



Maine State

# Retirement News

for Members, Retirees and Employers

Maine State Retirement System

November 2002

## MSRS Web Site is Launched

The Maine State Retirement System is pleased to announce the inaugural launch of our new internet Web site. Located on the internet at [www.msrs.org](http://www.msrs.org), the site is designed to provide members, retirees, participating employers, and other interested parties general information about membership in the Retirement System and a general understanding of the functions of the MSRS.

Navigating through the site you will find information about Retirement System operations, benefits, retirement related legislation, publications, forms, laws and rules, links to other related sites, and a listing of frequently asked questions (FAQs) with their answers.

The MSRS publications that are posted on our site include member handbooks, newsletters, annual reports, and forms that are available for downloading. Publications and forms are provided in PDF (Portable Document Format) files and may be accessed and printed by anyone with Adobe Acrobat® Reader® software. Adobe PDF is a universal file format that preserves all the fonts, formatting, graphics, and color of any source document regardless of the application and platform used to create it. The latest version of Adobe Acrobat® Reader® software can be downloaded from the site at no cost.

Information is also provided about legislation of interest to MSRS members. Specifically, there are laws enacted in recent legislative sessions back to the 1998 legislative session. This legislation can assist you in staying current with changes in

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*A REMINDER:  
NEW TELEPHONE NUMBERS at  
Maine State Retirement System!*

The new telephone numbers went into effect in July. Please make note of them:

**TELEPHONE: (207) 512-3100**

**FAX: (207) 512-3101**

**TTY: (207) 512-3102**

Our 800-number remains the same:  
**1-800-451-9800**  
(toll-free outside of Augusta, ME)

## Three Trustees Reappointed to System Board

Since the mid-1980s, the Retirement System's Board of Trustees has had a stability of membership not often seen on public boards or commissions that demand a significant commitment of time and effort of their members. The accumulation of knowledge and understanding that grows out of its trustees' long service has been the bedrock for the ongoing transformation of the System and all of its work. The recent reappointments of three of the System's Trustees mean that the bedrock of knowledge and understanding remain stable.

David S. Wakelin of South Portland was reappointed to the Board for a sixth consecutive three-year term. Mr. Wakelin came to the Board from service on the Monks Commission, established by the Maine Legislature in the mid-80s to analyze the condition and issues of the Retirement

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## Message from the Executive Director

Three different topics claim attention at the time this edition of our newsletter is being created.

The first is corporate governance. "Governance" has to do with how an organization - a club, an agency, a business, a government - defines its responsibilities and assigns accountability. "Corporate" governance has to do with responsibility and accountability in the world of business. As example after example of failed responsibility and accountability is uncovered, it has become clear that "corporate governance" in the world of U. S. companies whose stocks and bonds trade in the public investment markets is something to be very worried about. Even if they had no larger effects, these failures of ethics and instances of greed would be deeply offensive. But they are more than just individuals' failures. They are evidence of something fundamentally disturbed in the operation of our public financial markets.

Our market system is called a "free" market, but it is in fact a structured system of agreements and understandings that are intended to ensure that it functions in a particular way. Some of the understandings and agreements are as straightforward as the deal that is struck when an investor buys a share of stock. Other understandings and agreements are embodied in the

standards and rules of the formal regulatory system - the Securities and Exchange Commission, the stock exchanges, the financial accounting bodies, the requirements of the relevant laws. All of the understandings and agreements stand on the same foundation: trust. Without trust, the free market system cannot exist.

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System and recommend solutions for problems found. The work of the Commission made it clear that major changes were absolutely necessary. Mr. Wakelin has worked ever since to make change happen.

Catherine R. Sullivan of Portland and John S. Eldridge, III of Brunswick were first appointed to the Board in 1999 and 2000, respectively. Ms. Sullivan, a teacher and school administrator for 37 years, was re-appointed for a second three-year term to the seat that brings to the Board the perspective of the System's retired teacher constituency. Like all of the State's public school teachers, she was herself a System member, and she came to the Board with a range of experience and participation in organizations with public responsibilities. In addition to the separate sphere of her role as a trustee, she continues to be active on matters of education.

John Eldridge holds the seat that brings the perspective and experience of the participating local district world to the Board. Mr. Eldridge was first appointed to complete the unexpired current term of his predecessor, who had been a trustee for 11 years. In that initial appointment Mr. Eldridge served for two years and was thereafter reappointed to a full three-year term. Mr. Eldridge is Finance Director for the Town of Brunswick, a position he has held for 12 years. His career has been in public administration and he has served in various capacities in state and national professional organizations.

