MainePERSpective

for Members, Retirees, and Employers of Maine Public Employees Retirement System

maine PERS Public Employees Retirement System

FALL 2011

Special Legislative Issue

Message from the Executive Director

Public pensions continue to be in the news across the country and around the world. There are many reasons public pensions are a topic of interest, but most revolve around cost.

Most public pension plans, including Maine's, were created several decades ago using the most common design of those times–defined benefit plans. Employees contribute a share of their paycheck, and in return the employer promises to pay a fixed amount, or a "defined benefit," after retirement. The employer also contributes to the plan and MainePERS invests the total contributions to help pay for the retirement benefit when due. The employer increases or decreases its contribution depending in large part on how the investments perform. A sustained period of low investment returns due to a struggling economy results in increased employer contributions at the very time it becomes more difficult for many employers to make those increased contributions. Even though these plans can and have experienced long periods of investment gains when the economy is strong, the focus on reducing cost happens primarily during stressful economic times.

The after-effects of the 2008 market downturn, which continue around the world, the country and in Maine, have prompted scrutiny of the costs of public defined benefit pension plans. MainePERS submitted costs of $916m to the State for the State/Teacher, Legislative and Judicial Plans for the FY 2012-2013 biennium. This $287m increase over FY 2010-2011 costs of $629m was due almost exclusively to the 2008 market crisis. The Governor proposed changes to the plans to lower these increased biennial costs. The Legislature modified the Governor's proposal, passing changes to the State/Teacher, Legislative and Judicial retirement plans effective July 1, 2011 and reducing the FY 2012-2013 costs to $508m.

The changes to the plans are important for all members to understand because they affect your future benefits. They are also likely to be permanent because of the Constitutional provisions that protect Maine pension funding levels by prohibiting new unfunded liabilities. Future Legislatures cannot reverse these changes without fully funding the cost in the year they approve a benefit increase.

The Legislature also established a working group to develop an implementation plan for placing all state employees and teachers hired after June 30, 2015 into Social Security and a supplemental retirement plan. The legislation directs the working group to design a plan that will limit the State's long-term costs to 2% plus the employer share of Social Security, which is currently 6.2%. The Legislature will review this plan before amending or adopting it. The working group includes members from the Maine Public Employees Retirement System, the Maine Education Association, the Maine School Management Association, Maine State Employees Association, and the State Department of Administrative and Financial Affairs.

Many states, including three in New England, as well as other countries, have passed or are considering changes to their public pension plans. The National Council of State Legislatures recently reported that from 2010 to 2011, 23 states increased age or service requirements to qualify for retirement, while 25 states increased employee contributions.

This special issue reviews all the new retirement plan provisions, who they affect and how and when they will take place. We have designed this issue as a reference guide you may wish to keep with your retirement files. We also encourage you to use our website (www.mainepers.org) for information about what's happening with public pensions, and to contact us with your questions.

COST-OF-LIVING ADJUSTMENT (COLA)

WHO DOES THIS AFFECT? State, Teacher, Legislative and Judicial members.

Three Year COLA Freeze

WHAT LEGISLATION PASSED IN 2011? The Legislature made several changes to the way that annual cost-of-living adjustments (COLAs) for retired state employees, teachers, judges and legislators are established.

- Annual COLAs are frozen for three years. There will be no COLA in September 2011, 2012 or 2013.
- COLAs are capped at the level of the Consumer Price Index for All Urban Consumers (CPI-U) or 3%, whichever is lower. Previously, the cap was 4%.
- COLAs only apply to the first $20,000 of benefit. The $20,000 base will go up each year based on actual COLAs granted. You can find an example of how the indexing will work at www.mainepers.org.

WHY DOES THIS AFFECT ME?

If you are already retired:

- The three-year freeze on COLAs changes the expected retirement income you may have used in your financial planning because your base benefit will not increase during this period, even if there is inflation.
- The 3% COLA cap will reduce the payment you would have received under the previous 4% cap in years when the actual CPI is between 3% and 4%, for example, if the actual CPI is 3.5%.
- Each dollar of your future retirement income will not grow at the same rate if your annual benefit is greater than $20,000 because the 3% COLA will apply to the first $20,000 of your benefit, not the full amount. This change has no impact on retirement income for those with annual benefits less than $20,000.

If you are not yet retired, these changes may affect your retirement planning.

The remaining negative COLA resulting from the 2009 negative Consumer Price Index is considered fully recovered with these changes. No additional offsets are required.

"One-time" COLA

WHAT LEGISLATION PASSED IN 2011? The Legislature made additional changes related to cost-of-living adjustments.

There may be three non-cumulative COLAs if sufficient funds exist at the close of the State's fiscal year in 2012, 2013 and 2014. Each COLA paid under this provision is a "one-time" payment and will not be applied to your retirement benefit when future COLAs are applied.

WHY DOES THIS AFFECT ME?

The one-time payment is the only COLA a retiree may potentially receive for the next three years.

WHEN DOES THIS GO INTO EFFECT? July 1, 2011

RETIREE HEALTH INSURANCE

Who does this affect? State and Teacher members.

