Maine State
Retirement News
for Members, Retirees and Employers

Maine State Retirement System Spring 2005

CHANGES ANNOUNCED TO THE MSRS BOARD OF TRUSTEES

Three new members have joined the MSRS Board of Trustees, replacing three long-time Trustees.

David G. Lemoine

David G. Lemoine, as new State Treasurer, has become a Trustee of the MSRS, succeeding the former State Treasurer, Dale McCormick. The State Treasurer serves ex officio as a member of the Board of Trustees of the Retirement System. Mr. Lemoine took office as Maine's State Treasurer on January 7, 2005. He served in the 119th, 120th and 121st Maine Legislatures representing the community of Old Orchard Beach, Maine. Mr. Lemoine's legislative service included House chairmanships of the Taxation Committee, the Marine Resources Committee and the House Elections Committee. He also served on the 2002 Legislative Apportionment Committee and on a number of legislative task forces.

Benedetto "Ben" Viola

Benedetto "Ben" Viola was named as a Trustee of MSRS by Governor Baldacci effective in April, 2004. Mr. Viola serves in the position reserved by statute for "a state employee… who is duly elected by the Maine State Employees' Association." He is a Registered Professional Engineer and works as an Environmental Engineer in the Southern Maine Regional Office of the Maine Department of Environmental Protection in Portland.

Kenneth L. Williams

Kenneth L. Williams, the System's newest Trustee, was named by Governor Baldacci effective in May, 2005. Mr. Williams is a 20-year veteran of middle school education, all at Nobleboro Central School. He taught environmental education before public school work and currently leads wilderness trips for eighth graders. Other board work for Mr. Williams has included the Pemaquid Watershed Association and the Maine Education Association. He is currently a Director and partner teacher for the Maine Lakes Conservancy Institute and Maine's public school laptop program has been a focus for him over the last three years.

Catherine R. Sullivan of Portland was reappointed for a third three-year term to the seat that brings to the Board the perspective of the System's retired teacher constituency. Peter Leslie of Waterford, a retired investment banker and ten-year veteran of the Board, has been elected Vice Chair of the Board. In this capacity, he succeeds to the office being vacated by retiring Trustee John Kimball. Mr. Kimball, a recently retired teacher from the Leavitt school system and veteran Trustee of 16 years, is now enjoying his retirement.

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INSIDE...A SPECIAL MESSAGE FROM KAY EVANS *(See Page 2)*

Message from the Executive Director

Many issues ago, I wrote my first "Message from the Executive Director" for the *Retirement News*. The Message you're now reading is my last as Executive Director. By the time this issue of the *News* is in your hands, I will have left my work as Executive Director of the MSRS. In leaving, I want to say a few things about the System and to speak briefly on a personal note.

It is to the credit of the MSRS Board of Trustees and to the MSRS staff that the System has become a very different organization over the last several years. All of the Trustees who have served on the Board in the years since the mid-1980s have seen clearly the great need for great change. Led during almost all of the years since the mid-'80s by David Wakelin, who has been a Trustee for 17 years and Board chair for 13 years, the Trustees provided the mandate and the means for change. To a person, they have been fundamentally engaged by and supportive of the ongoing processes of creating change. No real change could have been made had the Board not been so committed to having the System become a skilled and effective organization and had it not understood so well that becoming that organization would be a long and gritty process.

Meanwhile, in the trenches, the Retirement System staff showed the same tenacity. Over these years, the staff has not only made change happen; it has endured change, with the sometimes profound effects that change can have on work lives. In making change happen, staff members made very significant demands on themselves, demands that were always new and that were often additive to existing demands.

Staff members' capacity to engage with the System's ongoing daily work and at the same time with its future is extraordinary.

The System's members, employers and retirees and the State's taxpayers have benefited greatly and concretely, and will continue to benefit, from the Trustees' persisting determination that real change would, and will, get made, and from the staff's persisting capacity to engage both present and future and to make real change happen.

