AMERICAN ACADEMY *of* ACTUARIES

Retirement for the AGES Assessment

Retirement Systems Assessment and Policy Committee

Maine Participating Local District Consolidated Retirement Plan[1]

The Maine Public Employees Retirement System (Maine PERS) administers the pension benefits for employees of approximately 300 participating local districts (PLDs) under the Maine Participating Local District Consolidated Retirement Plan (Maine PLD). Maine PLD is a cost-sharing multiple-employer[2] defined benefit retirement plan that has been in effect for many years (previous plans were consolidated into the current arrangement in 1994) . The Maine PLD was changed in 2018 to modify the existing risk-sharing between members and employers in response to market volatility and to promote long-term sustainability.

In the past decade Maine PLD, prior to amendment, was challenged by a decline in funded status and volatility in the investment markets, which led to an instability in employer costs and concern with the ability to continue to provide the level of benefits as provided for under the terms of the plan. Volatility and large increases in employer costs could lead to employer withdrawal, which could ultimately lead to plan failure. Maine PLD addressed these challenges and developed the modified plan that is described herein.

In developing the new plan, the goal was to assure that members would receive their fixed core benefits throughout their retirement. Under Maine law and the rules applicable to Maine PLD, the protected core benefits are the basic retirement benefit (varies by plan but based on percentage of average final compensation times years of service) and the normal retirement age. Contribution rates, early retirement subsidies, automatic cost-of-living adjustments (COLAs), and ancillary benefits are not guaranteed and may be modified through rulemaking as required to meet the funding goals of the system. In addition, employee contribution amounts that were fixed in the past will now vary with market performance.

A key element of the new plan was a significant change in the risk-sharing design. Previously, Maine PLD used a traditional approach to risk-sharing, with the employers bearing the annual market and

[1] Based on legislation and rules in effect as of July 2019.

[2] According to GASB, a cost-sharing multiple-employer plan is one in which the participating government employers pool their assets and their obligations to provide defined benefit pensions—meaning that plan assets can be used to pay the pensions of the retirees of any participating employer.

experience risk while members and retirees bore the effects of extraordinary market events through ad hoc changes in contribution rates, benefit reductions, and COLA cap reductions. Under the new plan, both employee and employer contribution rates change each year in a similar fashion. Retirees share the risk when experience causes plan costs to exceed the established contribution caps.

The state of Maine established Maine PLD through statute. The Maine PERS Board of Trustees oversees the management and administration of the Maine PLD plan and trust. The board consists of eight members: two active members of the State Employee and Teacher Retirement Program; one retired member of the State Employee and Teacher Retirement Program; one retired member in any plan Maine PERS administers; one active or retired member of Maine PLD; two members selected by the governor who must be qualified through training or experience in the fields of investments, accounting, banking, insurance, or as an actuary; and the Maine state treasurer.[3] The law also provides for the Maine PLD Advisory Committee to present recommendations for or amendments to the plan to the Maine PERS Board of Trustees.[4]

There are currently approximately 300 PLDs and 11,700 active members, 9,500 retired members and beneficiaries, 2,400 terminated vested members, and 8,300 inactive members currently entitled to refunds of employee contributions but not an employer-provided benefit. About 8,600 active members participate in three "regular" plans and about 3,100 active members participate in eight "special" plans. About half of plan members participate in Social Security.

- Plan membership is generally mandatory for all employees of a PLD. There are some exceptions for employees covered under other plans, employees covered by Social Security, and for part-time, seasonal, and temporary employees unless the PLD includes them.
- The typical core benefit selected by most PLDs for the "regular" plans is 2% x three-year average final compensation times years of creditable service.
- Plans covering the vast majority of members provide for annual COLAs.
- Normal retirement age under the "regular" plans is age 60 if first membership was on or before June 30, 2014, and age 65 if first membership was on or after July 1, 2014. Normal retirement under most of the "special" plans is either 20 or 25 years of service. Effective July 1, 2019, employee contribution rates were reduced for members of regular plans with normal retirement age of 65,
- Early retirement age and subsidy: Members in the "regular" plans are eligible for early retirement after completing 25 years of service. Early-retirement reduction is 2.125% for each year before normal retirement age if hired before July 1, 2014, and 6% per year if hired after June 30, 2014, for members with at least 20 years of service as of June 30, 2019. For other members, the early-retirement reductions will be full actuarial costs (approximately 6%-7% per year). A member who elects to defer COLA to normal retirement age will be subject to a smaller early retirement reduction based on calculations performed by the plan's actuary.
- COLA: For members who retire on or after Sept. 1, 2019, the COLA will begin after 24 months of retirement instead of 12 months. The COLA cap is 2.5% for COLAs issued in September 2018

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[3] There are specific rules pertaining to the selection of the various members. See Title 5, Chapter 421, Subchapter 3, Section 17102 of the Maine Revised Statutes.

