MECEP

Maine Center for Economic Policy

Building on a Solid Foundation

Maine's Future Prosperity Demands Responsible, Fact-based Fiscal Management

Solid performer
Maine's "grade" from Pew Center for the States report.[4]

$760
Maine's tax supported debt per person.

23%
Percentage by which Maine's tax supported debt per person is lower than the national median ($936).

$0
Amount Maine state employees earn from Social Security for their service.

$18,177
Average Maine pension benefit for retired teachers and state employees.[5]

7.65%
Employee payroll contribution to state pension system.[6]

8%
Decline in percent of state retirement system that was fully funded between 2007 (74%) and 2010 (66%).[7]

Recent national media coverage of fiscal problems in states like California and Illinois has set off alarm bells across the country.

Maine's fiscal situation is considerably healthier. Through prudent debt management, Maine has maintained exemplary credit ratings. We are better-positioned than most states to address short and long range challenges and pursue investments that make the state more attractive to business, encourage economic growth, and create good jobs.

Maine's ability to use its bonding capacity to invest in economic growth is strong

> "Maine continues its conservative approach to debt, with an aggressive payout structure and capacity to accommodate unforeseen borrowing needs."[1]
>
> – Moody's Investment Services, July 2010

Maine's tax supported debt per capita is $760, compared to the national median of $936. As a percentage of personal income, Maine's tax supported debt is 2.2%, again lower than the national median of 2.5%.[2]

Maine's capacity to issue bonds is improved by the state's use of available cash to fund half of its annual capital expenditures. Maine also pays off its debt much faster than most states, generally within ten years. These facts, coupled with low interest rates, mean that Maine is well-positioned to maintain investments in its people and infrastructure that will help chart a course toward future prosperity.

Solutions to Maine's pension liability are within reach

More than 71,895 teachers and state employees are covered by the Maine Public Employees Retirement System (MePERS), including over 40,000 active employees and 23,000 retired employees. This plan is a mandatory substitute for Social Security for these employees.[3]

Maine's total fixed costs, including pension as well as debt service requirements, comprise approximately 10% of the state's operating expenditures. As in many states, the recent stock market crash took a toll on pension funding levels. According to Moody's, Maine's pension funding ratio dropped to approximately 68% as of June 30,2009.

As required by statute, the MePERS Board of Trustees recently advised the Governor and the Legislature that meeting the state's obligation to retire the System's unfunded actuarial liability over the next two years will cost $287 million, in addition to the $629 million to meet current pension obligations. Consequently, as required by the state constitution, the current 2010-2011 budget reflects the full annual required contribution for pensions. This is not a trivial amount, and constitutes over one-third of the state's total estimated revenue shortfall for the 2012-13 biennium.

By contract, the state is obligated to meet the pension costs of current employees. It makes no sense to politicize this issue and assail Maine's teachers and public employees for this liability which is largely a consequence of the recent recession. In keeping with Maine's tradition of finding solutions and avoiding a race to the bottom, even in the most difficult of times, the state has a range of options.

One possibility is a constitutional amendment to allow the state to extend the payout term for the unlimited actuarial liability, analogous to an individual refinancing a home mortgage in times of economic stress. Otherwise, between 2011 and 2028, Maine taxpayers will shoulder an unfair burden to fulfill an obligation made years ago. Asked about the issue by the Lewiston Sun Journal in October, now Governor LePage indicated that "he's in favor of changing the 2028 funding deadline, which would require approval of the Legislature and the voters."

Another approach is to have the public employees shoulder the entire burden. Like Social Security, MePERS currently has a regular cost of living adjustment (COLA).

Representative Richard Cebra (R-Naples) has submitted legislation "to temporarily suspend cost-of-living adjustments" in MePERS retirees' benefits and "increase the contribution levels" of current employees from 6.5% of wages to 7.5% for six years. This proposal appears to overlook the fact that our public employees already pay 7.65% of their wages toward the pension system, while the state pays 5.5% for "current or normal cost" and an additional 10-12% toward the unfunded actuarial liability.

Eliminating the COLA for retirees or for future retirees, even temporarily, makes the MePERS benefit far less valuable than Social Security, the system that all private sector employees receive. It also represents a breach in promises the state made to public employees and unjustifiably undermines their financial security.

Maine needs objective and responsible fiscal stewardship now more than ever

In troubling economic times like these, Maine must continue to invest in its people and infrastructure. MECEP urges the Legislature and Governor to consider all options and adopt a reasonable, balanced approach that preserves needed investments for roads, bridges, schools, health care and retiree security. As confirmed by the Moody's Investor Services and other national rating agencies whose business is to analyze financial risks for investors in state obligations, the facts demonstrate that Maine has the fiscal capacity to address the short and long range challenges we face. Maine's economic future and the well-being and financial security of our people demand responsible fiscal stewardship, not ideological posturing, from our leaders.

[1,2] Moody's Investment Service at http://www.maine.gov/treasurer/debts_bonds/Moodys%20Maine%20BAN%20report%207-23-10.pdf
[3,5,6,7] Maine Public Employees Retirement System annual report and MECEP analysis of MePERS data at http://www.msrs.org/
[4]Pew Center on the States, *Trillion Dollar Gap,* http://www.pewcenteronthestates.org/report_detail.aspx?id=56695

About the Maine Center for Economic Policy

The Maine Center for Economic Policy advances public policies that help Maine people prosper in a strong, fair and sustainable economy. We advance this mission through high-quality research, analysis, citizen education, and coalition building. MECEP is an independent, nonpartisan organization.

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