I want to speak to an aspect of the MSRS of which you, the System's members, employers and retirees, are probably not aware. Over the years, I have become familiar with other state-wide public pension systems and how they are operated at the Board/Trustee level. From this familiarity, I know that the MSRS as it is currently operated is very unusual, if not unique. The nature of its uniqueness is this: When its Board members sit down as Trustees, their individual and collective focus is on the best interests of the MSRS and all of its members. While they are always aware of their responsibilities to their separate constituencies, they do sit down at the Board table without hidden or 'political' agendas, organizational or personal. They work from the larger perspective that operating an efficient, effective Retirement System which deals in a consistent manner with <u>all</u> of its constituencies is the best way to serve <u>each</u> of its constituencies.

This observation is not mine alone. Many of the System's consultants and contractors--those with longstanding relationships with the System and those whose relationships are project-oriented and briefer, all of whom have worked with many other public pension organizations--have made the same sort of observation to me. This place is different, they have spontaneously said, describing in various ways the uniqueness that I have described above. The value of this uniqueness cannot be overstated.

As for the personal, but for the emergence last fall of ovarian cancer, and the subsequent chemotherapy and its effects, I would not be leaving now as Executive Director. The upshot of all of these is that I cannot do the work of an Executive Director at the level of energy and stamina that it needs for the System to be well-served. For me, there is the regret of leaving and of the reason for leaving. But, I have no doubt or hesitancy or concern about the people who remain at the System as its staff, and neither should any of you. The System's senior management is excellent by every relevant measure. It directs an excellent operational staff. Your MSRS is in the best of hands.

THE UNFUNDED ACTUARIAL LIABILITY OF THE PENSION PLAN

Again this year, the Maine State Retirement System figured prominently in State budget conversations. This is in major part because retirement contributions for State employees and teachers are significant State budget items in two ways. First, costs must be paid each year to cover benefits that annually accrue to every member earning service credit in the MSRS. Second, periodic payments are made by the State to pay the *Unfunded Actuarial Liability*, or UAL. The UAL is a subject of major importance to all potential retirees of the MSRS.

What is the UAL and what does it mean to members?

In the recent discussions concerning the State biennial budget, the press on many occasions spoke of "the Retirement System's debt," an inaccurate reference to the Unfunded Actuarial Liability. Because talk of large debts in connection with members' retirement funds can create anxiety, some explanation is in order. In fact, neither the Retirement System nor the retirement funds are "in debt."

The UAL is an estimate, made by the independent actuaries, of the amount by which the anticipated benefits payments to future retirees will exceed the amount in the retirement funds (current funds, and anticipated future contributions and investment earnings). It is a gap between the promised benefits and the amounts secured to pay those benefits; in the case of the UAL of the State employee and teacher plan, it represents an outstanding obligation of the State to the plan and its members. It is, in effect, an IOU *to* the plan *from* the State of Maine. By virtue of a provision made part of the State Constitution in 1995, it is an IOU that must be paid off by 2028.

The State makes regular payments toward the UAL every month, and from time to time makes "extra" payments, such as when there is an unallocated surplus at the end of a fiscal year, usually as the result of unanticipated State revenue. In addition, whenever the System's investments exceed their actuarial targets, the added income reduces the UAL.

What is the "reamortization" of the UAL?

The UAL can be compared in some ways to a mortgage that the State pays off to the Retirement System. Just as a homeowner might refinance a 15-year mortgage to a 30-year mortgage to reduce the monthly payment, the Legislature can choose—within the 2028 constitutional limit—to shorten or lengthen the period for payoff of the UAL. When the constitutional limit was set in 1997, the State had a 31-year mortgage. When State coffers were full, the Legislature shortened the period—once, to 25 years, and later, to 19. In the last biennium, the Legislature once again extended the pay-off period to the constitutional limit, but only for the current biennium. Most recently, the FY 2006-2007 budget made the extension permanent—although, of course, a future Legislature could shorten the period again. As with a mortgage, lengthening the payoff period for the UAL reduces current payments but increases the total cost, and making larger-than-required payments makes it likely the UAL will be paid off sooner.

What does this mean for retirement benefits?

