MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

NCSL Cross Branch Invitational Seminar on Pensions

MainePERS Mission and Services

Our mission is to serve the public with sound retirement services to Maine governments.

We administer defined benefit plans for the State of Maine that are provided in lieu of Social Security.

We administer *optional* defined benefit plans for Maine Local Governments, and provide these employers with a set of supplemental defined contribution plans that we call MaineSTART.

Dilemma

What could possibly go wrong in a defined benefit retirement plan that has no policies or funding requirements?

Maine State Employee and Teacher Plan

- Created in 1942
- State-wide defined benefit plan that covers state employees and educators
- Remainder of school district employees are covered by a separate Participating Local District Consolidated Retirement Plan (PLD Plan)

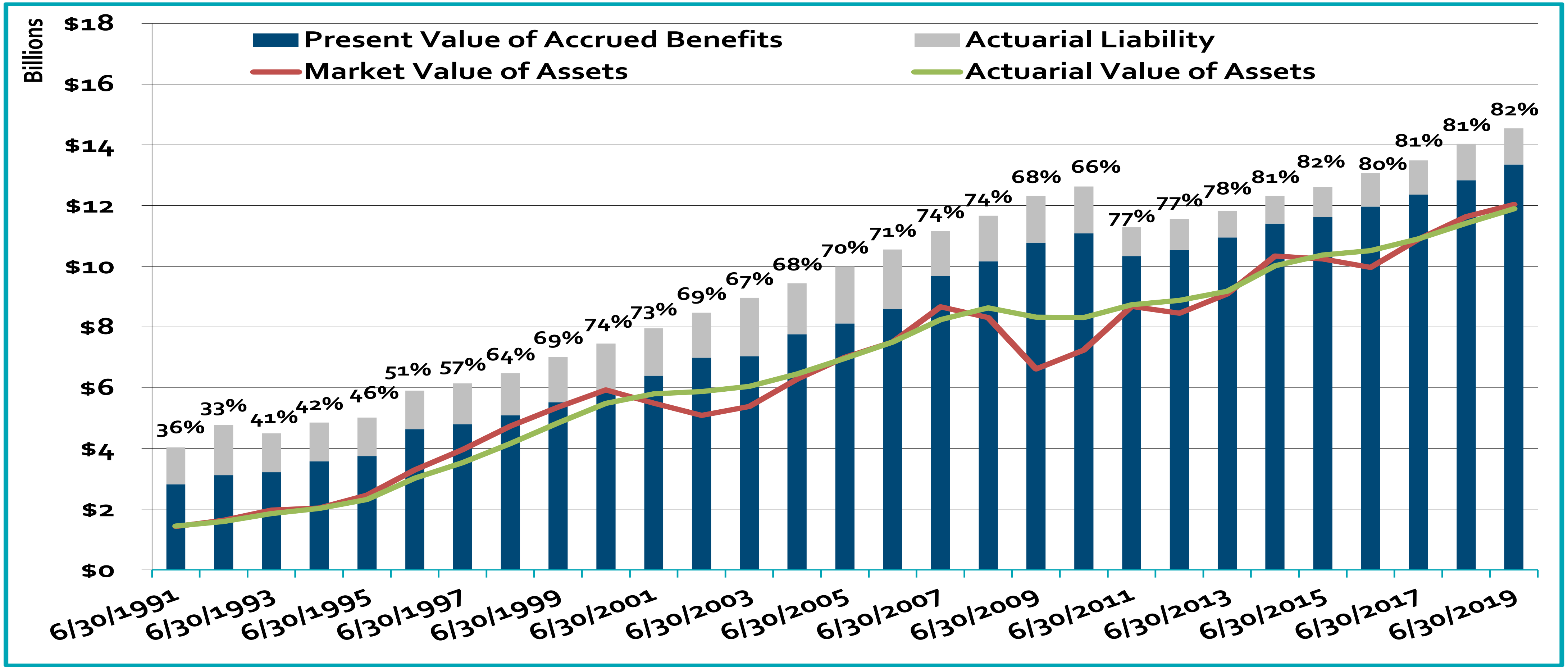
- 1942 – 1985
  - Contributions were not always made
  - Investment losses were not necessarily made up through increased contributions
  - New benefits were awarded without adding to plan funding
  - Experience losses were not always factored into funding
- Result – 18% funding with a 10% discount rate

What Could be Done?

