

## BRIEF ESSENTIALS

# Employer and Member Costs for the Participating Local District Consolidated Retirement Plan (“PLD Plan”)

The PLD Plan is administered by MainePERS and is provided to employees of entities such as municipalities, counties, and quasi-municipal corporations that have approved participation of their employees in the Plan. Participating employees are members of the Plan. The PLD Plan is pre-funded, which means there are two types of pension costs—normal and unfunded actuarial liability (UAL).

### Types of Pension Costs for the PLD Plan

#### Normal Costs

Normal costs are the costs calculated to cover retirement benefits earned in the current fiscal year.

If nothing ever changes, such as unanticipated market disruptions, changes in employment trends or member lifespans, normal costs will cover the full cost of members’ retirement benefits.

What’s the difference?

#### Unfunded Actuarial Liability Costs

Unfunded actuarial liability, or UAL, costs are the annual costs calculated to fund 100% of all pension liabilities if trust fund losses or employment trends have created underfunding. Losses can occur from market disruptions, such as the 2009 recession. Underfunding can also occur if member lifespans begin increasing or other similar changes occur. In these cases, more funds need to be set aside to fund the unanticipated losses or increased plan costs

### Who pays these costs for PLD members?

Employers and members pre-fund PLD Plan retirement benefits. Once the normal and UAL costs for the Plan are determined, the required employer and member contribution rates are established for each of the 11 sub-plans that are available within the Plan. Each PLD employer is responsible for the payment of the employer portion of the normal cost, and members contribute the employee portion of the normal cost, based on the plan in which they participate. Historically, the employee portion of the normal cost has been set as a fixed rate, with the remaining normal cost being paid by the PLD employers. Additionally, PLD employers have historically been solely responsible for payment of UAL costs. Starting July 1, 2019, a new cost-sharing model will be in effect which results in PLD employers and members sharing responsibility for both the normal and UAL costs of the Plan.

## **Why is the responsibility for the payment of plan costs changing?**

The change in how PLD Plan pension costs are allocated enables both members and employers to share in positive and negative risks, such as investment returns and employment trends. Previously, employers absorbed all the risk, which means that while they bore the impacts of a down market, they also benefited from the up market. Member contribution rates have remained mostly flat regardless of the market. Under the new cost-sharing model, both member and employer contribution rates will be reviewed annually as part of the actuarial valuation of the Plan. This review may result in an adjustment to the member and employer contribution rates.

## **How will the member and employer costs be split?**

Beginning July 1, 2019, total pension costs will be shared by members and employers with approximately 42% of the costs paid by the member and the remaining 58% paid by the employer.\* In order to effect a smooth transition to this new cost-sharing model, implementation of the new split will occur over time for the 11 sub-plans.

## **Is there a maximum amount that members and employers will pay?**

Contribution caps will be applied to both member and employer rates, allowing each to help maintain sound Plan funding without experiencing uncontrolled increases in contribution levels. The member aggregate contribution rate cap is 9%. The employer aggregate contribution rate cap is 12.5%. These aggregate rate caps will be allocated across each of the 11 sub-plans within the Plan, resulting in a separate cap proportionately established relative to cost for each of the sub-plans.

## **Is there a minimum amount that members and employers will pay?**

Minimum contribution rates will be set based on the new cost-sharing model. The minimum contribution rate for members will be 42% of the total calculated normal cost. Similarly, the minimum contribution rate for employers will be 58% of the total calculated normal cost.

## **What happens if the costs exceed the established maximums?**

Significant increases in pension costs typically result from severe market losses. If those losses create costs to the Plan that would otherwise exceed the aggregate member and employer contribution caps, downward adjustments to future cost-of-living adjustments (COLAs) could occur. In order to avoid COLA freezes, the new provisions allow future COLAs to be reduced until markets improve and investment gains return.

## **Are there any other changes to member contribution rates?**

One additional change to member contribution rates impacts newer members who participate in a so-called "regular plan." Most members, except for many of those in public safety or county correctional positions, are part of a regular plan. For members who first joined the PLD Consolidated Plan on or after July 1, 2014, the member contribution rate will be slightly lower than the member contribution rate for those who joined the Plan prior to that date. This reduced rate reflects the fact that newer members have an older retirement age (i.e., 65) than other members (i.e., 60), and as a result, anticipated pension costs are lower.

*\*The majority of sub-plans are currently allocated closer to 58% employer and 42% employee. This is also the split between the caps.*