

MAINE STATE LEGISLATURE

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March 1, 2022

Senator Matthea Daughtry, 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 Daughtry, 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 the Maine Public Employees Retirement System to the appropriate legislative committee each year by March 1. The System's Annual Comprehensive Financial Report (ACFR), 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, 2021.

INVESTMENTS

The market value of the System's defined benefit plans trust fund at June 30, 2021 was \$18.1 billion. The net position of the trust fund increased as net investment earnings and contributions for the fiscal year exceeded payments to retirees. The market value investment return for calendar year 2021 was 19.5%. The fund return through the first seven months of FY 2022 ending January 31st was 5.7%.

The System's investment strategy remained consistent throughout FY 2021. This resulted in a historically high return to the fund driven by strong returns on both public equities and alternative asset classes.

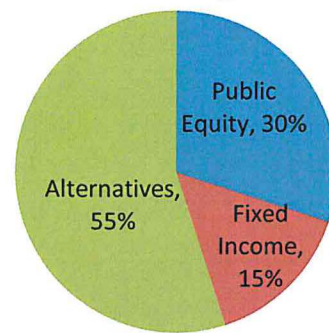
Fiscal Year Ending	Fund Value	Investment Return*
June 30, 2019	\$14.9B	7.3%
June 30, 2020	\$14.7B	1.8%
June 30, 2021	\$18.1B	26.5%

*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, 2021 were 11.4%, 11.4%, 8.7%, and 8.4%, 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 was 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, 7.5% in alternative credit, and 5% in natural resources. In addition, the Board of Trustees has approved a 7.5% 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 53.6% of the System's portfolio at June 30, 2021.

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 similar return-seeking 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, 2021, the market value for the OPEB assets was \$380.9 million, an increase of \$89.3 million over the prior year end.¹

¹ A copy of this report will be sent to the State and the trustees of the Irrevocable Trust Fund for Other Post-employment Benefits in accordance with 5 M.R.S. § 17435(7).

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, decreased in FY 2021 from 82.4% to 82.1%, primarily due to a reduction in the discount rate from 6.75% to 6.5%, and the reflection of actuarial assumption changes resulting from a recently completed experience study. A lower discount rate will typically reduce overall contribution rate volatility. The funding ratio ten years ago, by comparison, was 77.4%. Please see the MainePERS Annual Comprehensive Financial Report for an understanding of the difference between market and actuarial values.

The unfunded actuarial liability (UAL) of the State Employee and Teacher Retirement Program increased in FY 2021 from \$2.615 billion at June 30, 2020 to \$2.931 billion at June 30, 2021.

Investment returns on an actuarial value of asset basis were 26.76% for FY 2021. This is significantly higher than the actuarial investment return assumption of 6.75%, resulting in an actuarial gain to the plan. These unusually favorable returns partially offset a reduction in the discount rate, as discussed above. (See the Investments section for market returns.)

Funding Status of the Legislative Retirement Program

The Legislative Retirement Program was funded at 140.9% as of June 30, 2021, primarily because few legislators qualify for a retirement benefit under the terms of the program. 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, 2021, the actuarial funded ratio was 107.2%.

Funding Status of the Participating Local District Consolidated Retirement Plan

The Participating Local District Consolidated Retirement Plan (PLD Plan) consisted of 311 participating local districts at December 31, 2021. The actuarial funded ratio of the Plan increased from 89.9% at June 30, 2020 to 91.1% at June 30, 2021. The Participating Local District Advisory Committee continuously monitors the PLD Plan to ensure that it maintains a strong fiscal condition.

OPERATIONS

Strategic Planning

In November 2021, the MainePERS Board of Trustees adopted the following set of Goals and Objectives to set the framework for a strategic planning process that is currently underway and expected to conclude by July 1, 2022.