What legislation passed in 2011? The Legislature made several changes to the retiree health insurance program. State employees and teachers who retire early will not receive any state contribution to their retiree health insurance premium until they reach their normal retirement age (60, 62 or 65). This does not apply to state employees covered by Special plans.

State employees hired on or after July 1, 2011 will need 10 years of participation in the group health plan to qualify for any state contribution to retiree health. Teachers hired after July 1, 2011 must have ten years of creditable service and meet the eligibility for their group health plan.

The cost of the group health plan is capped at last year's level. Participants will pay for any increased costs through changes in benefit design.

Why does this affect me? If you retire early, you will pay the full cost of your retiree health insurance until your normal retirement age. Alternately, you could find other health insurance and switch back to the state group health plan when you reach your normal retirement age, as long as you can show you had coverage while you were off the state plan. For more information, visit www.maine.gov/beh.

This change does not affect you if you receive a disability retirement benefit. The Legislature, in an upcoming session, may consider how this change affects retirees when they change from disability to service retirement benefit before normal retirement age.

When does this go into effect?

January 1, 2012 (State Employees)	July 1, 2012 (Teachers)

NORMAL RETIREMENT AGE

Who does this affect? State, Teacher, Legislative and Judicial members.

What legislation passed in 2011? The Legislature changed the "normal retirement age" for new hires and for current members who have less than 5 years of service on July 1, 2011 from age 62 to age 65. This is the age when a member with at least one year of service can begin to receive a retirement benefit. This does not apply to state employees covered by special plans.

Why does this affect me? Members with less than five years of service and new employees will be eligible to begin receiving a benefit at a later age. Eligible members can purchase service, for example, refunded time, in order to have enough credit to stay under the Age 62 plan. Service must have been available for purchase on June 30, 2011 in order for it to count towards the Age 62 plan. Members who were subject to furlough or shutdown days in 2010 and/or 2011 can purchase those days in order to remain in the Age 62 plan.

When does this go into effect? July 1, 2011

RETIRE RETURN TO WORK

Who does this affect? State and Teacher retirees. (excluding substitute teachers)

What legislation passed in 2011?
The Legislature approved new requirements for State and Teacher members who retire at their normal retirement age (60, 62, or 65) and go back to work for an employer who is part of the State/ Teacher retirement plan. Retirees may not earn more than 75% of the salary established for the job, work for more than 5 years and must wait 30 days after leaving their prior position before going back to work.

Why does this affect me?
This does not affect you if you retired on or before September 1, 2011. See www.mainepers.org for more information about retiring and returning to work.

When does this go into effect?
October 1, 2011

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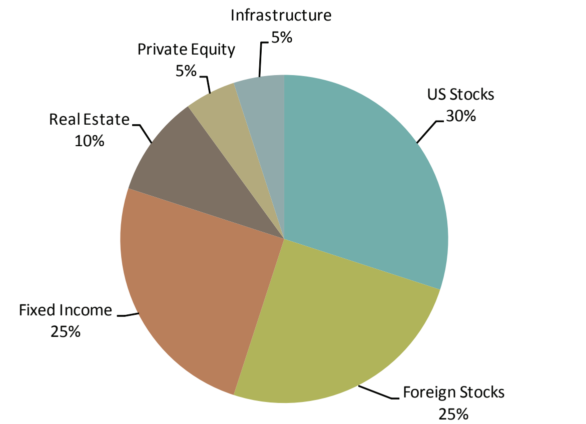
How MainePERS Invests

Investment returns are an important part of the approximately $10 billion trust fund and formula MainePERS uses to make sure there is enough money to pay benefits in the future. A lot of work goes into managing a trust fund effectively. This article shares information about the process we use to invest and protect the money in the fund.

How does MainePERS decide what investments to make?
Long-term, strategic planning is the first step in deciding what investments we will make. This includes evaluating the fund liabilities (benefits owed to members) and the assets from which we pay benefits. This helps us create our investment objectives. The next step is to determine what types of assets, and how much of each, will enable us to maximize investment returns for the amount of risk we believe is prudent. This becomes our "target asset allocation" which then guides the investments we make.

MainePERS Target Asset Allocation



Note: MainePERS may also invest 0%-10% in Opportunistic Strategies. The current target allocation was adopted in 2008; it is expected to take 3-5 years to complete the transition to this new target.

How does MainePERS make investments?
MainePERS uses third-party investment managers to invest the pension trust funds. With the assistance of external investment consultants, the MainePERS Investment staff and Board of Trustees hire external investment managers to invest the actual funds according to our target asset allocation. All of the managers we hire are put through a rigorous process called "due diligence" to make sure they will invest the trust funds to meet the standards and guidelines in our strategic plan. The MainePERS Investment staff then continuously monitors their performance to make sure they are doing the job we hired them to do.

How does MainePERS protect the investment interests of the beneficiaries?
The MainePERS Board of Trustees and MainePERS staff follow a MainePERS Code of Ethics and Conduct Policy. We hold our investment managers and consultants to the same standards.

MainePERSpective is written and printed to meet your needs. Articles are based on timely information important to you as well as common questions asked by many of our members. Our newsletter is printed and also made available online, which helps us reach members in the way they prefer. We respect the environment by printing on recycled paper and using soy-based inks—for a cleaner, healthier planet.

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