A strong commitment to full funding was made in 1995 using a constitutional amendment

1. Full actuarially calculated contributions must be made every year
2. No new unfunded liabilities may be created except for experience losses
   a) The full 25 year cost of any new benefit must be fully funded in the year awarded
3. Unfunded liabilities resulting from experience losses must be retired in 20 years or less
4. The 1995 legacy liability must be retired by 2028

Funding Steadily Increased with the Constitutional Discipline



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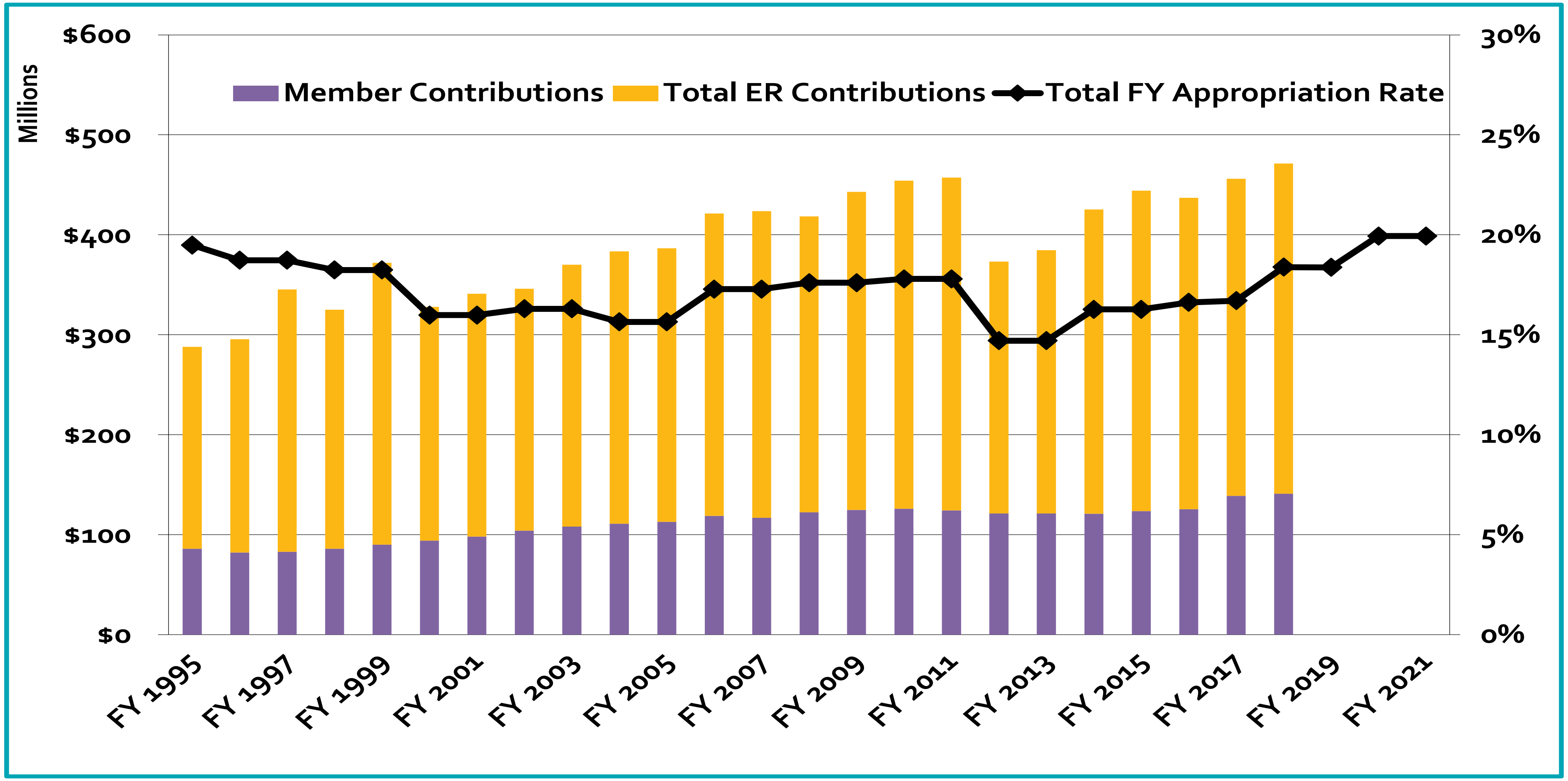
Contributions also Remained Steady with the Discount Rate Lowering to 6.75%