Goals

- Preservation of the Trust Fund
- Stability of the contribution rates
- Security and integrity of our information systems
- Cultivation of a “member-centric” organization, and
- Development of stakeholder relations

Objectives

- Planning for the post-2028 full funding of the UAL, including potential public pension plan options that include social security
- Responding to the recent divestment legislation
- Expanding the availability of defined contribution plans to teachers, and
- Exploring mandatory long-term disability insurance coverage

MainePERS is working with staff to develop new mission and vision statements, as well as a set of organizational values, consistent with the Goals and Objectives. Additionally, the final strategic plan will include strategies for achieving the Goals and Objectives and a set of metrics to measure progress.

Pandemic Operations

MainePERS continues to operate in a modified pandemic mode. Most staff worked remotely during FY 2021. The use of remote technology allowed for sustaining business services while reducing risk to staff and the public.

Currently, less than 50% of the staff is onsite at any time. All staff undergo screening as needed and observe social distancing and masking protocols. Since November of 2021, unvaccinated personnel have been tested weekly whenever they are onsite.

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, 2021 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, 2021, in conformity with generally accepted accounting principles.

Awards and Certifications

Government Finance Officers Association Certification - In 2021, the System submitted its FY 2020 Annual Comprehensive Financial Report (ACFR) 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 seventeenth consecutive year. In order to be awarded this certificate, a governmental unit must publish an easily readable and efficiently organized ACFR, 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 2021 ACFR has been submitted to the GFOA.

Public Pensions Standards Award - In 2021, for the fourteenth 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.

ICGN Global Stewardship Disclosure Award – MainePERS was one of two entities of its size to receive the ICGM Global Stewardship Disclosure Award for 2021. The awards are given by the investor-led International Corporate Governance Network to recognize excellence and innovation in investor stewardship and related public disclosures.

Member and Retirement Services

MainePERS was serving approximately 93,000 active members and retirees as of December 31, 2021. The System approved monthly pension benefits for 1,930 new retirees during CY 2021. This is generally consistent with the number who retired during CY 2020, with 43% of the CY 2021 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 2021, approximately 52,000 state, teacher and participating local district employees and retirees had Group Life Insurance coverage under the program administered by MainePERS. Many employers pay premium costs to MainePERS in order to fund a “basic” level of coverage for their employees. Additional supplemental and dependent coverage is paid for by participants who elect to have that coverage. MainePERS approved 691 life insurance claims with a value of approximately \$14.1 million in CY 2021.

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 2021, 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. A formal virtual training program was rolled out in CY 2021, and 26 virtual sessions were conducted during the year.

The System’s website includes a section specifically for employers. The *Employer Update*, an electronic update focused on employer-specific matters, was published four times during CY 2021.

Document Center

The Document Center staff continues its support of a remote workforce with front-end scanning and workflow creation. In addition, MainePERS implemented the use of DocuSign, enabling members to complete and submit forms electronically with a secure digital signature. Completed digital forms are received by MainePERS electronically for processing without requiring the members to mail forms or come onsite to drop-off materials.

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, 2021 was 5.4%. Eligible retirees from the State Employee and Teacher, Legislative and Judicial retirement programs were granted a regular cost-of-living adjustment of 3.0% on the first \$22,947.11 of benefit. Eligible retirees from the Participating Local District Consolidated Retirement Program were granted a regular cost-of-living adjustment of 2.5% on their entire benefit.

When the CPI-U exceeds the statutory cap on COLAs, the Board of Trustees is required to submit a supplemental budget request to the Governor for funds to support the increase in the CPI-U over the cap for the State-sponsored plans. This request was sent to the Governor on August 20, 2021.

