Unusual inflation/deflation etc.
 - Changes in employment trends

Unfunded Actuarial Liability Costs

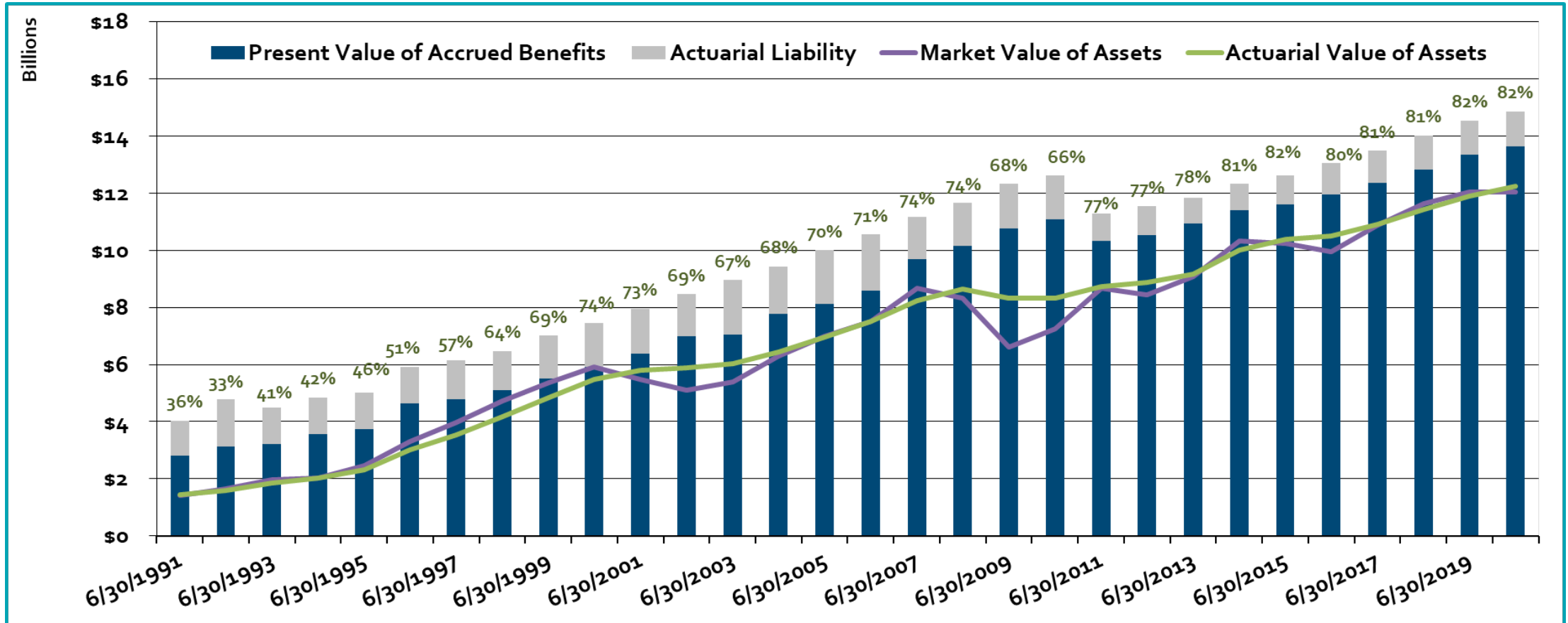
- Commonly referred to as UAL costs
- UAL costs cover losses needed to restore 100% funding
- Common causes of funding losses creating a UAL are:
 - Investment losses
 - Life span increases
 - Normal and/or UAL scheduled payments are not made
 - Benefit increases that are not funded

2022-2023 Pension Costs

- MainePERS calculates costs based on known values at July 1st to enable state budget process to start
- Costs are normally calculated using a 3-year smoothing of gains and losses
- Trustees approved a one-time only 10-year smoothing schedule for FY2020 returns based on the approach approved for private sector plans after the 2009 losses

FY 20-21 Billed Costs	\$796M
2018 Projected Costs for FY 22-23	\$840M
FY 22-23 Calculated Costs	\$879M
FY 22-23 Billed Costs with 10-yr amort	\$861M

