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STATE OF MAINE
ONE HUNDRED AND THIRTY-FIRST LEGISLATURE
COMMITTEE ON LABOR AND HOUSING

MEMORANDUM

TO: Senator Margaret Rotundo, Senate Chair
Representative Melanie Sachs, House Chair
Joint Standing Committee on Appropriations and Financial Affairs

FROM: Senator Mike Tipping, Senate Chair *MT*
Representative Amy Roeder, House Chair *AR*
Joint Standing Committee on Labor and Housing

DATE: March 15, 2023

SUBJ: Addendum to Biennial budget recommendations

The Joint Standing Committee on Labor and Housing (“LBHS Committee”) writes this addendum to its report-back memorandum dated March 7, 2023 on the biennial budget portions that pertain to the LBHS Committee.

At work session on March 9, 2023, the LBHS Committee worked *LD 70, An Act to Eliminate the Cap on Retirement Benefits for State Employees and Teachers to Which a Cost-of-living Adjustment Is Made*, sponsored by Rep. Dodge. Current law is that retired teachers and retired State employees are subject to a cost-of-living adjustment (COLA) of up to 3%, based on the Consumer Price Index. This COLA applies only to the first \$24,186.25 of the retiree’s entire pension benefit.

As drafted, LD 70 removes the cap from which the COLA applies. Because the Maine Constitution does not allow for new or additional retirement benefits without being immediately and fully funded, LD 70 has an unfunded actuarial liability (UAL) of \$1,192,325,370. This same proposal, considered in the 130th Legislature by the LBHS Committee in LD 703, had a UAL of \$906,236,615. If efforts to rectify this issue are not enacted, the LBHS Committee in 2025 will likely see the same proposal with a UAL even greater than the \$1.2 billion in LD 70 from the current Legislature.

The LBHS Committee again expressed deep disappointment that this longstanding injustice has yet to be fixed by being included in the biennial budget. Some committee members noted this was frustrating because the State has a record \$902 million surplus in its “rainy day fund,” and

suggested this was one source of funding that the Joint Standing Committee on Appropriations and Financial Affairs should consider. Other LBHS Committee members, however, did not share the sentiment that the “rainy day fund” should be considered as a source from which funds to fix this issue should be taken. The entire \$902 million surplus would not be enough to rectify this issue, as the unfunded actuarial liability (UAL) for LD 70 as drafted is \$1,192,325,370.

In an effort to increase the base cap gradually and to provide some relief to retirees, the LBHS Committee *unanimously* voted LD 70 as “ought to pass as amended,” the text of which is attached. The LBHS Committee amendment adjusts the base cap of which the COLA is subject to from \$24,186.25 to \$40,000. At the work session, the Maine Public Employees Retirement System (MainePERS) estimated that raising this cap from \$24,186.25 to \$40,000 would have a UAL cost of approximately \$742 million.

The LBHS Committee pleads with the Joint Standing Committee on Appropriations and Financial Affairs to include the LBHS Committee amendment in the biennial budget. The LBHS Committee recognizes that the AFA Committee is in the best position to know how this can be done funding-wise and defers to the AFA Committee on how to do so. The LBHS Committee urges the AFA Committee to consider all possible funding sources, including Other Special Revenue funds, if available.

Thank you for allowing us the opportunity to expand upon our report-back memo on the biennial budget. We greatly appreciate your time and attention to this very important matter. If we can be of any service to you in the future, please do not hesitate to contact us directly or our Legislative Analyst, Steve Langlin.

Committee: LBHS

LA: SL

File Name: G:\COMMITTEES\LBHS\Bill Amendments\131st 1st\020902.docx

LR (item): 020902

New Title?: Y

Add Emergency? Y

Date: 3/9/23

NEW TITLE: An Act to Raise the Cap on Retirement Benefits for State Employees and Teachers to Which a Cost-of-living Adjustment Is Made

Committee amendment to LD 70, “An Act to Eliminate the Cap on Retirement Benefits for State Employees and Teachers to Which a Cost-of-living Adjustment Is Made”

Amend the bill by inserting before the enacting clause the following emergency preamble:

Emergency preamble. Whereas, acts and resolves of the Legislature do not become effective until 90 days after adjournment unless enacted as emergencies; and

Whereas, this legislation needs to take effect before the expiration of the 90-day period in order to provide an increase in the cost-of-living adjustment for retired state employees at the beginning of the next fiscal year; and

Whereas, in the judgment of the Legislature, these facts create an emergency within the meaning of the Constitution of Maine and require the following legislation as immediately necessary for the preservation of the public peace, health and safety; now, therefore,

Amend the bill by striking everything after the enacting clause and inserting the following:

‘

Sec. 1. 5 MRS §17806, sub-§1, ¶A is amended to read:

A. Except as provided in paragraphs A-1, A-2 and A-3, whenever there is a percentage increase in the Consumer Price Index from July 1st to June 30th, the board shall automatically make an equal percentage increase in retirement benefits, beginning in September, up to a maximum annual increase of 3%. Effective July 1, 2011, the increase applies to that portion of the retirement benefit up to \$20,000, which amount must be indexed in subsequent years by the same percentage adjustments granted under this section. Effective July 1, 2022, the increase applies to that portion of the retirement benefit up to \$24,186.25, which amount must be indexed in subsequent years by the same percentage adjustments granted under this section. Effective July 1, 2023, the increase applies to that portion of the retirement benefit up to \$40,000, which amount must be indexed in subsequent years by the same percentage adjustments granted under this section.

Emergency clause. In view of the emergency cited in the preamble, this legislation takes effect when approved.

SUMMARY

This amendment is the unanimous report of the committee. This amendment adds an emergency preamble. It provides that cost-of-living increases for retired state employees and teachers and their beneficiaries apply to the first \$40,000 of the retirement benefit.