

MAINE STATE LEGISLATURE

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February 18, 2021

Senator Joseph Rafferty, Senate Chair
Representative Mike Sylvester, House Chair
Members, Joint Standing Committee on Labor and Housing
100 State House Station
Augusta, ME 04333-0100

Dear Senator Rafferty, Representative Sylvester and Members of the Joint Standing Committee on Labor and Housing:

Please accept the Maine Public Employees Retirement System's ("MainePERS" or "System") annual report to the Joint Standing Committee on Labor and Housing. This report is prepared in response to 5 M.R.S. § 17103, sub-§11 requiring the MainePERS Board of Trustees to submit a written report about MainePERS to the appropriate legislative committee each year by March 1. The System's Comprehensive Annual Financial Report (CAFR), copies of which have been provided to the Committee and which is available at www.maineopers.org, provides detailed information that supplements this report.

We are pleased to provide this information. Except where indicated, this report is based on operations through June 30, 2020.

INVESTMENTS

The market value of the System's defined benefit plans trust fund at June 30, 2020 was \$14.7 billion. The net position of the trust fund decreased as net investment earnings and contributions for the fiscal year were less than payments to retirees. The market value investment return for fiscal year 2020 was 1.8%. The preliminary fund return through the first seven months of FY 2021 ending January 31st was 13.9%.

The System's investment strategy remained consistent throughout FY 2020. This resulted in a small positive return to the fund as returns on private and public domestic and international equities and fixed income remained subdued through the fiscal year.

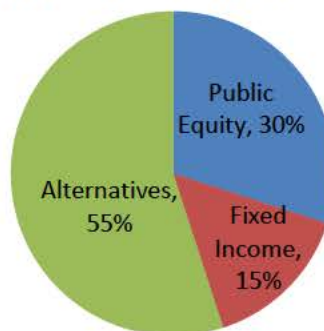
Fiscal Year Ending	Fund Value	Investment Return*
June 30, 2018	\$14.3B	10.3%
June 30, 2019	\$14.9B	7.3%
June 30, 2020	\$14.7B	1.8%

*Refers to performance of the investments, not the change in Fund Value

Annualized market value returns, net of management fees, for the 3-year, 5-year, 10-year, and 30-year periods ending on June 30, 2020 were 6.4%, 6.4%, 8.3%, and 7.8%, respectively. The 30-year return includes the 2000-2002 and 2008-2009 market downturns.

In 2017, the System changed its target asset allocation to 30% publicly traded stocks, 15% fixed income investments, and 55% alternative investments. This change is forward looking and designed to balance risk and returns in current and near-term future markets. The alternative investments allocation includes 10% in infrastructure, 15% in private equity, 10% in real estate, 5% in alternative credit, and 5% in natural resources, which may include agriculture, timber, and commodities. In addition, the Board of Trustees has approved a 10% allocation to risk diversifiers that seek sound investment strategies that do not fall into one of the other asset categories. The current allocation to alternatives is approximately 54.1% of the System's portfolio at June 30, 2020.

MainePERS Target Allocation



MainePERS maintains a substantial portion of the fund in return-seeking assets such as publicly traded equities and private equity. This is because most of the System's benefit payments are not due for several decades into the future and current fund liquidity is strong enough to withstand a full-range of market scenario testing. For the past ten years, the System has invested between 60% and 70% of its assets in equities and equity-like investments. Over sufficiently long periods, equities have been shown to outperform bonds. The System expects this relationship to hold in the future.

All of the assets of the System's retirement plans and other funds are in portfolios managed by professional investment management firms. These managers act as fiduciaries and invest the assets assigned to them in accordance with the System's investment policies and the individual agreements between MainePERS and the investment managers.

The 123rd Legislature created an Investment Trust in FY 2008 with a \$100 million initial contribution for the purpose of investing funds set aside by the State of Maine to cover Other Post-Employment Benefits (OPEB) liabilities for State retiree health insurance benefits. MainePERS Trustees were named Trustees for this Investment Trust and have the responsibility for investing these funds. As of June 30, 2020, the market value for the OPEB assets was \$291.6 million, an increase of \$15.9 million over the prior year end. The State of Maine withdrew \$3,000.00 in August 2020.