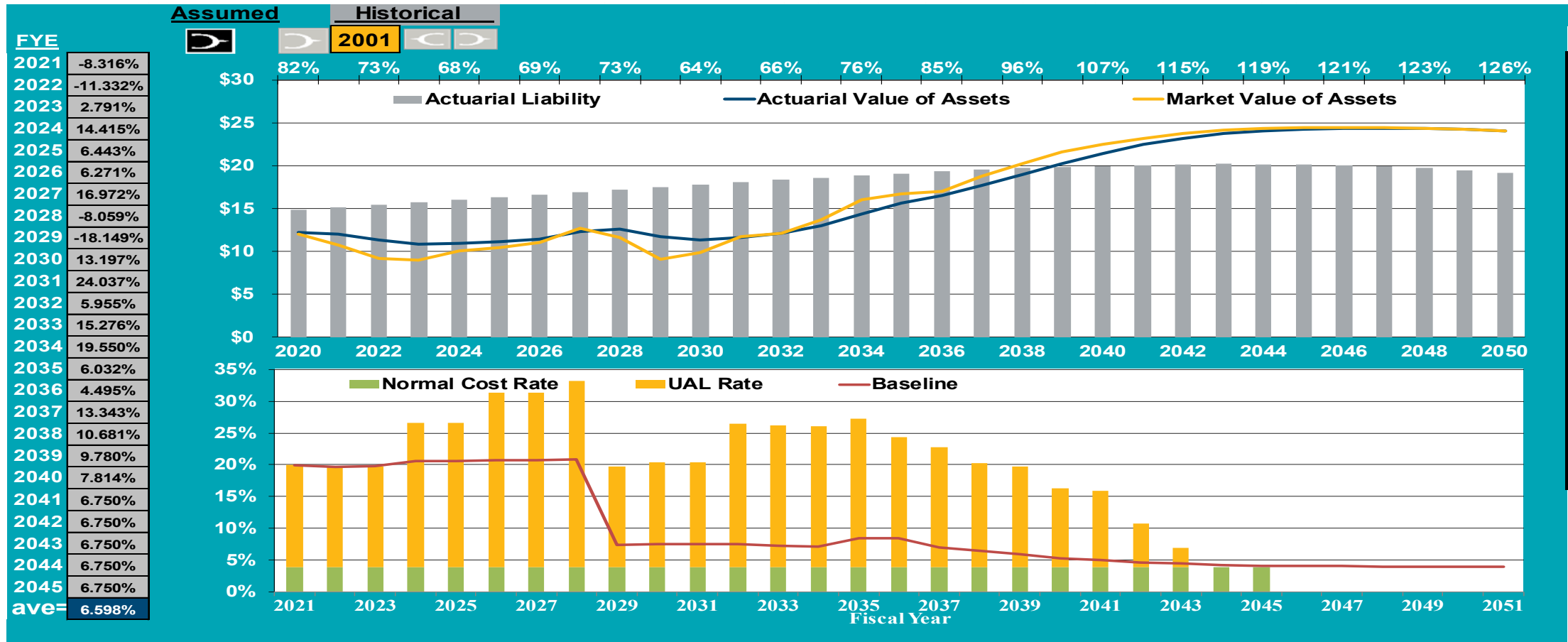
State/Teacher Funding History



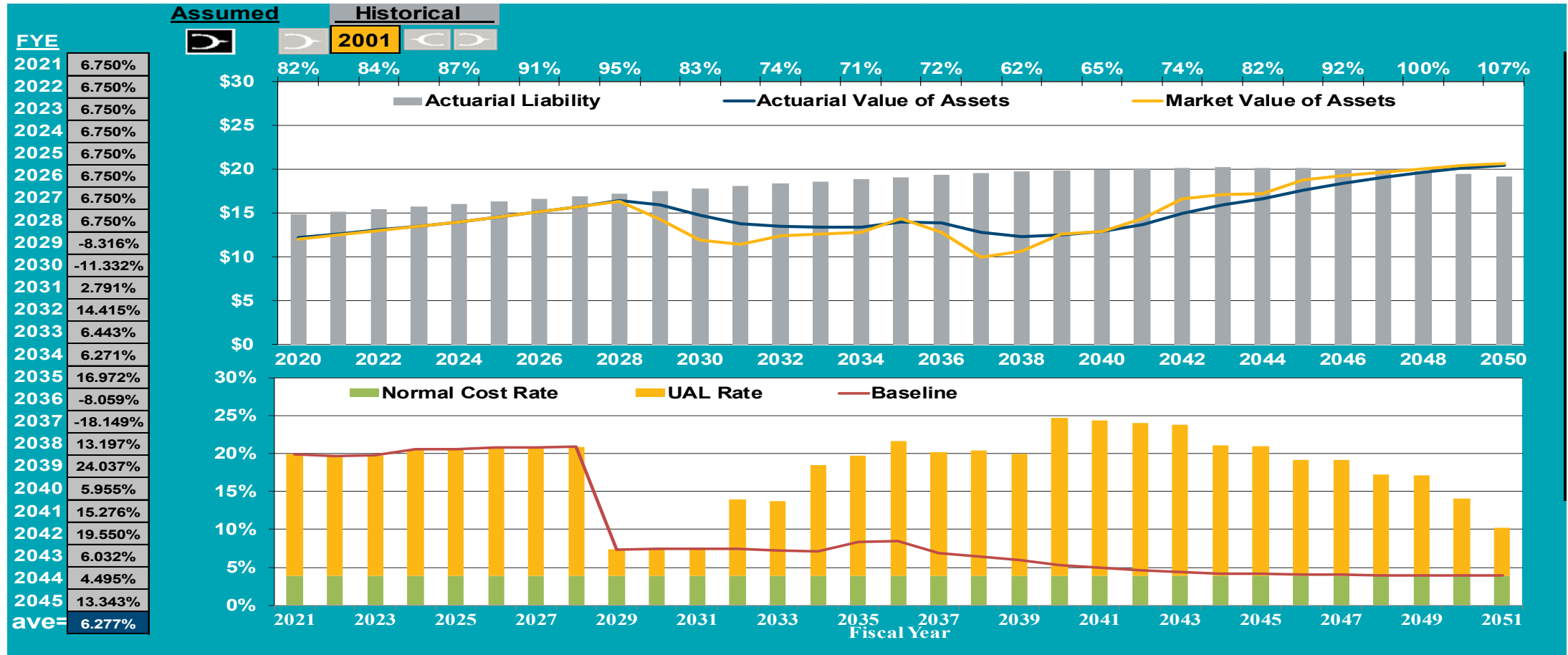
2028 Does Not End Pension Funding Concerns