Members' benefits are determined by the law, and in particular, the law in effect when their rights become "vested." The promise of benefits that the State makes to MSRS members—in general, to pay a member a certain percentage of the member's *average final compensation* multiplied by the number of *years of creditable service*—creates obligations for payments in future years. The existence of the UAL doesn't affect the State's obligation to keep its promise to pay benefits, and benefits aren't affected by the existence of a UAL. The significance of a commitment to "pay down" the UAL is that the State seeks to have a fully-funded pension plan, so that as the money is needed to pay benefits, it is available from the MSRS trust funds and investments, and doesn't require large appropriations from the general fund budget. By making constant contributions toward the UAL, the State is working now to ensure that result in the future. This is in contrast to, for example, the Social Security system, where current retirees' benefits are funded *by current employees*, not from the retirees' and employers' invested contributions.

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UAL **continued from page 3**

What happened with the proposal to use retirement funds to purchase lottery revenues?
The proposed State biennial budget submitted earlier this year by the Governor included a proposal to "securitize" lottery revenues for a period of time in order to fund portions of the next biennial budget. Specifically, the Maine State Retirement System or other investors would pay $250 million in exchange for a promise to receive a large portion of the State's income from the lottery over the next several years. Estimates were that $400 million or more of lottery revenues over a ten-year period would have been used to repay the $250 million advance. The MSRS and the Attorney General identified a number of legal issues that such an investment would raise for a State-sponsored pension fund, and ultimately, the Legislature and the Governor adopted an alternative proposal that does not contemplate use of retirement funds. As this newsletter goes to print, there is still uncertainty as to the ultimate solution that will be settled on by the Legislature to raise this additional money.

PRE-RETIREMENT DEATH BENEFITS

Individuals who become members of MSRS are asked to complete several different forms as part of the process of joining the System. One of the forms to be completed is entitled *Designation of Beneficiary: Pre-Retirement Death Benefits*. Completion of this form provides a member with the opportunity to tell us how he or she would like to see any available membership benefits paid out in the event of a member's death prior to retirement.

For an active member, disability recipient, or inactive member whose contributions remain at the System, payment of benefits in the event of death is based on member status and the written designation of beneficiary. Payment is made based on the last completed *Designation of Beneficiary: Pre-Retirement Death Benefits* form received at the MSRS prior to a member's death. Benefits available may include a lifetime monthly reduced retirement allowance, a lump sum of the deceased member's contributions and interest, or a monthly survivor benefit, which is an amount of money established in statute and based solely on the relationship between a member and his/her designated beneficiary. Care should be taken to review or update beneficiary designation(s) after a life changing event, such as marriage, divorce, death, birth, or dependent children reaching majority. Change of beneficiary forms are available from member's local payroll office, the MSRS office, or may be downloaded from our web site, www.msrs.org. A designation of beneficiary form should not be used to name a guardian or conservator for dependents. The back of the form should be reviewed carefully before the form is completed.

Having multiple beneficiaries named may mean a reduction in benefits or, in some instances, may even prevent payment of any monthly survivor benefit, depending on the relationship of the beneficiaries to the member. Care should be taken if the member has dependent children and designate someone other than your spouse. The benefits available to this designee will not be the same as those available to dependent children. The back of the form provides additional information in this area and the MSRS Survivor Services Unit can be contacted for assistance.

Payment is made on a survivor basis. If the primary beneficiary predeceases the member, payment will be made to the member's contingent beneficiary. If no one is designated or all beneficiaries designated predecease the member, payment will be made to the first living spouse, children, parents, or if none of these beneficiaries are living, a lump sum payment will be made to the member's estate.

In case of death due to a work-incurred illness or injury, the applicable accidental death benefits may be paid in lieu of any other benefit to a surviving spouse and/or dependent children.

New Trustees **continued from page 1**

Other outgoing Board members include: Dale McCormick, a member of the Board as the State Treasurer, who, due to term limits, was succeeded by David Lemoine, current State Treasurer. Governor Baldacci recently named Ms. McCormick to be the Director of the Maine State Housing Authority (MSHA). George Burgoyne who was a member of the Board for 15 years and is with the Department of Human Services in Bangor, left the Board in early 2004. Mr. Burgoyne has also been active on the State's Tax Deferred Arrangements Council.

