Maine Public Employees Retirement System
Exploring Public Pension Policy on Auto-Pilot

NCPERS 2019 Public Pension Funding Forum
September 11 – 13
New York, NY

About MainePERS

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

We administer mandatory 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 a set of supplemental Defined Contribution Plans that we call MaineSTART.

Dilemma

What could possibly go wrong in a multiple-employer cost-sharing defined benefit retirement plan?

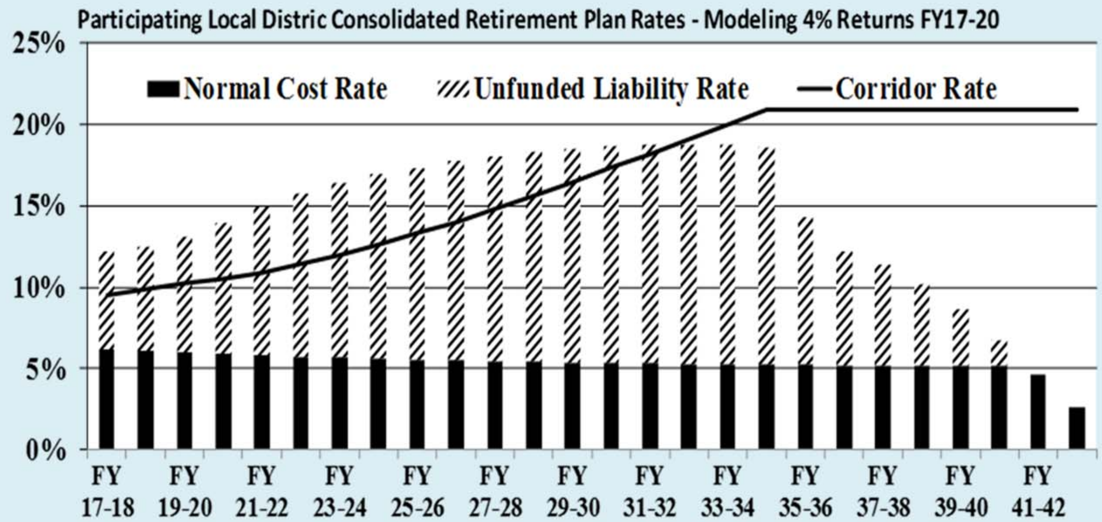
Short-Term Investment Returns *DO* Matter – You Might Not Make it to Long-term

May 2016

2 Years of Low investment returns
- FY 2015 – 2%
- FY 2016 – 0.6%

Projections
- Next 4 years – 4%
- Next 6 years – climbing up to 7%

Possible Result - Escalating Employer Contribution Rates



Source: Cheiron Trend Modeling

What Else Mattered in this Multiple-Employer Cost-Sharing Pension Plan?

- Employers - Local governments with modest budgets and optional continued active membership
- Discount Rate - 6.875%
- Funding – Struggled to recover
  - Dropped from 108% in 2008 to 87% in 2014 due to employer rate holiday through 2009 compounded by the Great Recession (restored by 1% per year)
  - Benefit cuts in 2014 restored funding to 90%
  - Funding continued to drop to 86% in 2016 as employer rates and increases did not yet fully cover the UAL
- Employer withdrawal liability - None

Without changes, each major market downturn could create a downward spiral with inevitable bankruptcy down the road

What Did We Do?

- Panicked
- But fear of a failed plan is a great motivator, and we took a fresh look at our options
    - Eliminated traditional cost or benefit reduction approaches from our mindset
    - Replaced those with a risk-based view that looked at how to moderate <u>*everyone's*</u> risk

What Risks Did We Need to Address?

- Raising rates with every major market downturn may cause employers to drop the plan and create a *"last employer standing club"*
- Reducing benefits with every major market downturn can make those *benefits not worth their cost*
- COLA reductions leave *retirees stranded* at a time in their life where their earning power has disappeared
- Employees are required to pay their full contribution but *only share in downside risk*

Common Themes

- Risks do not go away – it's how you address them that matters
- We realized we had to redistribute the same risks in a different way that was fair to everyone
- Full normal and UAL payments need to be guaranteed every year

Primary Goal

Pay every member their basic benefit throughout their *entire* life

Final Average Salary X Multiplier X Service Credit

New Risk Framework Adopted in 2018

Pay every member their basic retirement benefit throughout their life.