[4] The PLD Advisory Committee is composed of 12 members. There are five voting members who are members of labor organizations representing PLD employees; five voting members who represent PLDs; one nonvoting member designated by the governor; and the executive director, who is a nonvoting member. See Title 5, Chapter 427, Section 18802-A for further details.

or later. A reduced COLA could apply if severe market losses create plan costs that exceed the established employer and member contribution caps.

- Credit for unused sick and/or vacation leave: Effective August 1, 2019, credit for retirement benefits for unused sick and vacation leave is only be available to members who have at least 20 years of creditable service at retirement.
- Retire/rehire subsidy: Effective Oct. 1, 2018,[5] there is an additional contribution of the greater of 5% or the aggregate unfunded actuarial liability rate applicable to a rehire who continues the service retirement benefit while rehired.
- Employee (member) and employer contributions: Member contribution rates, as well as employer contribution rates, vary annually based on market performance and other experience. The normal cost is allocated 58% to the employer and 42% to the employee. The same 58% employer/42% employee allocation applies to any unfunded actuarial liability created beginning July 1, 2018. Effective July 1, 2019, total contribution rates may change year-to-year based on a split of approximately 58% to the employer and 42% to the employee. Both the employer and employee contribution rates are subject to aggregate contribution caps of 12.5% and 9.0%, respectively. In the event the contribution caps apply, the COLA will be temporarily reduced (but not below zero) to maintain cost-neutrality. Subsequent market gains will be phased in to restore participants to full eligibility for future COLAs before being used to reduce contributions . The contribution rate caps apply to the plan in the aggregate but the sub-plans will have different caps and minimums. Also effective July 1, 2019, member contribution rates for the “regular” plans are lower for members who joined on or after July 1, 2014, in order to reflect their older retirement age.
- Withdrawal liability: Maine PLD incorporates new specific provisions to calculate withdrawal liability. A PLD’s withdrawal liability is based on the allocated portion (based on covered payroll) of the plan’s pooled unfunded actuarial liability at time of withdrawal. The withdrawing PLD may pay the liability in a lump sum or, if permitted by the plan administrator, amortize it over a period of up to 30 years at the actuarial assumed rate of return used in the valuation immediately preceding the withdrawal. Withdrawal provisions under the Maine PLD are different from those under many public plans. Maine PLD is not a mandatory plan; employers join voluntarily and can decide to exclude new members at any time. If an employer makes such an election, all current active members may stay in the plan and continue to accrue benefits. The employer and active employees continue to make their required contributions. There is no withdrawal liability determination until the employer has no active members in the plan.

In addition to the specific benefit and contribution changes, Maine PLD has incorporated changes in asset allocation, valuation interest rate, and amortization of actuarial gains and losses to limit market risk and volatility of contributions and enhance sustainability of the plan. There is a goal to reduce the overall level of risk to the Maine PLD over time as conditions permit.

Comments on Changes Made in 2018 and 2019

The provisions described above, and which are used for the assessment below, reflect the plan in effect after the changes made in 2018 and 2019. The changes made included reductions in early-retirement subsidies, reduction in COLA provisions, limits on credit for unused sick and/or vacation leave, assessing appropriate actuarial costs for retire/rehire situations, and changing both employer and employee contributions to improve sharing of risk of the plan. The reductions made were to help ensure sustainability of the plan; they were not made to directly reduce costs.

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[5] Effective date delayed to June 30, 2021, for retirees who already returned to work on Oct. 1, 2018.

The changes were adopted after a thorough and lengthy process that included communications with all stakeholders (active and inactive members, employers, retirees, as well as the Legislature). Part of the process was to make sure that the amended plan met the needs of both employers and employees and that both groups wanted to keep the defined benefit plan. The structure of the Maine PERS Board of Trustees and the PLD Advisory Committee also assured input and review from all stakeholders. Because of this effort, the changes were in large part acceptable to all parties.

Overall Grade: A-

Alignment

A-

Description

- Aligns each stakeholder’s role with their skills.

- Redefines employer’s role by placing responsibility for important roles with those appropriate entities.

- Helps individuals by structuring their choices to be well-defined and enhance good decision-making.

- Develops systemic ways to enhance financial security through appropriate levels of laws and regulations.