- Future downward market jolts are bound to happen and will create new UAL costs that are constitutionally required to be repaid over 20 years
- As Treasury rates have dropped, MainePERS has been and will continue to periodically lower the earnings assumption, which increases the normal cost but stabilizes total pension costs and funding
- Total costs are most likely to remain where they are today without the precipitous drop many are anticipating

What if Same Market Cycle Beginning in 2001 Repeats Starting Next Year?



What if Same Market Cycle Beginning in 2001 Repeats Starting in 2029?



Disability Program / LTDI

- Disability Retirement Program
 - Available to members who are permanently disabled
 - Stressful for members with long-term but not permanent disabilities
 - 2020 change – moving to the Disability Evaluation Services program at UMass Medical School as the medical board
- Long-Term Disability Insurance
 - LTDI can provide income protection to those who are unable to work but don't qualify for Disability Retirement
 - Work on a MainePERS LTDI program has been ongoing
 - Needs coordination with the State and stakeholders on terms of the policy

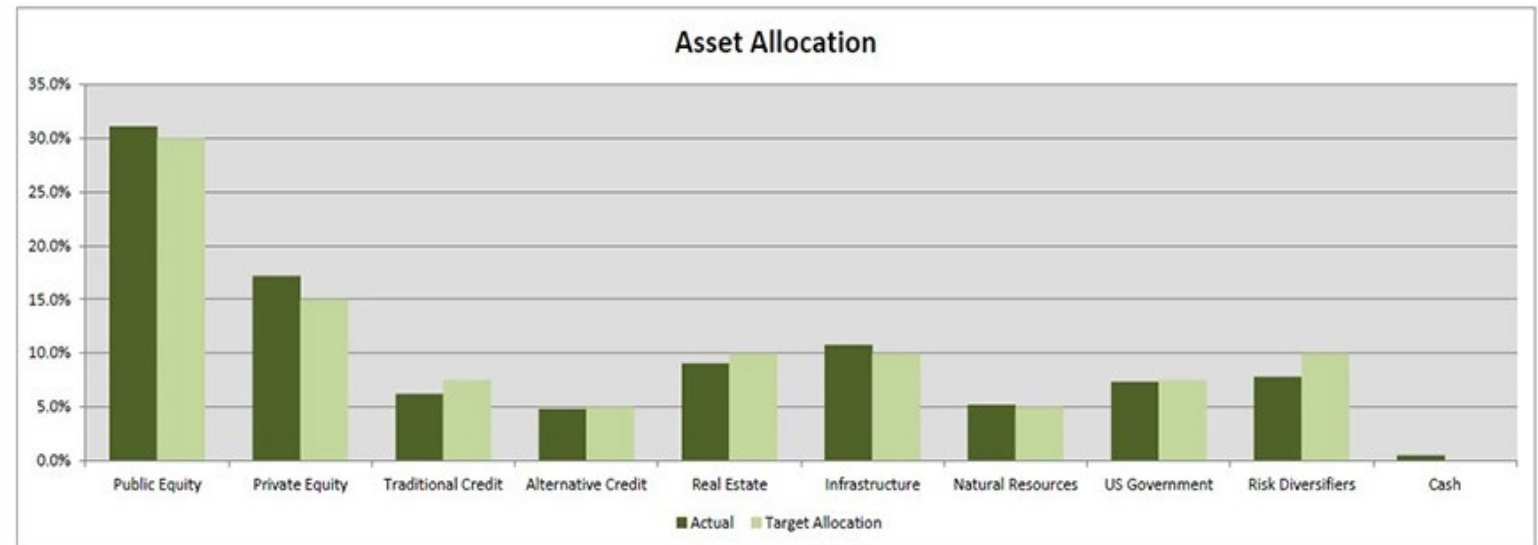
Data Clean-up

- MainePERS and its retirement plans are 79 years old
- There have been multiple iterations of managing the data from paper to electronic to new programs and upgrades
 - One thing that has never happened is a scrubbing of the data and how it moved from one system to another
 - Data gets scrubbed one person at a time as they retire
- Starting this massive project one step at a time, simultaneously implementing new processes to keep the data clean in the future
 - Large multi-year project

MainePERS Trust Fund Portfolio

- The \$16.3B pension trust fund is in a balanced portfolio
- MainePERS sets the asset allocation based on generating returns while limiting risks
- Our current expected return assumption is 6.75%, lower than most public pensions which helps maintain good plan funding
