6-19-19 World Pension Alliance – Transatlantic Conference
Defined Benefit Plan Design through a New Lens
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.
What can go wrong in a defined benefit retirement plan?
Low investment returns
- FY 2015 – 2%
- FY 2016 – 0.6%

Projections
- Next 4 years – 4%
- Next 6 years – climbing up to 7%
What Else Might Matter?

• 6.875% discount rate on liabilities

• The plan was 108% funded in 2008, with employer rates reduced from 8% to 3% due to the “overfunding”

• The recession reduced funding to 87% with employer rates being restored by 1% per year

• Benefit cuts in 2014 restored funding to 90%, but employer rates did not yet fully cover the UAL so funding would continue to decline

• Employers in this plan are local governments with modest budgets and optional continued active membership

• There was no employer withdrawal liability

What Was Our Greatest Fear?

A downward spiral with inevitable bankruptcy down the road
May 2016 – The Dilemma

How could we ensure that we could pay all of the benefits earned throughout each members lifetime:

• In an optional multiple-employer cost-sharing local government plan defined benefit plan
• When the market outlook was dismal
• If employers did not want or could not afford rate increases
• When employees could choose another plan if their employer provided multiple options
Fear of a Failed Plan is a Great Motivator

Our goals

• Control rates
  • **Why?** - Employers’ biggest fear is never-ending rate increases

• Improve risk-sharing
  • **Why?** - Employees always pay their contributions but have their benefits cut in bad times
  • **Why?** - COLA freezes and permanent cuts erode the value of the benefit for those without additional earning power

• Make the value of the benefit worth the cost
  • **Why?** - Membership is optional for employers and some employees
How Did We Achieve Our Goals?

Pay every member their basic retirement benefit throughout their life.

• With a “sales” perspective that this plan has to be
  • Affordable
  • Marketable
  • Provide a solid retirement benefit
Pay every member their basic retirement benefit throughout their life.

New Framework Adopted in 2018

• Part 1 – Contribution Rates
  • Both employers and employees will share in market losses and gains
  • Rate maximums and minimums are established for each group

• 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
  • Freezes or reductions in the COLA cap are eliminated

• Part 4 – Withdrawal liability
  • Employers pay for their UAL upon withdrawal
We have a pre-planned, accepted model for absorbing bad events such as major market losses

Outcomes

• Employer
  • Know how high their rates can go in a bad market so can stick with the plan

• Employees
  • Share in bad and good market risk
  • Can rely on their benefit being there

• Retirees
  • No more freezes or permanent reductions
  • The smoothing method may result in a slightly lower COLA, but market rebounds can restore full COLA eligibility
May 2019 – The Results

• New employers are joining the plan
• Extensive outreach to employees and employers resulted in
  • Feedback incorporated into the design
  • Confidence that we can navigate bad markets without eroding the benefit in place
• Thanks to MainePERS by those participating in outreach for looking out for their benefit