Application of Principles

+ Board of Trustees specifically includes two appointed trustees with appropriate expertise—i.e., two appointed trustees qualified through training or experience in the fields of investments, accounting, banking, insurance, or as an actuary—and the Maine state treasurer.
+ This is a defined benefit plan with mandatory employee and employer contributions, subject to well-defined laws and regulations of the state of Maine.
+ Provides lifetime income.
+ Plan has several safeguards designed to protect security of members.
+ Participating employers’ responsibility is limited to selecting plan and making employer contributions.
- Potential challenge in communicating to plan members the possibility of reduced COLA and increase in member contributions due to plan funded status.
* Not clear if members will have adequate information to make personal, informed decision as to whether to defer COLA at early retirement.

Legend
(+) feature meets principles
(-) feature does not meet principles
(*) feature where there is not enough information to determine impact

Governance

A-

Description

- Clearly defines roles and responsibilities, and acts in accordance with them.
- Reduces real and potential conflicts of interest.
- Recognizes and manages competing needs.
- Staffs boards with financial and other professionals who possess relevant expertise.

Application of Principles

+ Roles are clearly defined in law, with state Legislature serving as plan sponsor and Board of Trustees overseeing management and administration of the plan/trust.
+ Board of Trustees includes all stakeholders (including active and inactive members) and appropriate expertise through inclusion of two appointed trustees qualified through training or experience in the fields of investments, accounting, banking, insurance, or as an actuary, and the Maine state treasurer.
+ PLD Advisory Committee provides another level of oversight.
+ Staff of Maine PERS handles administration of the plan and includes appropriate professionals on staff.
+ There are internal investment professionals on staff who coordinate with and oversee external investment managers and consultants.
+ There is a detailed *Governance Manual for Board Responsibilities—Investment Policy for Defined Benefit Plans*.
- Participant members of Board of Trustees may not have adequate experience.
- Potential conflicts of interest with participant members serving on the Board of Trustees.

Legend
(+) feature meets principles
(-) feature does not meet principles
(*) feature where there is not enough information to determine impact

Efficiency

A-

Description

- Allows smaller plans to group together, with standard and transparent fees to lower plan costs.

- Provides consistent opportunities to accumulate assets during working lifetime to enhance participation and coverage.

- Minimizes leakage for non-retirement benefits during accumulation and payout phases.

- Encourages pooling and effective risk-sharing so funds can provide lifetime income.

- Incents narrowing the variability of benefits by fostering risk hedging and allowing for pricing benefits and guarantees.

Application of Principles

+ Cost-sharing multiple-employer plan covers approximately 300 participating local districts in Maine.
+ Provides lifetime income, with pooled longevity risk and limited non-retirement leakage (only lump sums available are refund of member contributions on termination of employment prior to retirement eligibility).
+ Benefit design allows for variability in automatic COLA and in level of employer and member contributions (subject to cap) in adverse market conditions.
+ Assets of Maine PLD are pooled with the three other defined benefit programs under Maine PERS for investment purposes, thereby reducing investment expenses for each individual program.
+ Members have portability within Maine PLD and other Maine PERS defined benefit plans.
- Availability of lump sum refund of employee contributions prior to retirement introduces potential leakage due to forfeiture of employer-provided benefit upon vested termination prior to retirement eligibility.

Legend
(+) feature meets principles
(-) feature does not meet principles
(*) feature where there is not enough information to determine impact

Sustainability

A-

Description

- Promotes intergenerational equity.
- Allocates cost properly among stakeholders.
- Withstands market shocks.
- Maintains balance between sustainability and adequacy.

Application of Principles

+ Risks are shared among all members, including retirees. The retiree COLA can be reduced (but not below 0%) if contribution caps apply to employee and employer contributions.
+ Contributions for both employees/members and employers vary according to the annual actuarial valuation, with 55% employer/45% employee allocation of normal cost and certain unfunded actuarial liability amortization, subject to contribution caps. Allocation changed to approximately 58% employer/42% employee effective July 1, 2019.
+ Well-defined "ancillary benefits" can be eliminated or reduced if funding is not sufficient.
+ There exists a robust investment strategy, policy, and diversification of assets.
+ Asset/liability modeling is done to select strategic asset allocation to support acceptable level of contribution rate volatility.
+ Maine PERS has been gradually decreasing the valuation interest rate to improve plan funding and the balance between sustainability and adequacy of plan benefits.
+ Plan changes in 2018 and 2019 have been made to address intergenerational equity and maintain balance between sustainability and adequacy. Changes included introduction of withdrawal liability, reductions in non-guaranteed benefits, and having members (including retirees) share in volatility of contributions.
- Unexpected severe market shocks could damage funded status for a number of years because of contribution caps. This is ameliorated to some degree by reducing or eliminating annual COLA adjustments for retirees when the contribution caps are reached, and the reassessment of contribution caps every five years.

Legend
(+) feature meets principles
(-) feature does not meet principles
(*) feature where there is not enough information to determine impact