The other appointed trustees are John Kimball of Norway, who has been a trustee for 13 years; Peter Leslie of Cape Elizabeth, a trustee for four years; George Burgoyne of Bangor, a trustee for 13 years; and Eunice Mercier of Augusta, a trustee for ten years. As State Treasurer, Dale McCormick is a trustee for the two-year term for which the Treasurer is elected; she is in her second two-year term.

Let's go back to the straightforward basic deal: the investor and the company. "I will give you the use of this money," says the investor, "if you will one day give it and more back to me." "I will do that," says the company, giving the investor information to demonstrate that it can and will. The investor has little influence over how the company uses the money, how it goes about doing what it has said it can and will do. For the investors to be willing to enter into the deal (as in "we made a deal"), s/he has to be able to trust the company.

If investors are to trust, companies have to be trustworthy. Our market system has a kind of trustworthiness checklist: a company has to meet certain standards and requirements to even be in the public investment markets; a company has to regularly provide full, independently verified information on its operations and financial status; a company's management has a duty to operate the company in the interest of the company's stockholders; a company's board of directors has to represent the stockholders in overseeing how management operates the company. These checkpoints of trustworthiness are the fundamentals of corporate responsibility and accountability, that is, of corporate governance. Of them, the duty of company management and the duty of company directors to stockholders are the most important. Absent conviction that company management and company directors understand and act on their duty to stockholders, investors have no reason to invest.

Investors, in other words, hold the cards. They can play the hand by refusing to play - that is, by not investing. And, they can play the hand by insisting that the things that are supposed to ensure companies'

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## Impact of State Shutdown Days on Retirement

During the fiscal year that ends on June 30, 2003, as our state employee members are well aware, the State is slated to have a total of three shutdown days, also referred to as furlough days, as part of an overall strategy to cover a budget deficit. The first furlough day was July 5, the second was October 11 and the third is yet to be scheduled by the Governor. For most State employees these furlough days will result in three days of no work and no pay.

For those nearing service retirement, however, the implementation of these furlough days may have an impact on service retirement benefits in two areas:

**1. No service credit to furlough days if 30 days of unpaid leave has already been credited by the MSRS.**

For MSRS purposes, furlough days are treated the same as any other unpaid leave time. Because there are no earnings on those days, there are also no employer or employee contributions made to the MSRS for those days. By statute, members continue to accrue MSRS service credit for up to 30 days of unpaid leave in a given year. However, if a member has already been credited with 30 days of unpaid leave in a given calendar year, or in a school year for teachers in State institutions, he or she will not accrue service credit for any of the three unpaid furlough days. This means that the member's service retirement benefit will be slightly less than it would have been had there been no furlough days. In addition, such a member will receive three days less service credit than the member would otherwise receive.

**2. Slight reduction in average final compensation (AFC) if a furlough day falls within one of the "three highest years" of earnings.**

The retirement benefit that a member receives is based, in part, on a member's three highest years' earnings. An average is obtained by adding the three years of highest earnings and dividing by three to arrive at an average final compensation or AFC. One's earnings in the year in which there are furlough days will be reduced by three days of pay. How this impacts the benefit of a particular member depends on that member's individual circumstances. However, in general, a member who has a furlough day or days in a year used to calculate the AFC can expect that his or her AFC, and therefore benefit, will be slightly less than it would otherwise be.

If you have questions about your particular circumstances, please contact our Retirement Services State Unit.

## New Service Available to MSRS Members: Rollovers of Tax-Deferred Funds

In the March 2002 issue of *Retirement News* we advised you that the Retirement System had recently amended its policies regarding the acceptance of rollovers to the MSRS defined benefit plan from other qualified retirement plans. New federal tax laws had expanded the types of plans from which rollovers could be made. A rollover is a transfer of tax-deferred ("pre-tax") funds from one qualified retirement plan to another, generally without taxes or tax penalties. Funds from the following types of qualified tax-deferred plans can be rolled over to the MSRS: 401(a), 401(k), Governmental 457(b), 403(b), and Non-Roth IRAs (Individual Retirement Accounts).

The only circumstance in which the System accepts a rollover is as a payment for the purchase of MSRS service credit. Therefore, in order for you to roll qualified funds to the System, you must have eligible service available to purchase. The MSRS can provide information about what types of service credit are available for purchase or what the eligibility requirements are for making a purchase. Please note that the rollover amount cannot exceed the amount due to the MSRS for your service credit purchase, and that rollovers cannot be made after MSRS service retirement is effective.