PROGRAM FUNDING

Funding Status of the State Employee and Teacher Retirement Program

The actuarial funded status of the State Employee and Teacher Retirement Program, or the ratio of plan assets to plan liabilities, increased in FY 2020 from 81.8% to 82.4%, primarily due to small investment gains from prior years included in the current year under 3 year smoothing. The funding ratio ten years ago, by comparison, was 65.9%. Please see the MainePERS CAFR for an understanding of the difference between market and actuarial values.

The unfunded actuarial liability (UAL) of the State Employee and Teacher Retirement Program decreased slightly in FY 2020 from \$2.653 billion at June 30, 2019 to \$2.615 billion at June 30, 2020.

Investment returns on an actuarial value of asset basis was 5.88% for FY 2020. This is lower than the actuarial investment return assumption of 6.75%, resulting in an actuarial loss to the plan. (See the Investments section for market returns.)

Funding Status of the Legislative Retirement Program

The Legislative Program was funded at 140.6% as of June 30, 2020, primarily because few legislators qualify for a retirement benefit under the terms of the program even though contributions were made on their behalf at one point in time. No employer contribution is currently required because of the overfunded status of the program.

Funding Status of the Judicial Retirement Program

The actuarial funded ratio of the Judicial Retirement Program has in recent years remained close to 100%. As of June 30, 2020, the actuarial funded ratio was 103.6%.

Funding Status of the Participating Local District Consolidated Retirement Plan

The Participating Local District Consolidated Retirement Plan (PLD Plan) consisted of 310 participating local districts at December 31, 2020. The actuarial funded ratio of the Plan increased from 89.6% at June 30, 2019 to 89.9% at June 30, 2020. The Participating Local District Advisory Committee continuously monitors the PLD Plan to ensure that it maintains a strong fiscal condition.

OPERATIONS

Pandemic Operations

MainePERS made modifications to the building environmental controls to protect staff and members from harmful viruses by installing air purification systems in the building including:

- ELEMENT AIR wall mounted air purification units were installed throughout the interior of the building. This system utilizes advanced oxidation technologies generating and dispersing Ozone through-out the building overnight during periods of non-occupancy. This process eradicates bacteria, mold and viruses from the interior air as well as hard surfaces.
- UVC Germinal Lamps were installed in the building's Air Handling Units. When air passes by energized UV lamps bacteria, mold, viruses as well as pollen are eradicated. All outside and recirculated air which passes through the Air Handling Units is treated, eliminating all live bacteria, mold, viruses and pollen.

Approximately 80% or more of the staff is working remotely at this time. Staff entering the building undergo screening processes if away from the building for any time off. Social distancing and masks are required.

Qualified Plan Status

In 2014, MainePERS received updated favorable "determination letters" from the Internal Revenue Service stating that all the plans administered by MainePERS continue to qualify for favorable tax treatment under the provisions of the Internal Revenue Code. The IRS subsequently eliminated the cyclical determination letter program and will now issue determination letters only for new or terminating plans and in certain other limited circumstances. MainePERS continues to closely monitor tax law changes to ensure that the pension plans continue to comply with federal law and maintain their qualified status.

Audit

The independent audit of the MainePERS financial statements for the year ended June 30, 2020 resulted in an unmodified opinion. An unmodified opinion means that, in the opinion of the auditor, the financial statements present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2020, in conformity with generally accepted accounting principles.

Awards and Certifications

Government Finance Officers Association Certification - In 2020, the System submitted its FY 2019 CAFR to the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting Program and was awarded the Certificate of Excellence for the sixteenth consecutive year. In order to be awarded this certificate, a governmental unit must publish an easily readable and efficiently organized CAFR, with contents that meet or exceed rigorous program standards and satisfy both generally accepted accounting principles and

applicable legal requirements. A Certificate of Achievement is valid only for one year, and the System's FY 2020 CAFR has been submitted to the GFOA.

