MainePERS

Public Employees Retirement System

State of Maine Retirement Plans Update

Presented to

Appropriations Committee

January 14, 2015

Information for Today

What does MainePERS do?

MainePERS Plans Update/Status

How Our Plans Compare to Others

How MainePERS is Managing Risk

Managing Risk in the Future

MainePERS 2015 Special Request Reports

- *ESG Policy*
- *Special Plans*

What does MainePERS do?

MainePERS administers

- State/Teacher Retirement Plan (State)
- Legislative Retirement Plan (State)
- Judicial Retirement Plans (State)
- Governor's Retirement Plan (State)
- PLD Consolidated Plan (Participating Local Districts eligible by statute)
- Group Life Insurance Program
- MaineStart 401(a) and 457 Plans

MainePERS invests

- Trust fund monies for above listed plans
- State retiree health insurance trust fund

MainePERS Scope of Work

Governed by 8 member Board of Trustees

- Administration of plan benefits, including retirement, disability retirement, survivor benefits and group life insurance
- Actuarial assumptions for plan funding
- Investment of trust fund assets
- Supports legislature, state government, PLDs, members/retirees and the public with factual information about the plans

DB and DC Plan Description

<u>Defined benefit plan</u> - The member receives a monthly fixed benefit in retirement

- The employer retains investment risk

<u>Defined contribution plan</u> - The participant makes or receives a fixed/variable contribution while working

- The participant retains the investment risk

DB and DC Plan Differences

	DB	DC
Investment Risk	Employer	Participant
Investment Skill	High (Institutional)	Low (Most particpants)
Employer Budgets	Less predictable	Predictable
Member Budgeting for Retirement	More predictable	Less predictable
Member Planning for Retirement	No longevity challenges	Longevity uncertainty
Security in Retirement	Predictable income stream	Less predictable income stream
Member Budgeting during Retirement	More stable budgeting	Less predictable budgeting

How State Plan Funding Works

Member contribution + employer contributions + investment returns
- benefit payments = trust fund balance

Each year, the actuary determines what it costs to provide the benefits earned in the upcoming year (normal cost)

The actuary also calculates how much will be owed to each member for work through the end of the fiscal year and discounts it back to present value using the long-term investment earnings assumption (7.125%)

- This liability is compared to the actuarial value of assets on hand to determine the over/underfunding of the plan (UAL)

Normal cost and any UAL cost are converted to % to be applied to payroll throughout the year (contributions)