- 2020 FY returns: 1.2%
- 2021 FYTD returns: 12.6%

09/30/20	Public Equity	Private Equity	Traditional Credit	Alternative Credit	Real Estate	Infrastructure	Natural Resources	US Government	Risk Diversifiers	Cash	Total
Actual	31.1%	17.2%	6.2%	4.8%	9.1%	10.8%	5.2%	7.3%	7.8%	0.5%	100.0%
Target Allocation	30.0%	15.0%	7.5%	5.0%	10.0%	10.0%	5.0%	7.5%	10.0%	0.0%	100.0%



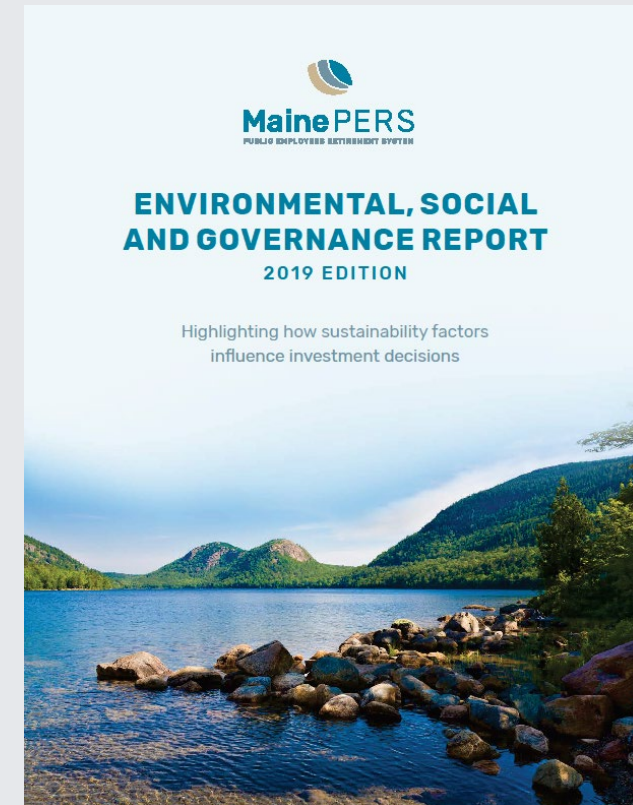
Note: The Target Allocations were approved in June 2017.

Responsible Investors

- Public assets are passively invested or “indexed”
 - Efficient way of optimizing market returns and minimizing fees and administrative costs
- Private investment fund decisions are made based on a holistic analysis
 - Each potential investment is evaluated against a lengthy checklist to gain confidence that the fund will perform as expected over time
 - This includes Environmental, Social and Governance (ESG) considerations
- Pensions are fiduciaries and required to follow the exclusive benefit rule, i.e. invest for the exclusive benefit of member retirements
 - Maine requires this of MainePERS in the Constitution
- We receive periodic requests to invest, divest, or modify an investment in response to a concern
 - These requests have increased during the pandemic

ESG Report

- We incorporate ESG considerations into all of our private fund decisions because it is sound investing practice
- While MainePERS cannot invest for any other purpose than member retirements, we do use our \$16.3B “voice” to encourage public companies to take actions to increase their long-term value, such as being responsible to the environment, employees, etc.



COVID-19 Impacts

- Internal
 - Limited on-site work to staff to who need to be in building on March 19th
 - Moved gradually back to full output capacity as we acquired the equipment for 75% of staff to work remotely by May 31st
 - No interruption to retiree benefit payments
- Members and Retirees
 - Retirements and terminations are slightly below prior years