MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

Date: May 13, 2025

To: Senator Michael Tipping, Senate Chair
Representative Amy Roeder, House Chair
Members, Joint Standing Committee on Labor

From: Bill Brown, Director of Actuarial and Legislative Affairs

Subject: LD 1872, An Act to Reinvest in the Pension Funds of the Maine Public Employees Retirement System

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Good afternoon Senator Tipping, Chair Roeder and the other distinguished members of the Joint Standing Committee on Labor. I am Bill Brown, Director of Actuarial and Legislative Affairs for the Maine Public Employees Retirement System (MainePERS).

MainePERS is neither for nor against LD 1872, An Act to Reinvest in the Pension Funds of the Maine Public Employees Retirement System. We are here to provide information and to offer any assistance the committee may request regarding this bill.

State employee and teacher retirement benefits are subject to annual cost-of-living adjustments (COLAs) tied to the Consumer Price Index (CPI). In 2011 the amount of a retiree's benefit to which the COLA applies ("Benefit Base") was limited to $20,000, to be indexed annually based on the percentage of COLA paid. The Benefit Base for 2025 is $26,428.98. A sheet detailing the most recent history of COLA changes is attached to this testimony.

Article IX §18-B of the Maine Constitution requires that by the end of fiscal year (FY) 2028, all unfunded actuarial liabilities (UAL) of the Maine Public Employees Retirement System existing as of June 30, 1996 be paid in full. Over the past 28 years Maine has made annual actuarially determined payments to achieve this goal. The final payment towards the 1996 UAL will be made in FY 2028. While this does not result in the plan being fully funded, since new experience gains and losses continue to occur, it does result in a significant reduction in the required UAL payment beginning in FY 2029.

As proposed, LD 1872 establishes the Retirement Improvement Fund, the purpose of which is to accumulate funds to be used to incrementally increase the Benefit Base. When it is determined that the fund contains sufficient funds to increase the Benefit Base by at least $1,000, MainePERS is directed to do so until the Benefit Base reaches $40,000.

Beginning in FY 2029, and for the three successive years, at the start of the fiscal year the State would pay into the Retirement Improvement Fund the difference between the amount paid for the UAL in that year and the amount paid for the UAL in FY 2028. Based on the current projected payment schedule, the UAL payment is projected to reduce by approximately $275 million in FY 2029 as compared to FY 2028. It is important to note that these projections assume that all actuarial assumptions are met in all future years. Required payments for FYs 2026 and 2027 were established in July 2024, after completion of the 2024 valuation.

Actual payments for FYs 2028 and 2029 will be determined by the results of the 2026 valuation, and it is at that time that the reduction in payment between those years will actually be known. It may also be important to note that not all funds currently being paid towards the UAL are paid from the General Fund. It is unclear to MainePERS what future funds will be available for the purpose described in LD 1872 and suggest that the Committee seek information from the Department of Administration and Financial Affairs regarding this matter.

Additionally, one of the key goals of the MainePERS Board of Trustees is to maintain stability of the contribution rates. As the 1996 UAL is paid off in FY 2028, the flow of contributions to the System will greatly decrease, and the risk of contribution rate volatility will greatly increase. We have been working with our actuary to discuss what methods could be employed post-2028 to minimize that risk and continue the contribution rate stability the plan has long experienced. While we are early in our work, any actuarial methods employed could also impact the contribution payments for FYs 2028 and 2029.

LD 1872 has no immediate fiscal impact since it does not call for funding of the Retirement Improvement Fund until FY 2029. Future increases in the Benefit Base will result in ongoing increased normal costs that will be reflected in future costs after the Benefit Base increases occur. As proposed by LD 1872, the UAL costs associated with any Benefit Base increases will immediately be paid from the Fund when the increases are implemented.

The cost to incrementally increase the Benefit Base to $40,000 in FY 2029 or beyond is dependent on future actuarial valuation results and cannot be determined at this time. We do note, however, that LD 70, endorsed by this committee in the previous legislature, had a $750 million fiscal note to increase the Benefit Base to $40,000, effective July 1, 2023.

On a technical note, the language concerning the establishment of the fund may require amending in how the fund would be administered by MainePERS and we will continue to work with the sponsor to address that aspect of the bill.

Thank you for your consideration of this testimony. I am happy to take your questions and will be present for any work session.

State-Sponsored Plans COLA History

Prepared by MainePERS – 08/13/2024

YEAR	CPI-U	COLA CAP	COLA PAID	ELIGIBLE BENEFIT (COLA BASE)	MAX COLA	STATUTORY CHANGES
2007	2.70%	4.00%	2.70%			
2008	5.00%	4.00%	4.00%			
2009	-1.40%	4.00%	0.00%			Negative CPI-U; no decrease in benefit. (PL 2009, c. 433)
2010	1.10%	4.00%	0.00%			COLA reduced to account for prior year negative CPI-U. (PL 2009, c. 433)(PL 2009, c. 473)
2011	3.60%	3.00% of eligible benefit	0.00%			COLA frozen; COLA Cap decreased; maximum benefit level eligible for COLA set to $20,000, indexed (PL 2011, c. 380)
2012	1.70%	3.00% of eligible benefit	0.00%			COLA frozen; one-time non-cumulative COLA of 3% of benefit up to $20k paid (PL 2011, c. 380)
2013	1.80%	3.00% of eligible benefit	0.00%			COLA frozen; one-time non-cumulative COLA of 1.70% of benefit up to $20k paid (PL 2011, c. 380)
2014	2.10%	3.00% of eligible benefit	2.10%	$20,000.00	$420.00	One-time non-cumulative COLA of 1.8% of benefit up to $30k paid (PL 2013, c. 578)
2015	0.10%	3.00% of eligible benefit	2.55%	$20,420.00	$520.71	COLA rate set for two-year period (minimum 2.55%) (PL 2015, c. 334)
2016	1.00%	3.00% of eligible benefit	2.55%	$20,940.71	$533.99	COLA rate set for two-year period (minimum 2.55%) (PL 2015, c. 334)
2017	1.60%	3.00% of eligible benefit	1.60%	$21,474.70	$343.60	
2018	2.90%	3.00% of eligible benefit	2.90%	$21,818.30	$632.73	
2019	1.60%	3.00% of eligible benefit	1.60%	$22,451.03	$359.22	
2020	0.60%	3.00% of eligible benefit	0.60%	$22,810.24	$136.86	
2021	5.40%	3.00% of eligible benefit	4.00%	$22,947.11	$917.79	Additional 1% COLA eff 9/1/2021 (PL 2021, c. 635, Pt. NN).
2022	9.10%	3.00% of eligible benefit	3.00%	$24,186.25	$725.59	2022 COLA base increased to reflect full 2021 CPI-U (PL 2021, c. 635, Pt. NN); one-time non-cumulative payment of 1.00% of COLA Base paid (PL 2023, c. 3, Pt. J); one-time non-cumulative payment of 3.00% paid (PL 2023, c. 412, Pt. HHHHH)
2023	3.00%	3.00% of eligible benefit	3.00%	$24,911.84	$747.36	
2024	3.00%	3.00% of eligible benefit	3.00%	$25,659.20	$769.78	
2025				$26,428.98		