The employer and employee pay these costs as pre-determined

State/Teacher Sample Plan Benefit

Sample retiring State/Teacher employee

- Age 63
- Final average salary - $55,000
- Years of service credit - 18

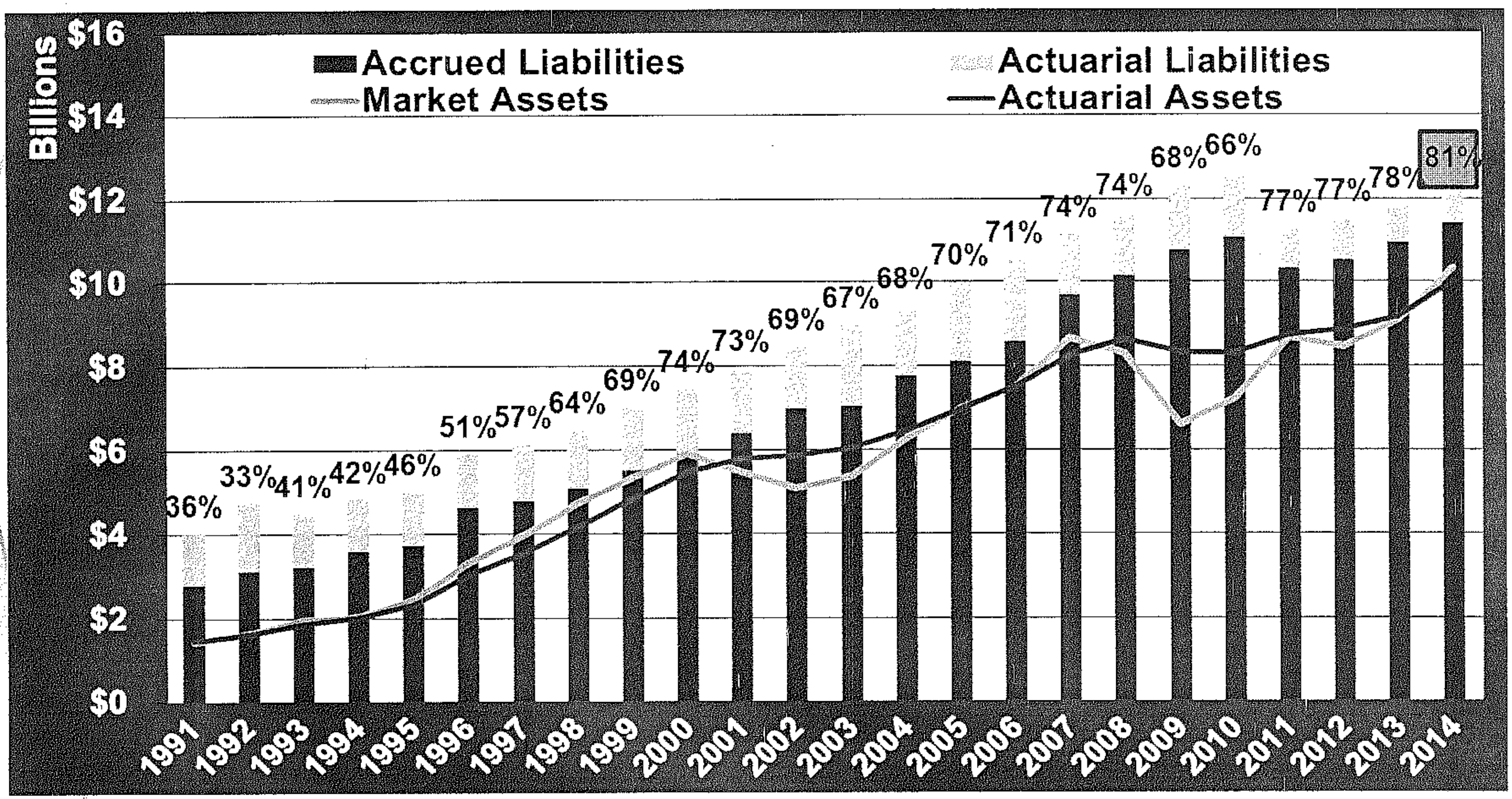
18 x 2% x $55,000 = $<u>19,800</u> / year