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:

- Long Term Disability Insurance (LTDI) – Pursuant to Public Law 2021, chapter 277, MainePERS is required to convene a stakeholder group on an implementation plan for providing mandatory LTDI to members through their employers and report to the Legislature no later than January 3, 2023.
- Medical Evaluations – MainePERS completed the transition to the University of Massachusetts' Disability Evaluation Service (DES) performing medical record evaluations on behalf of new applicants, retirees undergoing continuing eligibility reviews, and appellants. The breadth and depth of medical specialties available to MainePERS through DES is a significant enhancement to the Program.
- Independent Medical Evaluations (IME) - MainePERS has contracted with the vendor MMRO as our resource for IME examinations. Having an IME provider in place gives applicants, and retirees who are undergoing continuing eligibility reviews, the opportunity to supplement their medical records when eligibility criteria is not met on the basis of medical records.
- Healthcare Provider Assessment form - This optional form was developed to provide an applicant's healthcare provider the opportunity to offer opinions about an applicant's medical situation in their own words and supplements medical records received from providers.

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

Information Technology (IT)

The MainePERS technology environment underwent upgrades to older infrastructure in 2021 and added some additional networking services. Activities in 2021 included the following:

Oracle Upgrade Project

- The project involved the upgrade of the Oracle virtual environment (OVM) that supports the V3 line of business application. The current version of the OVM environment had reached the end of support life. The new environment has improved recovery and reporting capabilities.

Networking and Storage Upgrade – Brunswick DR Site

- MainePERS completed an upgrade to the network and storage infrastructure in the Brunswick FirstLight datacenter facility that houses the disaster recovery equipment for MainePERS. The project included upgrades to storage, wiring, network switching, and routing gear, which resulted in improved communication and performance.

ISP Peering Project

- MainePERS applied for and was awarded Internet Protocol (IP) addresses through the American Registry for Internet Numbers. Owning the IP addresses allows the creation of redundancy in internet connectivity between two different carriers. This work provides backup capability for inbound network access to the MainePERS environment and for internet facing resources. Internet Service Providers (ISP) services from FirstLight and Consolidated Communication are now peered to provide that redundancy.

IT Audit – CBIZ

- MainePERS IT underwent a technology audit from CBIZ, Inc., a national professional services firm. Auditing services are split over a three-year cycle. This year, the audit reviewed documentation related to policies and practices and system security testing and network configurations. The audit firm issued a report of the findings that included recommendations for process improvements with a nod toward the comprehensive policy development MainePERS has undergone. MainePERS has addressed all findings.

Business Continuity Planning

- MainePERS has an established Business Continuity Program (BCP), which establishes and maintains practices for property and data protection and plans for recovery in the event of a disaster. In 2021, MainePERS adopted four

practices defining the: 1) cycle and process for development and maintenance of plan documentation; 2) frequency of assessment for the off-site disaster recovery facility; 3) recovery plan testing approach and frequency; and 4) recovery staff readiness training. MainePERS renewed all of its departmental BCP recovery plans bringing them in line with current operations and staffing. MainePERS actively conducts proctored tests of its recovery plans and practices to assure readiness and make improvements where possible. In 2021, eleven (11) BCP related tests were conducted. All tests were successful and the recommended process improvement steps have all been implemented.

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 2021, the total number of PLD employers that offer employees access to MaineSTART was 73 with a total of 1,534 participants having investments under management in the program. This represents approximately a 6% increase in employee participation over the count at the close of CY 2020.

A significant enhancement to the MaineSTART program that occurred during 2021 is our implementation of a Roth investment option for participants who want to invest after-tax earnings.

PROPOSED LEGISLATION

MainePERS submitted a system bill for consideration during the 130th Legislature. L.D. 1922 would make changes, both technical and substantive, to various sections of retirement law. Several of the proposed changes are necessary in order to align state law with federal law, in order to maintain the plan's qualified plan status, as previously discussed in this report.

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.

