maine PERS Public Employees Retirement System

Participating Local District (PLD) Consolidated Retirement Plan

2018 Changes to Strengthen the Plan

MainePERS has developed six changes to the Participating Local District Consolidated Retirement Plan, some of which may affect you as a member or retiree in this Plan. This letter will explain these changes, which are designed to strengthen our ability to provide your benefit throughout your retirement in an increasingly challenging financial market environment.

All changes have been designed to protect payment of your core benefit throughout your retirement. Your core benefit is defined as your average final compensation multiplied by a factor (typically 2%, but depends on the specific plan in which you are enrolled) multiplied by the years of service credit you have accumulated in the plan. For example, if your average final compensation, or the average of your highest 3 years earnings, is $48,000, your factor is 2%, and you have 25 years of service credit, your core benefit is:

$48,000 X 2% X 25 = $24,000 per year or $2,000 per month.

The PLD Plan is currently one of the stronger defined benefit plans in the country. The PLD Plan came through the 2009 recession with an 87% funding level, compared to the national average that declined to 72%. (Note: A funding level is the % of dollars available to pay benefits owed.) The changes under consideration, which will be explained in this letter, have been specifically designed to return the Plan to a 100% funding level by:

- Keeping employer and active member contribution rates competitive with other retirement options so that Plan membership remains strong;
- Sharing investment gains and losses fairly among employers, active members and retirees so that no one of these groups unduly benefits from or is harmed by swings in financial markets;
- Modifying benefit add-ons that serve purposes other than retirement and are costly to the Plan; and
- Avoiding cost-of-living adjustment (COLA) freezes in bad financial markets.

Most changes are anticipated to become effective July 1, 2018, with two effective in 2019. Input received from member and employer meetings held in October and November of 2017 were reviewed and used to finalize the changes to the Plan explained in this letter.

Non-Core Benefit Changes

Four of the six changes are to provisions that add-on to but do not impact the core benefit you earn. They are being updated because they were implemented in earlier times when pension plans could afford to serve multiple purposes. Lining these up with the current pension environment will keep the Plan attractive at an affordable cost.

Unused Sick and/or Vacation

Currently, all retiring members are eligible to convert some unused sick and/or vacation to an increase in their retirement benefit. Eligibility is changing from all members to members with 20 or more years of service under the Plan at retirement.

Why this change?

Limiting this costly benefit to career employees reduces overall Plan costs while creating an incentive for members to stay in the Plan.

Early Retirement Subsidy

The early retirement reduction factor is increasing from 2.125% per year for age 60 plan members and 6% per year for age 65 plan members to approximately 6% to 7% or less per year for all members based on the number of years a member retires before their normal retirement age.

Why this change?

Members that retire early receive a higher lifetime benefit than they otherwise would because they receive additional benefit payments in retirement. The actual cost of these extra payments is approximately 6%-7% of the retiree's normal benefit for each additional year of early retirement. These additional costs are subsidized by all remaining active members and employers through higher contribution rates. This change creates equity between members retiring before and after normal retirement age. The actual average reduction for each member will vary based on the number of years of early retirement and may be less than 6%-7%.

Exception

Members with 20 or more years of service under the PLD Consolidated Plan as of July 1, 2019 will continue to be eligible for the 2.125% reduction (age 60 plan) or 6% reduction (age 65 plan).

Retire/Rehire

PLD employers may continue to hire retirees receiving a retirement benefit earned under the PLD Consolidated Plan. The employer can either 1) allow the retiree to re-enter the PLD Plan, discontinue their benefit, and earn additional service credit; or 2) pay the unfunded actuarial liability portion of current contribution rates on the pay for that position if the rehired PLD Plan retiree continues to receive their MainePERS benefit. The situation a retired member returning to work will have will be dependent on the option their employer offers. This change will not apply to retirees who already have returned to work under an existing employment agreement until the agreement expires or July of 2021, whichever is earlier. It will apply to all new agreements.

Why this change?

Retire/rehire without conditions currently reduces contributions to MainePERS. This change will help control unnecessary contribution rate growth, and helps keep the PLD Plan strong into the future.

Cost-of-Living-Adjustment (COLA)

The COLA cap will be adjusted to up to 2.5% of the Consumer Price Index for Urban Consumers (CPI-U) with a 2-year waiting period from the current cap of 3% with a 1-year waiting period.

Why this change?

The average CPI-U for the last 30 years was 2.6%, for the last 20 years 2.2%, and for the last 10 years 1.7%. Inflation is anticipated to remain at levels closer to the last twenty years. A COLA cap that reflects inflation helps keep retiree benefits current and keeps plan costs reasonable. The two-year waiting period occurs at the beginning of retirement.

Exception

The change in the COLA waiting period will be effective for those retiring on or after September 1, 2019.

Sharing Market Risk Fairly

The most important action in maintaining healthy funding is payment of the full annual contribution calculated by the MainePERS' actuary. The changes previously described have been designed to protect your benefit while keeping the cost of the PLD Plan affordable for both members and employers.

The remaining two changes introduce a new structure for increasing the assurance that 100% of contributions can always be paid by keeping contribution rates affordable without any one group receiving a disproportionate share of both good and bad financial markets.

Variable Contribution Rates with Caps for Employers and Active Members

Both employers and active member contribution rates will be adjusted annually. Employer contribution rates will be capped at an aggregate of 12.5%, and contribution rates for active members will be capped at an aggregate of 9%. (Differing options within the PLD Plan have varying costs and rates, some of which will be higher and some of which will be lower than the aggregate cap.)

Why this change?

Contribution rates change each year for several reasons. One of the most prevalent reasons is financial market performance. This change enables both employers and active members to share in both good and poor financial markets without fear of run-away rates.

Important Note

Cap levels will be re-evaluated in 2021 and every 5 years thereafter to make sure they are consistent with total plan costs for changes in inflation, member lifespans, etc.

Annual Cost-of-Living-Adjustments

If severe market losses create costs that exceed employer and active member contribution caps, COLAs will be adjusted for the extra costs. COLA adjustments will be calculated on the same basis market losses are calculated into contribution rates.

Why this change?

When severe or extended market downturns occur, contribution rates are automatically increased. Historically in most defined benefit plans, COLAs have been frozen to help recover plan funding. This method enables COLAs to continue to be paid at a lower rate. Avoiding COLA freezes in bad financial markets helps retirees maintain their standard of living.

Important Note

This change substantially reduces the risk of COLA freezes due to prolonged or unexpected market downturns. It cannot eliminate freezes if market losses are excessively severe.

When are These Changes Effective?

Most changes will be effective July 1, 2018 with the exceptions of the early retirement subsidy reduction and the change in the COLA waiting period, which will be effective July 1, 2019 and September 1, 2019, respectively.

Rulemaking

These changes will be considered by the MainePERS Board of Trustees through the rulemaking process. The rulemaking hearing is scheduled for April 12th. You may submit comments to the Board of Trustees at rulemaking@mainepers.org. If you plan to attend the hearing, please also use that email address to let us know you will attend.

Thank you so much for taking the time to read about these changes. The framework to protect your benefits from financial market events such as the 2009 recession or other types of market ups and downs was extensively studied over an 18-month period by MainePERS and the PLD Advisory Committee. The actual changes that are included were designed to align the benefits with current industry practices while still maintaining a sound benefit for your retirement.

Important information about changes to your Participating Local District (PLD) Consolidated Retirement Plan

P.O. Box 349
Augusta, ME 04332-0349
Phone: 207-512-3100
Toll Free: 800-451-9800

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