Part 1 – Contribution Rates

- Rate maximums and minimums are established for each group
- Both employers and employees will share in market losses *and* gains

Part 2 – Benefits

- Eliminated benefit enhancements that no longer make sense and are weighing on plan costs

Part 3 – COLA

- Excess losses over rate maximums are smoothed into the COLA (auto-trigger to keep full funding)
- Freezes or reductions in the COLA cap are eliminated

Part 4 – Withdrawal liability

- Employers pay for their UAL upon withdrawal

Modeling Rates with Real Market Returns

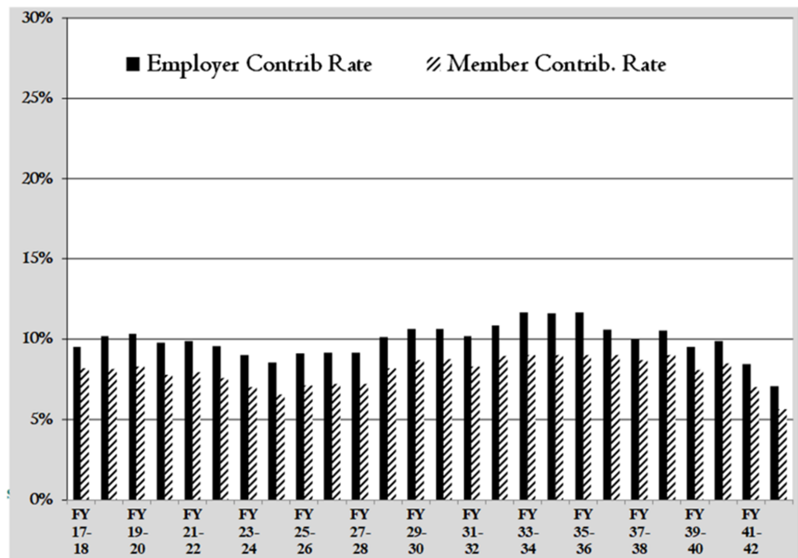
Extensive modeling showed that contribution rates stay within the minimums and maximums, occasionally triggering temporary auto-trigger COLA reductions

MainePERS Participating Local District Consolidated Retirement Plan Risk Allocation Modeling

FYE		COLA Adjustment	Funded Ratio
2018	3.94%		89%
2019	18.06%	0%	89%
2020	-2.06%	0%	92%
2021	14.56%	0%	92%
2022	11.82%	0%	94%
2023	7.34%	0%	97%
2024	-5.98%	0%	99%
2025	12.44%	0%	96%
2026	7.70%	0%	96%
2027	-8.34%	0%	97%
2028	9.76%	0%	92%
2029	12.98%	0%	90%
2030	14.32%	0%	91%
2031	-8.38%	0%	94%
2032	-17.14%	0%	91%
2033	28.16%	0%	83%
2034	20.52%	-53%	82%
2035	-3.12%	-66%	85%
2036	4.52%	-47%	85%
2037	11.80%	-2%	84%
2038	20.52%	0%	85%
2039	-0.46%	-2%	89%
2040	25.88%	0%	90%
2041	16.86%	0%	96%
2042	9.82%	0%	104%
ave=	8.22%		

Cost Sharing	ER	EE
initial benefit	55.5%	44.5%
future gains and loses	50.0%	50.0%

Contribution Caps	
maximum	21.5%
minimum	12%



The Redesigned Plan Redistributes Risk Fairly

Employers

Eliminating rate uncertainty created better budget certainty, which may be equally if not more important to employers than the amount of the rate

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

COLAs may be temporarily reduced, but not frozen or permanently reduced absent a catastrophic market collapse

Funding

Full contributions occur automatically as excess required contributions over the employer and employee caps are phased into the COLA and removed as markets recover

What Was the Acceptance Rate?

- We spent 2 ½ years working with constituent groups, members and employers
  - Those we worked with accepted the changes, and we satisfactorily responded to those that read about them in our mass mailings
  - We incorporated some suggestions into the design which was adopted and implemented July 1, 2018 with additional changes adopted at a later date
- Many of those attending our outreach presentations were confident we had their best interest at heart, and could understand why the changes were needed even if they wish some didn't need to be made

Lessons Learned

- Knowing how you are going to handle market fluctuations in advance can help you design a plan that protects benefits
- 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" from your vocabulary 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