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## Information Update for PLD Members in the Consolidated Plan

The September 2001 and May 2002 issues of the *Retirement News* included updates of legislation enacted by the 120th Legislature. As noted in those issues of the newsletter, the relevant new laws could not be applied to members of the Participating Local District (PLD) Consolidated Plan until such time that the Advisory Committee that is responsible for the design of the Consolidated Plan elected to modify the plan accordingly. The Advisory Committee has since met and recommended to the MSRS Board of Trustees that the Consolidated Plan, via amendment to the MSRS rule, be modified to include all relevant legislative changes. At its September meeting, the Board formally adopted those changes and concluded a rulemaking proceeding that amended Chapter 803 ("Participating Local District Consolidated Retirement Plan"). The new provisions of the rule went into effect on September 28, 2002.

The specific legislative changes, now part of Chapter 803 governing the Consolidated Plan, are listed below, as well as a brief summary of each change.

- Chapter 114:** Provides an additional method by which members may qualify to purchase military service credit.
- Chapter 181:** Establishes the CPI-U as the basis for cost-of-living increases and amends the requirements pertaining to continued MSRS service when military service occurs during a period of membership.
- Chapter 368:** Expands the classification of employees that may be covered by a special plan to include county corrections employees.
- Chapter 443:** Increases the amount that some disability retirees may earn without incurring a reduction in benefits.
- Chapter 699:** Repeals the restoration to service provision currently in effect for certain retirees.

An expanded explanation of the changes can be found in the previously mentioned issues of this newsletter. If you would like a copy of one of those issues, please let us know.

### *Web site continued from page 1*

retirement related laws. In addition, we feature a Frequently Asked Question (FAQ) section that provides a brief summary of the questions most frequently asked by our members and answers to those questions.

We have also included a number of links to Web sites maintained by other entities that we think may be of interest for retirement planning purposes. We have made it easy to go to another entity's site and return to your still-open MSRS site.

If you are looking for specific information on our site and are having trouble locating it, you can visit the site map. This map lists everything offered on our site and is grouped by topic for ease in locating specific information.

We encourage you to visit our Web site, which is our first step in a multi-step process intended to bring to you information and tools that can help you understand your benefits, stay current on benefit changes, as well as assist you in retirement planning. We intend to work diligently to increase the information and services we can provide to you on this site. Your ideas for what would be especially useful to you are very welcomed.

### *VISIT US ONLINE!*

Maine State Retirement Online is intended to inform members, retirees, employers, and the general public of the functions and benefits of the Retirement System. Included are informative pages on MSRS benefits, programs, downloadable forms, and more!

Check us out at:

**[www.msrs.org](http://www.msrs.org)**

## MSRS Moves to Electronic Storage of Membership Information

One of the major responsibilities of the MSRS is to receive and accurately preserve information about its members. Among the types of information that reside at the System are applications for membership, beneficiary designations and payroll information, including member contribution amounts, time worked and wages for each pay period. This information is all eventually needed to make benefit eligibility determinations for members.

Member records are maintained by the System in two ways. The MSRS Membership Record Keeping System (MRKS) is an electronic system that houses payroll and other information pertinent to individual members. Since the year 2000, employer payroll information has been processed into MRKS each month. A computerized back-up of the data in MRKS is prepared daily.

Until recently, paper records of all non-payroll-related documents (e.g. applications) were copied onto and stored on microfiche. Additionally, payroll information that pre-dates our MRKS system is also stored on microfiche. Microfiche is obsolete and the implementation of a digital imaging system has been in the planning stages for many months. We have recently begun to convert microfiche and all incoming paper documents into electronic images. MSRS will ultimately integrate the imaging system.

We are especially pleased to be underway with the imaging project since, as many of you may know, in April a fire destroyed storage space rented by the MSRS in Manchester, Maine. The warehouse space and all its contents were a total loss. The warehouse was used by the System to store back-up paper files, and some office supplies and office furniture. While all of the original member documents that were stored at the warehouse had previously been copied onto microfiche maintained at the System's main office in Augusta, nonetheless the fire did leave us with some members records on microfiche that now have no backup copy. Therefore our imaging project has become all the more critical in that it will fill this gap.

Electronic storage of membership information will provide greater safety and security in storing both original and duplicate copies of critical documents. It also will improve the staff's access to member information for the purpose of responding to member inquiries and processing retirement applications in a timely manner. You can rest assured that MSRS is taking every precaution to make certain that your retirement records are stored safely and securely for the long term.

### *Rollovers continued from page 3*

In order to initiate a rollover, you must first verify that you are eligible to purchase MSRS service credit. If we determine that you are eligible, we will quote you the cost for the purchase. If, upon receipt of the information about the cost, you are interested in a rollover as a payment method, you may request a Rollover Request/Certification Form. This form will require that your Plan Administrator certify that your funds are eligible for distribution to the MSRS. In addition, your current Plan Administrator may require you to complete forms specific to your Plan.