Public Pensions Standards Award - In 2020, for the thirteenth consecutive year, the System was awarded the Public Pension Coordinating Council's Recognition Award for Funding. To receive this award, retirement programs must meet professional standards for plan funding as set forth in the Public Pension Standards. The regular flow of required contributions and the up-front funding of new liabilities were listed as factors contributing to the System's receipt of this award.

Member and Retirement Services

MainePERS was serving approximately 93,000 active members and retirees as of December 31, 2020. The System approved monthly pension benefits for 1,781 new retirees during CY 2020. This is generally consistent with the number who retired during CY 2019, with 46% of the CY 2020 retirees being teachers.

Required specific statistical information about members and retirees can be found in Attachment 1.

Group Life Insurance

At the end of CY 2020, approximately 52,000 state, teacher and participating local district employees and retirees had Group Life Insurance coverage under the program administered by MainePERS. Employers remit premium payments to MainePERS in order to provide basic coverage to these participants. Supplemental and dependent coverage is paid for by participants who elect to have it. MainePERS approved 674 life insurance claims with a value of approximately \$13.2 million in CY 2020.

Employer Services

MainePERS relies on participating employers to electronically report earnings, contributions, and work history at least once a month in order to maintain the up-to-date information needed to determine a member's eligibility for retirement benefits and the amount the member will receive as monthly payments. For CY 2020, MainePERS received and processed a wide variety of employer-provided records regarding more than 58,000 public employees who work at one or more of the 600 employer locations served.

MainePERS works closely with employers to support accurate and timely reporting of employment information and contributions. System staff provides employers with training, consultation and written materials to assist in their reporting. Due to the pandemic, in person employer training was suspended in CY 2020. System staff work with employers over the phone and via video conference to provide support and training, and a formal virtual training program is under development.

The System's website includes a section specifically for employers. The *Employer Update*, an electronic update focused on employer specific matters, was published three times during CY 2020.

Document Center

The Document Center staff has had to reorganize in support of a remote workforce with front-end scanning becoming more important than in previous years as in a remote environment, digital images are the only way work flows to the workers. They have done so successfully.

Cost-of-Living Adjustment (COLA)

The Board of Trustees is directed by statute to annually adjust the retirement benefits of its eligible retirees by a cost-of-living adjustment (COLA) equal to the change in the Consumer Price Index for All Urban Consumers (CPI-U) over the 12 months preceding June 30 of each year, subject to certain limitations. The CPI-U at June 30, 2020 was 0.6%. Eligible retirees from the State Employee and Teacher, Legislative and Judicial retirement programs were granted a regular cost-of-living adjustment of 0.6% on the first \$22,810.25 of benefit. Eligible retirees from the Participating Local District Consolidated Retirement Program were granted a regular cost-of-living adjustment of 0.6% on their entire benefit.

Disability Services

MainePERS staff continues to work with stakeholders on improving its service to those seeking disability retirement benefits and filing administrative appeals. This work includes:

- Disability Retirement Task Force - A MainePERS constituted task force has met periodically since 2014 to oversee a comprehensive review of the MainePERS disability retirement program. Meeting frequency of that group slowed in CY 2020 as the Long Term Disability Insurance Program involvement it previously had moved to implementation and the legislative session was cut short as a result of the Coronavirus pandemic.
- Long Term Disability Insurance (L.T.D.I.) – Issuance of a contract for an L.T.D.I. insurance carrier was postponed pending resolution of funding questions.
- Medical Evaluations – MainePERS contracted with the University of Massachusetts' Disability Evaluation Service (DES) for the performance of medical record evaluations on behalf of applicants and retirees undergoing eligibility reviews. The breadth and depth of medical specialties available to MainePERS through DES is a significant enhancement to the Program.

