

May 24, 2011

Senator Richard W. Rosen, Chair
Representative Patrick S.A. Flood, Chair
Joint Standing Committee on Appropriations
and Financial Affairs
5 State House Station
Augusta, ME 04333-0005

RE: Pension Plan Costs and Funding

Dear Chairs Rosen and Flood and Members of the Committee:

MainePERS has completed a series of calculations over the past several months relating to the costs and funding of the defined benefit plans sponsored by the State of Maine.

Budget costs and rates were provided to the State in July, 2010. Following the completion of an experience study in April, 2011, updated budget costs and rates are now being provided to the State. We have also provided pre- and post-experience study cost and funding information based upon the Governor's Budget Proposals.

This letter summarizes the most current cost and funding information based on the State Employee and Teacher, Judicial, and Legislative Plans. The information provided is presented for two scenarios: 1) for the Plans as currently constructed, and 2) for the Plans as constructed under the proposed Governor's budget.

We also provide projected future payment schedules, in future dollars, for the State/Teacher Plan under both of these scenarios. The impacts of changes to retiree health eligibility are not possible to estimate beyond the current biennium, and therefore this change is not included in the calculation of future costs for the Plan as constructed under the proposed Governor's budget.

1. Post-experience study - Plans as currently constructed

MainePERS completed an experience study of the economic and demographic assumptions used to determine plan liabilities in April, 2011. The Board of Trustees adopted new assumptions to reflect the economic and demographic conditions in MainePERS Plans. The new assumptions result in a reduction in the State/Teacher Plan UAL from \$4.3B to \$4.1B and change the FY2012-13 biennial costs with no changes to the State/Teacher, Judicial, and Legislative Retirement Plans as follows:

MainePERS Budget/Costs with no Plan Changes	Before Experience Study* (7/8/2010)	After Experience Study* (4/29/2011)	Difference*
FY 2012			
Estimated Normal Cost Dollars	\$103	\$79	\$24
Estimated UAL Amortization Dollars	<u>\$345</u>	<u>\$342</u>	<u>\$3</u>
Estimated Total Appropriation	<u>\$448</u>	<u>\$421</u>	<u>\$27</u>
FY 2013			
Estimated Normal Cost Dollars	\$107	\$80	\$27
Estimated UAL Amortization Dollars	<u>\$361</u>	<u>\$347</u>	<u>\$14</u>
Estimated Total Appropriation	<u>\$468</u>	<u>\$427</u>	<u>\$41</u>
FY 2012-13 Estimated Biennial Contribution	<u>\$916</u>	<u>\$848</u>	<u>\$68</u>

*All costs in millions

The new assumptions affect the normal cost and UAL amortization costs of the State/Teacher Plan going forward as follows:

Year	Normal Rate	UAL Rate	Normal Cost*	UAL*	Total*
FY 12	4.31%	19.75%	\$74	\$341	\$415
FY 13	4.31%	19.76%	\$76	\$346	\$422
FY 14	4.35%	24.44%	\$79	\$443	\$522
FY 15	4.35%	24.44%	\$82	\$459	\$541
FY 16	4.35%	27.45%	\$85	\$533	\$618
FY 17	4.35%	27.45%	\$87	\$552	\$639
FY 18	4.35%	28.99%	\$91	\$603	\$694
FY 19	4.35%	28.99%	\$94	\$625	\$719
FY 20	4.35%	29.74%	\$97	\$663	\$760
FY 21	4.35%	29.74%	\$100	\$686	\$786
FY 22	4.35%	28.07%	\$104	\$671	\$775
FY 23	4.35%	25.87%	\$108	\$640	\$748
FY 24	4.35%	24.17%	\$111	\$618	\$729
FY 25	4.35%	23.04%	\$115	\$610	\$725
FY 26	4.35%	22.13%	\$119	\$607	\$726
FY 27	4.35%	21.58%	\$123	\$612	\$735
FY 28	4.35%	21.14%	\$128	\$621	\$749
*All costs in millions				\$9,630	

2. Post-experience study - proposed Governor's budget

The Governor's FY 2012-13 budget proposal bill creates changes in current costs. The recently adopted assumptions change the FY2012-13 biennial costs under the Governor's budget proposal for the State/Teacher, Judicial and Legislative Retirement Plans as follows:

	Before Experience Study (7/8/2010)	After Experience Study (4/29/2011)	Difference
With Proposed Governor Budget Bill			
FY 2012			
Estimated Normal Cost Dollars	\$35	\$17	\$18
Estimated UAL Amortization Dollars	<u>\$157</u>	<u>\$191</u>	(<u>\$34</u>)
Estimated Total Appropriation	<u>\$192</u>	<u>\$208</u>	<u>\$16</u>
FY 2013			
Estimated Normal Cost Dollars	\$36	\$16	\$20
Estimated UAL Amortization Dollars	<u>\$164</u>	<u>\$194</u>	(<u>\$30</u>)
Estimated Total Appropriation	<u>\$200</u>	<u>\$210</u>	(<u>\$10</u>)
FY 2012-13 Estimated Biennial Contribution	<u>\$392</u>	<u>\$418</u>	(<u>\$26</u>)
Total Reduction Resulting from Governor Budget Bill	<u>\$524</u>	<u>\$430</u>	(<u>\$94</u>)

*All costs in millions

With the Governor's budget proposal changes to the State/Teacher Plan (excluding all the impacts of changes to retiree health insurance eligibility), the new assumptions affect costs as follows:

<u>Year</u>	<u>Normal Rate</u>	<u>UAL Rate</u>	<u>Normal Cost*</u>	<u>UAL*</u>	<u>Total*</u>
FY 12	.88%	11.57%	\$15	\$200	\$215
FY 13	.88%	11.58%	\$15	\$203	\$218
FY 14	.89%	15.47%	\$16	\$281	\$297
FY 15	.89%	15.47%	\$17	\$290	\$307
FY 16	.89%	18.37%	\$17	\$357	\$374
FY 17	.89%	18.37%	\$18	\$369	\$387
FY 18	.89%	19.89%	\$19	\$414	\$433
FY 19	.89%	19.89%	\$19	\$429	\$448
FY 20	.89%	20.64%	\$20	\$460	\$480
FY 21	.89%	20.64%	\$21	\$476	\$497
FY 22	.89%	18.97%	\$21	\$453	\$475
FY 23	.89%	16.86%	\$22	\$417	\$439
FY 24	.89%	15.25%	\$23	\$390	\$413
FY 25	.89%	14.13%	\$24	\$374	\$398
FY 26	.89%	13.24%	\$24	\$363	\$387
FY 27	.89%	12.69%	\$25	\$360	\$385
FY 28	.89%	12.25%	\$26	\$360	\$386
*All costs in millions				\$6,196	

The change in total projected UAL payments from FY 2012 through FY 2028 from the State/Teacher Plan as its currently structured to the Governor's budget proposal is \$3.434 billion.

We are available at the Committee's convenience to answer any questions regarding this information.

Sincerely,

A handwritten signature in blue ink that reads "Sandy Matheson". The signature is written in a cursive, flowing style.

Sandy Matheson
Executive Director

cc: Members, MainePERS Board of Trustees
Maureen Dawson, Office of Policy and Legal Analysis
Christopher Mann, Assistant Attorney General