Directions for completing this transaction can be found on the Certification Form.

### **COLA Set at 1.1% As Law Requires**

At its meeting in August, the MSRS Board of Trustees adopted a cost-of-living adjustment (COLA) of 1.1% to be added to the benefits of all COLA-eligible MSRS benefit recipients, effective with benefits to be paid in September 2002.

The COLA rate, by state statute, must be set at the amount of the change in the Consumer Price Index for All Urban Consumers (CPI-U) for the 12-month period preceding each June 30.

State employee and teacher benefit recipients whose normal retirement age is 60 are eligible to receive a cost-of-living adjustment (COLA) in the first September after having been retired for at least 12 months. For example, if you retired on or before September 1, 2001, you received a COLA in September 2002; if you retired as of October 1, 2001, you will receive a COLA in September 2003. If, however, your normal retirement age is 62, you are not eligible to receive a COLA until at least 12 months after you reach age 62.

PLD benefit recipients who are covered by a retirement plan that includes the COLA provision are eligible to receive a COLA the first September after having been retired for at least six months. For example, if you retired on or before March 1, 2002, you received a COLA in September 2002. If you are unsure if your district has a COLA provision, check with your payroll office or the PLD Unit of the Retirement System.

*Executive Director's Message continued from page 1*

trustworthiness are actually worth something. In this game - the serious game in which public financial markets are at stake - institutional investors are very important players. "Institutional investors" are organizations that invest funds on behalf of groups of individuals.

Public retirement systems are one kind of institutional investor. The Retirement System is that kind of institutional investor: it invests funds as an organization on behalf of each and all of its individual members and retirees, that is, on behalf of you. There are several hundred public retirement systems in our country. Each is significant individually because of the numbers of people and amounts of investment dollars it represents. They are far more significant when they work and act together on issues of shared concerns. Public retirement systems aren't new to corporate governance concerns. They have worked for years on many of the problems that have recently become impossible to ignore. Because of their long and focused work, they have been able to be effective with the SEC, the New York Stock Exchange and the Congress to change some of the basic rules of the investment markets: standards and requirements for being a public company; requirements to disclose details of financial matters, including compensation; legal requirements and standards for the auditing of public companies. And, by their very nature, public retirement systems represent others - members, retirees, employers, taxpayers - in all aspects of their work. They can speak knowledgeably to corporate boards and corporate managements about the duties and responsibilities of representing others.

With its fellow public retirement systems, the Retirement System - its trustees and its staff - worked on the fundamental corporate governance issues. With its fellows, the System will continue to work on them.

Fiscal year 2002 was a year of negative investment return for the System. I am sure that that will come as no surprise. The System's assets are invested in the U.S. and international equity and fixed income markets. For the second year in a row, the markets declined and therefore the value of the System's assets declined. The negative 7.5% return at June 30, 2002 was slightly better than the negative 7.8% return at June 30, 2001.

The last two years are important; their effects will be felt for several years. Nevertheless, it remains important to remember that the Retirement System is a very long term investor. Any one- or two-year period has to take its place in a far longer time frame. Here is one such frame: over the last ten fiscal years, including the losses of 2001 and 2002, the value of the System's assets has increased by an average of \$400 million per year.

Finally, our new Web site. I know that some of our members and retirees think it's overdue. As for us, we're glad to have a web presence and, to be honest, we think we've gotten there in just about the right order of priorities. Visit us there! You'll find our site has the basic Web site characteristics: lots of information, described and laid out to be readily usable, gettable at all hours of the day and night. In future, it will become interactive, able to do things in addition to being an information source. Some of the key interactivity - for example, a benefits estimator - is closely related to our automation project, as the necessary data and processes are very similar. Again, visit us at [www.msrs.org](http://www.msrs.org)! And let us know what you think!

  
Executive Director

**MSRS Contact Information****SPECIALIZED MSRS UNITS**

For State Employee, Legislative  
or Judicial Members:  
(207) 512-3158

For Teacher Members:  
(207) 512-3159

For Participating Local  
District (PLD) Members:  
(207) 512-3247

**OTHER PROGRAMS**

Group Life Insurance:  
(207) 512-3244

Disability:  
(207) 512-3170

All other inquiries should be made  
to the following main numbers:

Main: (207) 512-3100  
Toll-Free: 1-800-451-9800  
Fax: (207) 512-3101  
TTY: (207) 512-3102



Maine State Retirement System

**Retirement News**

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