

Date: March 26, 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 900, An Act to Protect State Retirees from Inflation

Good morning Chair Tipping, Chair Roeder and 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 900, An Act to Protect State Retiree Pensions from Inflation. We are here to provide information and offer any assistance the committee may require regarding this bill.

State employee and teacher pensions receive cost of living adjustments (COLAs) tied to the Consumer Price Index (CPI). The current cap ("COLA cap") on COLA is 3%, established in 2011. Also in 2011 the amount of a retiree's benefits on which the COLA applies ("COLA Base") was limited to \$20,000, indexed annually based on the percentage of COLA paid. The 2025 COLA base is \$26,428.98. A sheet detailing the most recent history of COLA changes is attached to this testimony.

LD 900 proposes that effective July 1, 2026 the COLA Base increase to \$40,000 and the COLA cap increase to 4%. As drafted, the cap increase would apply only to the fiscal year 2026-27 COLA increase, which would be paid in September 2026. The bill also proposes that effective July 1, 2028, the COLA Base increase to \$50,000 and the COLA cap increase to 5%.

This bill will have a fiscal impact as the Maine Constitution does not permit the creation of new or additional benefits unless they are immediately and fully funded. LD 900 creates additional benefits that are not currently accounted for or funded, creating a new unfunded actuarial liability (UAL). Although we have not yet obtained costs for this bill, we have outlined below the cost for similar provisions previously before the legislature.

In the previous legislature this committee endorsed LD 70 which sought to increase the COLA Base to \$40,000. The fiscal note for this bill required a UAL payment of approximately \$750M. The same proposal required an increase to the ongoing normal cost of employer contributions. These costs will need to be updated to reflect a \$40,000 COLA Base effective July 1, 2026 and a \$50,000 COLA Base effective July 1, 2028.

In 2023 MainePERS estimated that increasing the COLA cap to 4% would require an UAL payment of \$382.3M as well as an increase to the ongoing normal cost of \$6.2M. This cost will also need to be updated to reflect a COLA cap of 4% effective July 1, 2026. The UAL and

normal cost to increase the COLA cap to 5% effective July 1, 2028 will need to be calculated.

MainePERS has one technical note regarding this bill. As drafted, LD 900 appears to increase the COLA cap to 4% in 2026, reduce it to 3% in 2027, and increase it to 5% in 2028. It is unclear if this is the sponsor's intent.

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		