SECTION V – UNFUNDED ACTUARIAL LIABILITY (UAL)

This section provides a history of the unfunded actuarial liability of the Maine Public Employees Retirement System's (MainePERS) State Employee and Teacher program. This section does not address the State's unfunded actuarial liability of other post-employment benefits (OPEB) including health insurance for retirees. The MainePERS administers retirement programs that cover State employees, the State's public school teachers, judges, legislators, and employees of the 296 municipalities and other public entities, called "participating local districts" (PLD's) that have chosen to provide retirement plans to their employees through MainePERS. Currently, the State Employee and Teacher plan is the only State plan with an unfunded actuarial liability (UAL).

MainePERS was originally established by Public Law 1941, chapter 328 as the "Employee Retirement System of the State of Maine" to administer defined benefit retirement plans for state employees and for employees of political subdivisions which elected to participate in the system. Legislation enacted in 1947 merged the "Old System" Teachers retirement plan and the Maine Teachers Retirement Association with the state employee plan. In 1949, the name of the System was changed to the Maine State Retirement System. The name was changed again in September of 2007 to the Maine Public Employees Retirement System.

Defined Benefit Plans and Unfunded Actuarial Liability

A defined benefit plan is an employer-sponsored retirement plan for which retirement benefits are based on a formula that determines the exact benefit a member can expect to receive upon retiring. Defined benefit plans are intended to be pre-funded, meaning that contributions paid in by both the employee and employer, when invested over the employee's career, will provide a sum of money sufficient to pay the required retirement benefit to that employee for the remainder of the employee's life. MainePERS utilizes the services of an actuary to determine the necessary aggregate contribution each year based on such factors as the number and age of employees, projected salary increases, anticipated age of retirement and estimated return on investment. The State of Maine is constitutionally obligated to recover any annual losses on investments over the following ten year period.

MainePERS also contracts with an actuary to prepare an annual valuation of the assets and liabilities of each of the retirement programs that are administered by System at the end of each fiscal year. The valuation measures both a plan's assets (investment earnings, employer and employee contributions on hand and expected in the upcoming year) and a plan's liabilities (obligations for current and future benefits). When a plan's assets are greater than its liabilities, the plan has a surplus. When a plan's liabilities are greater than its assets, the plan has an unfunded actuarial liability.

As stated above, the State Employee and Teacher plan is the only plan administered by MainePERS to have an unfunded actuarial liability. Factors that have contributed to the UAL over time include the approval of new or improved retirement benefits without the contribution of adequate funds to support the additional costs; failure to appropriate the amount of employer contributions required to adequately fund the plan (i.e. deappropriating funds or deferring payments) and experience losses which occur when assumptions made are more optimistic than actual experience.

In order to address the unfunded actuarial liability of the State Employee and Teacher plan, a Constitutional amendment was enacted through referendum in November 1995. Article 9, section 18-A of the Maine Constitution prohibits the creation of unfunded liabilities, except those arising from experience losses, and requires the State to fund the normal cost of retirement and ancillary benefits on an actuarially sound basis. Article 9, section 18-B was also requires the UAL as of June 30, 1996 be paid off not more than 31 years after July 1, 1997 (July 1, 2028).

MainePERS amortizes the UAL based on the level percentage of payroll method instead of a straight-line amortization. Therefore, payments are lower in the earlier years of the 30-year amortization schedule and greater in the later years. This results in a total UAL that increases until payments as a level percentage of payroll grow large enough to cover the interest of the UAL, at that point future payments begin decreasing the UAL.

Table V-1 below provides a history of the unfunded actuarial liability of the State Employee and Teacher program through the end of fiscal year 2013-14.

Table V-1
Maine Public Employees Retirement System
Unfunded Actuarial Liability (UAL)

State Employee and Teacher Plan

Fiscal Year Ending June 30	UAL at close of Fiscal Year	Annual % Change
1986	$1,583,192,822	
1987	$1,983,362,482	25.3%
1988	$2,153,056,988	8.6%
1989	$2,309,364,688	7.3%
1990	$2,454,148,342	6.3%
1991	$2,590,848,538	5.6%
1992	$3,177,024,392	22.6%
1993	$2,643,416,081	-16.8%
1994	$2,828,457,537	7.0%
1995	$2,791,740,760	-1.3%
1996	$2,888,985,772	3.5%
1997	$2,612,058,351	-9.6%
1998	$2,454,021,636	-6.1%
1999	$2,175,409,960	-11.4%
2000	$1,966,194,367	-9.6%
2001	$2,157,386,869	9.7%
2002	$2,592,677,039	20.2%
2003	$2,921,320,341	12.7%
2004	$2,989,819,155	2.3%
2005	$3,034,652,581	1.5%
2006	$3,043,079,648	0.3%
2007	$2,912,250,119	-4.3%
2008	$3,036,474,882	4.3%
2009	$3,995,268,096	31.6%
2010	$4,303,684,195	7.7%
2011	$2,544,780,065	-40.9%
2012	$2,672,576,161	5.0%
2013	$2,652,900,255	-0.7%
2014	$2,302,646,777	-13.2%