Required specific statistical information about the disability program can be found in Attachment 2.

Information Technology (IT)

The MainePERS technology environment underwent a significant shift in 2020 to support a remote workforce environment. Most of the major initiatives in the past year increased capacity or added needed functionality to work towards this goal. Activities in 2020 included the following:

- MainePERS IT worked with vendor partners on projects to upgrade the communications infrastructure that supports the remote workforce that utilizes the Cisco Meraki devices and Citrix remote access capabilities. Given the new dependency on remote connectivity, MainePERS has added additional network communication capacity that will provide redundancy in the event of equipment failure. The new configuration supports the loss of a device in Augusta and will also support failover to the Brunswick Disaster Recovery facility in the event of a larger Augusta outage. With the upgrade in equipment and licensing capacity, MainePERS can now effectively support a remote workforce.
- MainePERS IT along with vendor partners completed a project to migrate to a new cloud based phone system. The new GoToConnect system consists of a combination of Cisco hardware for agency based phones and softphone technology from Jive that can be used by remote and agency based staff. The migration of the carrier services and 800 number and all associated local extensions and fax lines now allows MainePERS phone system access from any remote location. The transition to the new call center application that MainePERS staff are now utilizing allows for efficient routing and distribution of member and retiree calls and provides improved metrics and reporting.
- The external websites that provide information to members and retirees were upgraded over the past year. The MainePERS.org and MaineSTART.org sites are now hosted externally and are managed with the help of vendor consultant partnerships. The new hosted version of both sites have been designed with new agency logos and colors and provide a much more efficient layout of information. The new sites provide valuable metrics that allow analysis of site usage and content distribution.
- MainePERS has completed a number of application infrastructure upgrades for software used by staff for productivity needs. All endpoint systems are now at Windows 10 and the latest version of Exchange was installed within the environment. The latest SharePoint release was configured for production and a number of test and development sites were made available for the eventual migration of file content to this new platform.

DEFINED CONTRIBUTION PLANS

MaineSTART

The System continues to promote its pre-tax defined contribution/deferred compensation retirement plans established under sections 401(a), 403(b) and 457(b) of

the Internal Revenue Code, collectively referred to as MaineSTART, to its participating local district employers. MaineSTART offers a group of Vanguard funds designed to be low cost and easy to understand. At the close of 2020, the total number of PLD employers that offer employees access to MaineSTART was 71 with a total of 1,436 participants. This represents approximately a 7% increase over the amounts at the close of CY 2019.

BUDGET

The System's administrative costs and expenses are directly charged against the assets of the applicable program. The System's budgeted operating expenses are approved by the Board of Trustees prior to the start of each fiscal year and reported to this Committee.

The FY 2021 Board-approved administration budget is \$16,170,715. MainePERS continuously reviews costs to identify efficiency improvements.

Required specific information about the budget and administrative expenses can be found in Attachments 3 and 4. Required specific information about employee and employer contributions can be found in Attachment 5.

CONCLUSION

Please accept this report on behalf of the Maine Public Employees Retirement System. We welcome questions and are happy to address them as the Committee requests and in the format desired.

Respectfully submitted,



Sandra J. Matheson
Executive Director

SJM/mg

Attachments

cc: Members, Board of Trustees
Grant T. Pennoyer, Executive Director, Legislative Council
Rachel Tremblay, Office of Fiscal and Program Review
Steven Langlin, Office of Policy and Legal Analysis

NEW RETIREES Calendar Year 2020 5 M.R.S. § 17103(F)	
Plan Status	Retired Members
State	501
Teacher	843
Legislative	2
Judicial	7
Participating Local District	428
Total	1781

NEW ACTIVE MEMBERS Calendar Year 2020 5 M.R.S. § 17103(G)	
Plan Status	New Active Members
State	1071
Teacher	1521
Legislative	28
Judicial	3
Participating Local District	1228
Total	3851