The FY 2022 Board-approved administration budget is \$17,119,995. 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,



Dr. Rebecca M. Wyke
Chief Executive Officer

RMW/mg

Attachments

cc: Members, Board of Trustees
Suzanne Gresser, Executive Director, Legislative Council
Rachel Tremblay, Office of Fiscal and Program Review
Steven Langlin, Office of Policy and Legal Analysis

NEW RETIREES Calendar Year 2021 5 M.R.S. § 17103(F)	
Plan Status	Retired Members
State	602
Teacher	821
Legislative	18
Judicial	5
Participating Local District	484
Total	1930

NEW ACTIVE MEMBERS Calendar Year 2021 5 M.R.S. § 17103(G)	
Plan Status	New Active Members
State	1062
Teacher	2057
Legislative	0
Judicial	3
Participating Local District	1676
Total	4798

DISABILITY RETIREMENT and APPEALS Calendar Year 2021 5 M.R.S. § 17103(J)(1)-(4)		
	Count	Percentage
NEW APPLICATIONS		
Disability applications processed and acted upon in 2021 ¹	110	
Applicants awarded disability retirement at the applications stage	88	91%
Applications terminated due to death	1	
Applicants denied at the application stage ²	9	9%
DISABILITY APPEALS³		
Number of appeals pending 12/31/2020	17	
Number of appeals filed in 2021	5	
Total appeals closed in 2021	14	
Appeals Withdrawn or Abandoned	2	
Appeals Resolved on the Merits	12	
Total resulting in denial of benefits	6	
Total resulting in the award of benefits ⁴	6	50%
Number of Appeals Pending 12/31/2021	8	

¹ Ninety-eight new applications were received in calendar year 2021. Eleven 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) five 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 others, and the Board reversed the latter determination as to one condition on appeal based on a recommendation from an independent hearing officer. Fifty percent of cases resolved on the merits during an appeal resulted in the award of benefits. Of appeals closed in 2021, which includes withdrawn and abandoned appeals, 43% resulted in the award of benefits.

BUDGET STATUS OF ADMINISTRATIVE OPERATIONS AND FUNCTIONS FY 2021-2022

5 M.R.S. § 17103(E)

	FY 2022 Budget	07/01/2021- 12/31/2021 Actual	01/01/2022- 06/30/2022 Expected	Projected Surplus /(Deficit)
Personal Services	8,954,628	3,915,492	5,042,850	(3,714)
Professional Services¹	1,404,550	532,213	751,070	121,267
Communications	546,239	260,806	283,971	1,462
Building Operations	919,707	481,025	458,500	(19,818)
Computer Maintenance and Supplies	2,797,126	1,148,914	1,488,930	159,282
Depreciation	1,925,163	957,647	957,351	10,165
Professional Development	92,634	23,426	68,508	700
Medical Consultation and Records	127,150	46,530	190,250	(109,630)
Miscellaneous Operating Expenses	352,798	188,802	186,643	(22,647)
Total Administrative Expenses	17,119,995	7,554,855	9,428,073	137,067

¹Professional Services include actuarial and legal service fees, as well as hearing officers' services related to appeals.

SUMMARY OF ADMINISTRATIVE EXPENSES FY 2021	
5 M.R.S. § 17103(D)	
Personal Services	7,997,237
Professional Services	2,036,082
Communications	412,148
Office Rent and Building Operations	384,648
Computer Maintenance and Supplies	1,591,632
Depreciation	1,957,181
Professional Development	54,040
Medical Records and Exams	27,055
Miscellaneous Operating Expenses ¹	781,447
Total Administrative Expenses	15,241,470

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

CONTRIBUTIONS/PAYMENTS IN 2021			
5 M.R.S. § 17103(I)			
Plan Status	Employee Contributions	Employer Contributions	Total Payments to Retirees
State ¹	55,037,002	172,398,760	326,851,196
Teacher	104,473,001	246,375,527	576,264,713
Judicial	635,871	738,939	4,681,415
Legislative	214,905	-	549,461
Participating Local Districts	53,623,070	68,574,405	183,468,354
Total	213,983,849	488,087,631	1,091,815,139

¹State Plan totals include Governors