



Maine State

# Retirement News

for Members, Retirees and Employers

Maine State Retirement System

May 2002

## Message from the Executive Director

I recently got an email from a member with questions that told me that I should use this Executive Director message to write about some basics of the System's investment program and funding. I've written about several of them before, but they're important and bear repeating. The member's questions are highlighted, so when you come to something that you already know, just skip to the next question.

**(What is) the fund's present status (concern for Enron and other large national corporations that fold)?**

The collapse of Enron, or any other single company, would affect the Retirement System's fund significantly only if the System had a preposterous portion of its assets invested in the one company. I say "preposterous" because for the System to concentrate its investments in that way would defy the investment policy that is the framework of the System's investment program. The investment policy requires diversification, and diversification is a fundamental principle of investing. "Diversification" means this: your eggs are placed in a number of different baskets. The Retirement System owns stocks, many, many different stocks, and bonds, many, many different bonds. The System's eggs are in many, many different baskets. The effect of a collapse or loss in any single investment is thereby greatly mitigated.

The Retirement System owned Enron stock. We owned Enron not because our investment managers bought it directly but because a significant portion of our investments is in shares of broad-market, mutual-fund-like index funds. These funds held Enron stock. (Enron was a huge company, an enormous presence in the market; an index fund designed to represent the market could not have not held Enron.) These index funds also held the thousands of other stocks that represent the market. The Retirement System lost about \$10 million on Enron. That's a big number. Here is another big number: the System's total invested assets are close to \$7 billion. Ten million dollars is a lot of money, and we don't like to lose, but the raw number is meaningless without perspective and here is a perspective: \$10 million is 14 one-hundredths of one percent of the System's invested assets.

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## Task Force to Study Retirement Benefit Inequities

In its just-ended session, the Legislature established a seven-member Task Force charged, in the words of the legislation, ". . . To Study Methods of Addressing Inequities in the Retirement Benefits of State Employees and Teachers." The duties set out in the legislation focus the attention of the Task Force on the differences in MSRS retirement benefits that were put in place by legislation enacted in 1993.

These benefit differences, great enough that they are sometimes called "the cliff," are differences between retirement benefits available to Retirement System members who had 10 or more years of creditable service on July 1, 1993 and benefits available to members having fewer than 10 years of creditable service on that date. At the time the benefit differences were created, the Board of Trustees of the Retirement System pointed out to the then-Administration and Legislature its concern about benefit equity and it has continued to express concern since then. In the last two or three years, that concern and related concern about the adequacy of the less-than-10-year benefit structure have become widespread, as issues of recruitment and retention became worrisome in both the teacher and the State employee workforces.

The MSRS Board has watched these concerns grow. It has pointed out that the

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### *Executive Director's Message continued from page 1*

How and who administers the fund in your shop? Are consultants hired to make recommendations? Are we paying commissions to a series of brokerage houses?

Some public sector retirement systems handle all of their actual investment activity with in-house professional staff. Some systems handle some of their investment activity in-house and also use outside professional investment managers. Some systems invest only through outside professionals. The MSRS is in this last category. We do all of our actual investment activity through professional outside investment managers. On our staff, we have a highly qualified and experienced Chief Investment Officer who is responsible for overseeing the System's investment program, including its investment managers. The Board of Trustees, which sets investment policy, and System staff, which implements investment policy, are assisted by a highly-regarded investment consulting firm, EnnisKnupp and Associates.

Our professional outside investment managers are selected and, if hired, monitored by careful due diligence processes that involve staff, consultant and Trustees. Managers' contracts with the System include guidelines within which they make decisions on buying and selling securities. A buy or sell transaction can't be accomplished without the payment of a commission. Managers are required to use "best execution," which requires them to seek efficiency in transactions and costs.

Is there a group of experienced investment folks that meet in Augusta to oversee and make recommendations?

The System's eight-member Board of Trustees has had remarkable stability in its membership. Consequently the Board has a high degree of familiarity

with the investment program, which several of its members have been instrumental in shaping ever since the inception of the modern program in the mid-1980s. The Board has an Investment Advisory Committee, on which most Trustees participate and which also includes experienced and qualified non-trustee members. System staff and the System's investment consultant work closely with the Committee and the Board.

Is there a law, should there be a law, preventing Legislature or Governor from borrowing from the fund or using the fund in any way?

There is such law: it's the Maine Constitution. Under it (Article IX, Sections 18, 18-A and 18-B), assets in the System's hands or appropriated to the System by the Legislature are held in trust for retirement benefit purposes and cannot be reclaimed or redirected to other purposes. The Constitution also requires that the Retirement System be funded on an actuarially sound basis, which means that the State may not decide to make employer retirement contributions that are less in amount than determined actuarially to be needed.

Is the fund only in stocks and bonds? Could other investments be made, are they being made?