The remaining trustees are: David Wakelin of South Portland, present Chair of the Board, Trustee for 17 years, of which 13½ have been as Chair; John Eldridge II of Brunswick, Trustee for 4½ years; and Eunice Mercier of Augusta, Trustee for 13 years.

MSRS would like to acknowledge the outgoing Board members for their time and dedication and welcomes the new Board members to the System.

NEW EXECUTIVE DIRECTOR NAMED

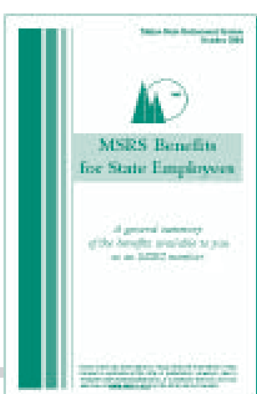
Former Chief Deputy Executive Director Gail Drake Wright, a long-time deputy of the Maine State Retirement System, has been named by the Board of Trustees to succeed Kay R. H. Evans as Executive Director of the System.

NOTE TO EMPLOYERS

Please report any employer address changes to the MSRS Employer Services Unit immediately.

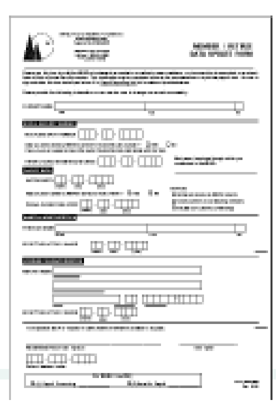
NEW MSRS PUBLICATIONS

New editions of ***MSRS Benefits for State Employees*** and ***MSRS Benefits for Teachers*** have been posted to our web site at www.msrs.org. Members may view and download these new editions found in the Publications section. In addition, the ***MSRS Comprehensive Annual Financial Report*** *(for the fiscal year ended June 30, 2004)* is available.



ATTENTION MEMBERS

We need your help to make sure that we continue to maintain a current address for you on file. Please notify us immediately when your address changes by completing the MSRS Member/Retiree Data Update form. The form is available through your employer, or you can download it from the Forms section of our web site. An alternative option is to contact the MSRS Employer Services Division at 1-800-451-9800.



Mailing Dates for Benefit Payments

As a general rule, the MSRS issues benefit payments on the next to the last day of the month. When the next to the last day is a Saturday, Sunday, or a holiday, payments are delivered on the next earlier business day. For the remainder of 2005, payments will be issued on the following dates:

June 29, 2005*	September 29, 2005*
July 29, 2005*	October 28, 2005
August 30, 2005	November 29, 2005
	December 30, 2005*

* An advice of deposit memo will be issued on these payment dates.

2005 Holiday Schedule

The MSRS office will be closed in observance of the following holidays for the remainder of 2005:

Independence Day	Monday, July 4th
Labor Day	Monday, September 5th
Columbus Day	Monday, October 10th
Veterans Day	Friday, November 11th
Thanksgiving Day	Thursday, November 24th
Thanksgiving Friday	Friday, November 25th
Christmas Monday	Monday, December 26th

Maine State Retirement System
Retirement News

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Retirement News is intended to provide timely information about the MSRS to members, employers and retirees. For the most complete and up-to-date information, please contact an MSRS representative. The contents should not be considered the basis of any contractual rights between the MSRS and its members. The official wording of the laws of Maine will govern.

The Maine State Retirement System does not discriminate against people with disabilities in its programs, activities, or employment. *Retirement News* can be made available in alternative formats. If you have such a request, please contact the Communications Unit.

SPECIALIZED MSRS UNITS

Retirement Services
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

Employer Services
(207) 512-3200

OTHER PROGRAMS

Group Life Insurance
(207) 512-3244

Disability
(207) 512-3170

All other inquiries should be made by calling the following numbers:

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

www.msrs.org

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