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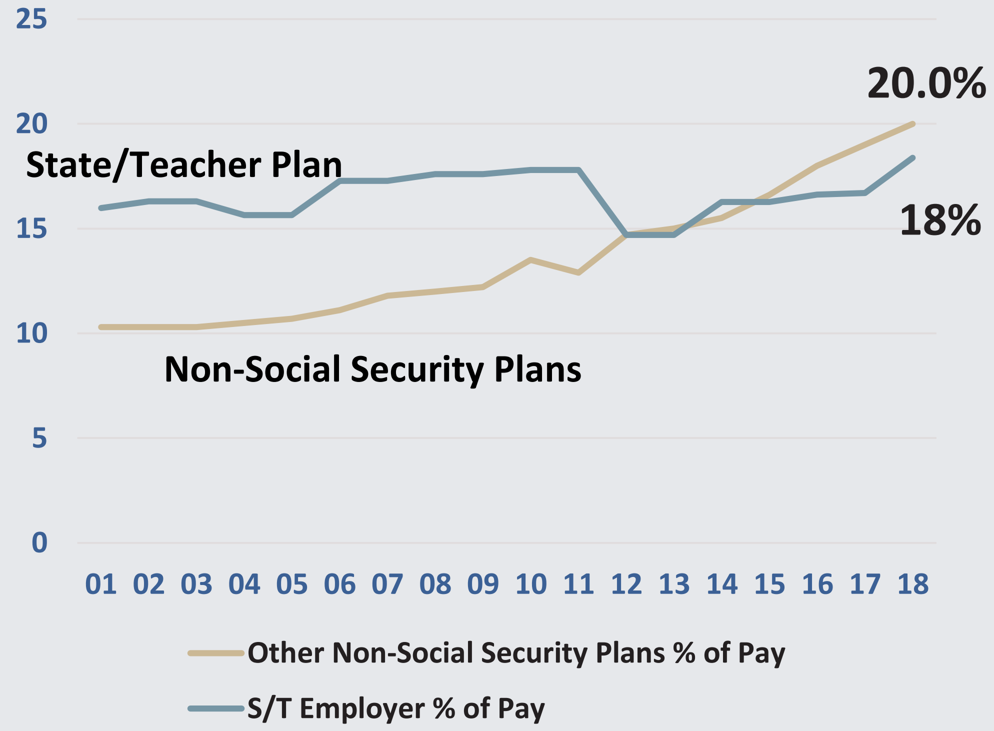
Are These Measures Enough?

Keeping a defined benefit plan fully funded today is different than 30 years ago

- The environment has changed, so additional measures are likely needed for this plan in the future
  - Increasing longevity creates higher costs
  - Continuing low interest rates results in a higher percentage of the portfolio is in equities or equity-like investments, increasing risk
  - While pensions have always been long-term investors, increased volatility means short-term gains and losses are becoming increasingly important

The Cost of Volatility is Higher Contributions

- Plans in over 35 states have increased contribution rates
  - Some states have statutory rates that cannot change, and are required to reduce benefits
- Plans in over 30 states have reduced COLAs, 17 of which affect current retirees, including Maine
- Plans in over 40 states have reduced future benefits
- Plans are also reducing earnings assumptions



National Association of State Retirement Plan Administrators

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The Cost of Volatility is Higher Contributions or Reduced Benefits

Traditional Approach to Higher Costs	Known Downsides
Freeze or reduce COLA	Permanent loss of buying power
Raise employer contribution rates for each market downturn	If employers withdraw a "last employer standing" situation is created and plan failure is more likely
Raise employee contribution rates in market downturns	Cost to employees becomes greater than benefit value
Reduce future benefits	Employees only share in downside risk
Restart cycle waiting for next significant downturn	Can't invest out of underfunding

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Sharing Risks Prevents Cost Disruption and Reactionary Benefit Loss

PLD Plan - "Pay every member their basic retirement benefit throughout their life."

- Part 1 – Contribution Rates
  - Both employers and employees will share in market losses *and* gains through variable, not fixed, contribution rates
  - Rate maximums and minimums are established for both groups
- Part 2 – Benefits
  - Some discretionary benefit enhancements that no longer make sense and are weighing on plan costs were reduced
- Part 3 – COLA
  - When required contributions exceed rate caps for employers and employees, excess required contributions are collected by phasing into and reducing the COLA, allowing market recovery to phase back in and restore full COLA eligibility
- Part 4 – Withdrawal liability
  - Employers pay for their UAL upon withdrawal

How does the design mitigate risks?

Employers

Rate certainty removes fear of continuous/endless increases which allows employers to budget for their range of required contributions.

Employers are less likely to drop out.

Employees

Employees can have confidence their benefit will be there in retirement without further benefit reductions.

Employees can share in the upside market risk through lower rates.

Retirees

Benefit will grow throughout retirement with possible temporary reductions, but the COLA is unlikely to be frozen or permanently reduced absent extreme market losses.

Funding

Full contributions occur automatically as required contributions in excess of the employer and employee caps are phased into future COLAs and phased out as markets recover.

Lessons Learned

- Knowing how you are going to handle market fluctuations in advance can help you design a plan that protects benefits and funding
- Being realistic about what benefits the plan can and can't afford to provide is critical in creating a benefit that can be maintained without constant reductions and heartache
- Members and employers can understand and accept plan changes when they are fully explained and those changes are clearly in their best interest
- Remove the word "can't" and replace it with "how can we"
- Making plan changes is a lot of hard work but can be the very best thing you can do for your members
- Risk-sharing does not necessarily mean negative risk-shifting