The System's assets are invested only in public market stocks (aka, equities), of both U.S.-based and non-U.S.-based companies, and bonds (aka, fixed income securities). Nothing prohibits investments of other kinds - for example, real estate, timber, private equity, oil and gas leases - but the current investment policy, which the Investment Advisory Committee and the Board carefully deliberate and frequently revisit, excludes investments other than public market equities and fixed income securities. The only exceptions to this

are assets still remaining in two small outside-manager funds that are in the process of being paid out and a small bond program with the Finance Authority of Maine.

What percentage of the fund is in stocks, Maine companies, foreign companies, in Maine municipal bonds, etc.?

The System's investment policy requires 50% of the System's assets to be invested in U.S. equities, 15% to be invested in international equities and 35% to be invested in fixed income securities. The actual percentage invested in any of these asset classes will vary as the markets move, but the balance is corrected if and when certain policy limits are exceeded. The System does not invest directly in Maine companies (we make no direct investments at all) but its general holdings include investments in many companies with significant operations in Maine and mortgage portfolios that include mortgages on Maine properties. The System's fixed income investments do not include municipal bonds, both because of the way municipal bond markets are structured and because the System, which is of course tax-exempt, does not benefit from the tax-exempt nature of some municipal bonds.

Those are the questions the member asked. It's my sense, and hope, that these questions and the responses are of interest to others as well as to the member who asked them.

  
Executive Director

**Task Force continued from page 1**

cost of addressing the cliff increases as time passes and will grow to be out of reach at some not far distant point. In the spring of 2001, in a letter that described one possible way of fixing the cliff, the Board urged that the parties - the Legislature, the Administration, the employee organizations - sit down to seriously and thoroughly discuss the cliff before the cost, inexorably increasing with passage of time, became so large that no fix could be possible. The establishment of this Task Force, the members of which are legislators, the Administration and representatives of employee organizations, appears to provide the forum for the parties to sit down to talk. Under the Task Force legislation, the System will serve as a nonvoting adjunct member for the purpose of providing information and analysis.

No one should have any illusion that fixing the cliff is a certainty now that the parties will be sitting down to work on it. On the one hand, there are very strong public policy reasons to fix the cliff. On the other hand, there are the already large costs and the facts of the current economy. The Task Force process will address the question whether the parties can create a solution out of these realities.

**REMINDER FOR RETIREES**

If you are moving, or have moved, and need to change your address on our records, please notify us in writing. Please be sure to include your old address and social security number.

It is for your protection that we require this notification in writing.

Also, have you signed up for direct deposit yet? If not, contact the Benefits Payroll Unit of the MSRS for information. Direct deposit is a safe and convenient way to receive your monthly benefit. Call for information today!



**Question:** Where does the money come from to pay for retirement benefits?

**Answer:** Contributions to support retirement benefits are made to the MSRS by both employees and employers. These contributions are retained in trust funds that are invested by the MSRS. Earnings on these funds also go toward the payment of retirement benefits.

Employee contributions are set by statute. Most State employees, teacher members, and Legislative and Judicial System members currently contribute 7.65% of their pay towards their retirement. Most members working at participating local districts (PLDs) contribute 6.5%. Some State employees and some PLD members pay higher contribution rates as a result of participating in what are called "special plans." These employees are primarily public-safety workers, such as police officers and firefighters.

Employer contributions are determined by actuarial valuations. These valuations are done by the MSRS's actuaries for each fiscal year and determine what contribution rate is necessary in order for there to be adequate funding to meet projected benefit payments. The State pays the employer contribution for State employees, teacher members, and Legislative and Judicial System members. Individual PLDs pay the employer contribution for their respective members.

*New***MSRS TEACHER BOOKLET**

Hot off the press is **MSRS Benefits for Teachers**. This updated booklet provides a general overview of the MSRS benefits available to new and current teacher members.

If you would like to receive the new teacher booklet, please contact your plan administrator or call our office at (207) 287-3461.

**MSRS ANNUAL REPORT**

We are pleased to announce the release of the Maine State Retirement System's Annual Report for the fiscal year ending June 30, 2001. The Report contains the financial transactions of the retirement system for the fiscal year, the assets and liabilities of the retirement system at the end of the fiscal year, and the actuary's report on the actuarial valuation of the retirement system for the fiscal year.

## YEAR END STATISTICS

as of June 30, 2001

**Active MSRS Members as of June 30, 2001**

State Employees	14,692
Teachers	34,064
PLD Employees	9,028
Legislative Members	171
Judicial Members	56

**Total Active Members 58,011**

**Recipients of MSRS Benefits as of June 30, 2001**

Service Retirees	23,287
Retiree Beneficiaries	3,175
Disability Retirees	2,096
Ord./Accidental Death Beneficiaries	1,008

**Total Benefit Recipients 29,566**

**WE WANT TO KNOW...**

Is this newsletter being sent to the correct address?

Is it being sent to the correct person or office?

If you are an employer, are you receiving enough newsletters to distribute to each of your employees?

If you answered "no" to any of these questions, please contact the MSRS at 800-451-9800 or (207) 287-3461 so we can update our records.



Maine State Retirement System

**Retirement News**

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You can reach the MSRS at 207-287-3461 or 800-451-9800 or (TTY only) 207-287-8446