MEMO

To: MEA Members
From: MEA Officers
Date: February 6, 2003
Re: MEA Budget Status

In the January issue of the *Voice,* we alerted you to MEA's budget deficit. As promised in that article, we are providing you with additional information about the problem.

What happened?

For the past few years, we have been able to maintain and even improve our service without increasing dues. In fact, dues today are actually $2.90 lower than in 1996-97.

In that time we have been able to expand service without a dues increase because of our successful organizing efforts and successfully holding the line on budget expenditures.

Unfortunately, a record setting downturn in the investment market has reversed this situation. Our investment income has fallen to nearly zero, and this has caused the value of our pension assets to fall dramatically. At present, our MEA pension fund is funded at less than 80-percent of the present value of its obligations. Federal regulations require a funding level of at least 90-percent. The drop in the value of its assets has resulted in a significant increase in the required contribution for 2003-04. If the market continues to fall, this obligation will increase in 2004-05.

We did not anticipate a long-term bear market. You may recall, the Representative Assembly approved the two-year budget for 2001-02 and 2002-03 in April 2001—five months before 9-11 and the subsequent economic downturn. At the time, we assumed that we would end 2002-03 with a balanced budget. This assumption proved to be incorrect, and as a result, we are faced with a deficit in our operating budget and in our pension system for 2003-04.

How we plan to address the budget emergency

We are using a four-pronged strategy to eliminate our deficit.

First, we have already cut almost $2 million in program expenditures such as halting the Supplemental Uniserv Assistance Policy (SUAP) and reducing expenses in such areas as training, printed material, overtime, conference costs and telecommunications, etc. We will continue to look for ways to cut costs in every MEA department.

Second, negotiations are under way with staff unions regarding an early retirement incentive and salary adjustments.

Third, we plan to eliminate a total of 47 staff positions in the next few months.

Finally, we are proposing in the 2003-2004 budget a dues increase of $11.19 per month. the maximum allowable under our Bylaws. This increase will allow us to continue our vital programs.

However, the 2003-04 budget is balanced only if we also eliminate 47 staff positions in conjunction with the dues increase. Any reduction in the proposed dues increase will most likely result in the elimination of additional positions.

Could this budget deficit have been predicted?

We don't think so.

But to more fully answer this question, it is important to understand two important factors in our budget—the dues formula spelled out in the MEA Bylaws and our process for monitoring our pension system.

Dues
According to the MEA bylaws, dues cannot exceed 1.02-percent of the statewide average master's maximum salary as of August 31 two years prior to the start of the fiscal year. For example, the 2003-04 maximum dues level is based on the master's maximum salary as of August 31, 2001.

Until the recent years of budget surplus, dues were always raised to the maximum level in order to fund our programs. Since that period, the MEA operating budget was showing a surplus. We, as MEA officers, chose to keep dues frozen as long as the surplus existed. That's why, today, our dues are actually $2.90 lower than they were in 1996-97.

Monitoring the retirement obligation
The poor investment market impacted the returns from our staff retirement plan and also served to reduce projected general fund revenue by $425,000.

Retirement plans such as MEA's are not immune to such downturns in the market.

We are not alone in this situation. The funding requirements for plans such as ours are currently challenging countless other organizations and businesses. (See Web links below.)

Based on how our 2001-02 fiscal year ended with respect to retirement funding, we expected our contribution to increase. However, we did not anticipate that contribution to outpace any in our history. In cash terms, our contribution rose from about $4 million to about $12 million.

Though staff retirement benefits have not been improved, our obligation to the pension fund could increase even more unless the market improves significantly.

As ominous as this sounds, the plan is in no danger of going under. As of the end of December the fund was worth $161 million; benefit payouts were approximately $761,000 per month.

Defined benefit plans are governed by the Employee Retirement Income Security Act of 1974 (ERISA). This act was adopted by Congress. The rules require that the retirement fund be at least 90-percent funded as determined through an actuarial calculation. Under the law, refusal or failure to fund the plan is not an option.

How is the pension obligation calculated?

To calculate MEA's funding contribution, an actuary takes a *participant* "snap shot" on September 1, the first day of the plan year. The actuary considers: number of plan participants, ages, years of service credit, years of purchased service, turnover rate, rate of pay, anticipated long-term pay increases, mortality tables, etc.

On August 31, the last day of the plan year, the actuary takes a *fund* "snap shot" that looks at the value of the fund, applies assumptions related to long-term growth and long-term interest rates, etc. The actuary combines the September 1 and August 31 "snap shots" and produces a report indicating how much—if any—MEA must contribute to the retirement fund to reach the 90-percent funding level.

That report was delivered to MEA on December 11, 2002. Soon after, the officers declared a budget emergency and began working to reduce current year expenses and develop a plan to balance the 2003-2004 budget.

Our plans for the future

MEA must remain financially stable in order to continue to serve its members. This is an especially difficult task in periods of economic recession and uncertainty.

Our current budget crisis has clearly highlighted the need for some stability in our budget with pension contributions. To better plan and, to the extent possible, prevent future spikes in retirement contributions we are establishing a process to consider ways of addressing MEA's long-term fiscal health so that we can continue to concentrate on our primary goal – member service.

All of us – members, leaders and staff – must work together to help MEA move quickly through this budget crisis.

For more information on the current problems effecting retirement plans you may wish to visit the following web links:

http://www.cfo.com/article/1,5309,7923,00.html - Coming: Pension Crisis?