DISABILITY RETIREMENT and APPEALS Calendar Year 2020 5 M.R.S. § 17103(J)(1)-(4)		
	Count	Percentage
NEW APPLICATIONS		
Disability applications processed and acted upon in 2020 ¹	69	
Applicants awarded disability retirement at the applications stage	59	86%
Applications terminated due to death	0	
Applicants denied at the application stage ²	10	14%
DISABILITY APPEALS³		
Number of appeals pending 12/31/2019	31	
Number of appeals filed in 2020	6	
Total appeals closed in 2020	20	
Appeals Withdrawn or Abandoned	5	
Appeals Resolved on the Merits	15	
Total resulting in denial of benefits	2	
Total resulting in the award of benefits ⁴	13	87%
Number of Appeals Pending 12/31/2020	17	

¹ Six applications were withdrawn by members prior to a decision being issued. One was administratively closed.

² 5 M.R.S. §17103 (11) (J) (2) and (3) require the System to report on processes that are no longer in effect. In lieu of the information originally required, an accounting of the disposition of cases in the application phase is provided.

³ This section addresses appeals of application denials. Appeals may not be filed and often are not completed in the same calendar year as the application denial.

⁴ This consists of: (a) twelve cases where the Executive Director granted benefits upon reconsideration after receiving additional information during the appeals process and (b) one case where the Executive Director granted benefits upon initial application on one condition but not on another, and the Board reversed the latter determination on appeal based on a recommendation from an independent hearing officer. 87% of cases resolved on the merits during an appeal resulted in the award of benefits. Of appeals closed in 2020, which includes withdrawn and abandoned appeals, 65% resulted in the award of benefits.

BUDGET STATUS OF ADMINISTRATIVE OPERATIONS AND FUNCTIONS FY 2020-2021

5 M.R.S. § 17103(E)

	FY 2021 Budget	07/01/2020- 12/31/2020 Actual	01/01/2021- 06/30/2021 Expected	Projected Surplus /(Deficit)
Personal Services¹	7,838,042	3,553,749	4,503,944	(219,651)
Professional Services²	1,528,361	429,969	883,661	214,731
Communications	537,779	226,061	282,600	29,118
Building Operations	909,405	449,291	452,047	8,067
Computer Maintenance and Supplies	2,574,262	1,279,473	1,233,972	60,817
Depreciation	2,067,464	983,878	1,062,958	20,628
Professional Development	89,974	9,374	47,466	33,134
Medical Consultation and Records	261,600	72,414	129,500	59,686
Miscellaneous Operating Expenses	363,828	169,246	137,692	56,890
Total Administrative Expenses	16,170,715	7,173,455	8,733,840	263,420

¹ The Projected Deficit at December 31, 2020 in personal services is primarily attributable to low turnover in staff and vacancy rates remaining below budgeted.

²Professional Services include actuarial and legal service fees, as well as hearing officers' services related to appeals.

SUMMARY OF ADMINISTRATIVE EXPENSES FY 2020	
5 M.R.S. § 17103(D)	
Personal Services	7,925,430
Professional Services	2,349,447
Communications	417,342
Office Rent and Building Operations	377,624
Computer Maintenance and Supplies	1,859,600
Depreciation	1,900,478
Professional Development	49,316
Medical Records and Exams	21,950
Miscellaneous Operating Expenses¹	870,750
Total Administrative Expenses	15,771,937

¹ Total Administrative Expenses include all expenses of the System. Refer to the CAFR for a breakdown of administrative expenses across plans.

EMPLOYER CONTRIBUTIONS IN 2020			
5 M.R.S. § 17103(I)			
Plan Status	Employee Contributions	Employer Contributions	Total Payments to Retirees
State¹	52,063,907	163,859,794	321,662,874
Teacher	99,374,943	236,139,333	561,156,610
Judicial	616,095	715,963	4,314,558
Legislative	156,306	-	697,696
Participating Local Districts	54,118,738	67,063,056	177,425,091
Total	206,329,989	467,778,146	1,065,256,829

¹State Plan totals include Governors