$19,800 / 12 = $<u>1,650</u> / month

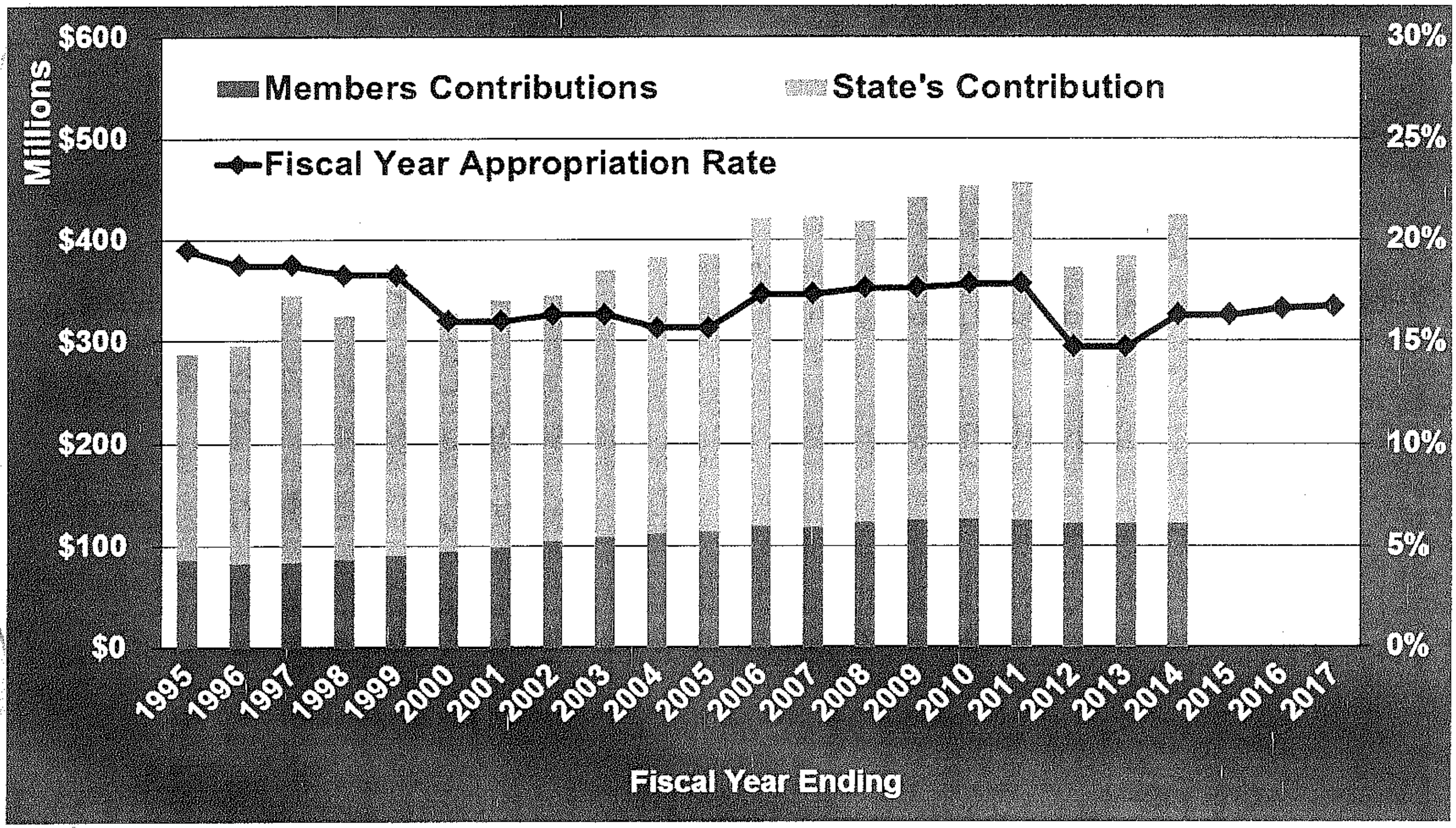
Plan Updates at 6-30-14

	State/Teacher	Legislative	Judicial
Actives	39,669	181	60
Total Annual Benefits	$659 M	$ .29 M	$3.25 M
Average Benefit	$20,333	$1,860	$48,519
Actuarial Assets	$10.02 B	$10.78 M	$55.5 M
Actuarial Liability	$12.32 B	$7.50 M	$54.6 M
Actuarial Funding Ratio	81.3%	143.6%	101.6%
Normal Cost Rate 2016	4.07%	10.25%	15.32%
UAL Rate - 2016	12.55%	-(15.36)%	-(0.33)%
Total Rate - 2016	16.62%	-0-%	14.99%
2016 Contribution	$294.61 M	$-0-	$1,023,533

State/Teacher Funding History



State/Teacher Contribution History



How Do Defined Benefit Plans become Underfunded?

Four ways a defined benefit plan can become underfunded or be at risk

1. The employer does not fully pay the annual cost calculated by the actuary
2. The employer grants more benefit enhancements than they can fund
3. Changes in actuarial experience factors such as life expectancy
4. The investment returns are lower than expected

The Exceptional Growth Path of the State/Teacher Plan Funding

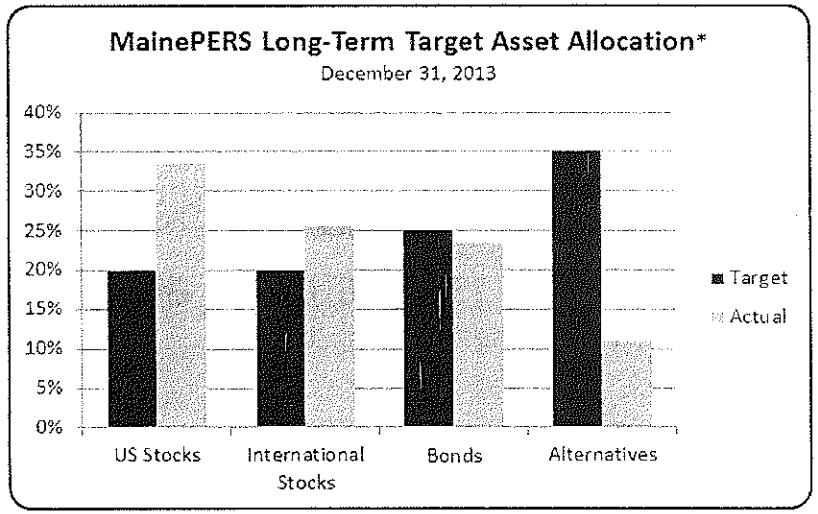
A commitment to fully fund the State/Teacher Plan in the early 1990s was made by the Governor, Legislature and employees/retirees

1995 Constitutional amendment mitigated all of the ways a plan can become underfunded

1. The state is required to fully fund the normal costs each year
2. The 1995 UAL must be fully amortized by 2028
3. No new unfunded liabilities may be created
   - For example, any new benefit must be fully funded in the year it is awarded, and may not be amortized over time
4. Experience losses must be amortized over 10 years
   - This is why the 2008-09 recession impacted the State/Teacher Plan more severely than other states that amortize losses over 25-30 years, doubling the required State contribution until the 2011 changes were implemented

How MainePERS Invests

- MainePERS is a long-term investor
- We set a long-term asset allocation target
  - Considers yield and risk
- We consider our greatest risk contribution rate volatility
  - Greater volatility creates more volatile employer contribution rates



June 30, 2014 Actual

- 32% domestic common stock
- 26% foreign common stock
- 24% domestic bonds
- 7% real estate
- 3% infrastructure
- 3% private equity
- 5% other

Investment Research and Decisions

11 Investment professionals on staff

- Advising Board of Trustees on strategic asset allocation
- Monitoring, researching, and performing due diligence on investments
- Tracking and monitoring investment performance
- Working with consultants

3 External Board of Trustee Consultants

- General investment consultant
- Private markets consultant
- Real estate consultant

Board of Trustees

- Approves asset allocation
- Monitors investment performance
- Participates in final due diligence on investments
- Final approval on investments

Comparative Investment Returns

Demonstrates Market Volatility

	6/30/2009	6/30/10	6/30/11	6/30/12	6/30/13	6/30/14
One Year	-18.8%	11.1%	22.4%	0.6%	11.1%	16.7%
Five Year	1.8%	1.8%	4.4%	1.5%	4.3%	12.2%
Ten Year	2.3%	2.5%	5.4%	6.3%	6.9%	6.9%
Thirty Year	NA	9.4%	9.6%	9.7%	8.7%	9.5%

7.25% Long-term Earnings Assumption
7.125% as of 6/30/14

How Do State Plans Compare to Detroit?

Detroit's plan faced the significant problem of a declining active population due to a dramatic decrease in the size of the city and city personnel

The auditors used new assumptions to calculate the liabilities, increasing them by approximately $3B

- The auditors changed the earnings assumption from 8% to 7% (MainePERS uses 7.125%)
- The auditors used market value of assets instead of 7 year smoothing (MainePERS uses a conservative 3 year smoothing)
- When the liabilities were calculated, the auditors did not include the 2013 market gains

MainePERS uses similar methodology to the new (higher) methodology used to re-calculate Detroit's higher liability

Summary

Like most retirement plans, large market fluctuations will create funding problems

Mechanisms are in place to mitigate economic downturns

Because they are defined benefit plans, the employer is still at risk for market fluctuations

ESG Policy Report

In response to PL 2013, Chapter 602 Part C

- MainePERS created a task force with Environment, Social and Governance (ESG) experts to assist in the completion of an ESG Policy
- The task force identified the principles a public retirement system should meet
- Over 7 meetings assisted in creating a policy focused on enhancing ESG due diligence
- Approved by MainePERS Trustees 1/8/15

ESG Task Force Members

Hon. Richard A. Bennett

Hon. John Brautigam

Sandy Matheson (Chair)

Brian Rice - CalSTRS

Andrew Sawyer, MainePERS CIO

Cynthia Simon - Senior Mgr, CDP

Deborah Spaulding - Deputy CIO Connecticut

Special Plan Report

In response to P & S Law Chapter 30

- Determined the number of active MainePERS members in the requested Special Plan category
- Deferred writing implementing language until further direction
- Determined cost relating to specific request
- Provided written report to the Committee