Maine State
# Retirement News
for Members, Retirees, and Employers

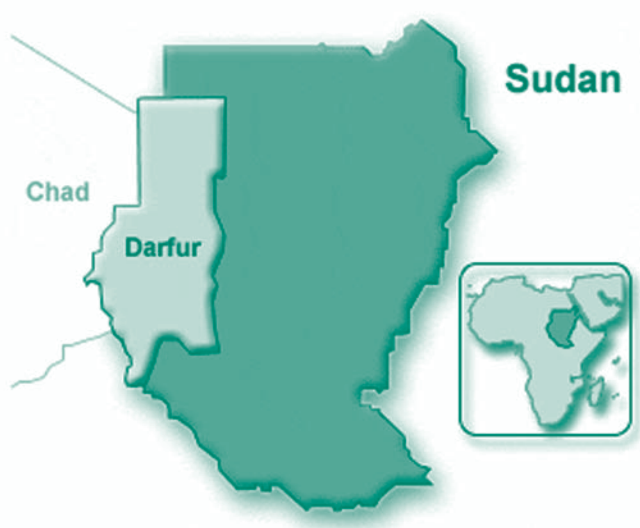
Maine State Retirement System Summer 2006

## LEGISLATURE DIRECTS ACTION ON INVESTMENTS IN SUDAN

Responding to a new law, MSRS has begun work toward divestment of pension assets of companies doing business in or with the African nation of Sudan. Divestment must be completed by January 1, 2008.

The legislation, codified at §1956 of Title 5 (P.L. 2005, c.578; see *Legislative Summary* on page 3), was passed in the Second Regular Session of the 122nd Maine Legislature. It echoes laws passed in Illinois, Oregon, New Jersey, Arizona, and Louisiana, and under consideration elsewhere, in response to a humanitarian crisis in that country, and particularly in its Darfur region. Proponents believe that through economic pressure, similar to that exercised in years past with regard to Northern Ireland and South Africa, the Sudanese government will be compelled to implement reform.

**The Crisis in Darfur.** Sudan is the largest country in Africa by area, located directly South of Egypt, and with a population of about 40 million. Its capital is Khartoum. Within the 967,500-square mile nation (about one-third the size of the Continental U.S.), there is an area in the West known as Darfur, meaning "the homeland of the Fur." The Fur are a people concentrated in the area and the neighboring country of Chad. Sudan experienced civil war between the primarily Arab north and the Christian and animist south for nearly all of its history since independence from Britain in 1956, concluding with a treaty in 2005. Beginning in 2003, hostilities broke out between rebel forces in the Darfur region and pro-government forces, including local Arab militias called the *janjaweed*. Since fighting began, there have been widespread reports of rape, killings, and other atrocities committed against residents of the region, and displacement of millions.




**Implementing the New Mandate.** Maine's new law, which becomes effective in August, requires the MSRS Trustees, "in accordance with sound investment criteria and consistent with the board's fiduciary obligations," to divest direct holdings of the securities of firms doing business in or with the government of Sudan over the next 16 months. Certain indirect holdings, such as the System's interests in index funds and commingled investment funds, are exempt. MSRS must report to the Legislature on its progress in January of 2007 and again in 2008. Determining the list of covered companies from the diverse MSRS portfolio is therefore the first challenge.

In the years since Maine and other states sought to influence human rights policy in Northern Ireland and South Africa through investment decisions, the global economy has become even more interconnected. When South Africa held its first interracial elections in 1994, for example, the World Wide Web was in its infancy. Since that time, globalization has made most large companies multinational, and investments no longer respect national borders. MSRS investments include both multinational "American" companies, like Coca-Cola and Intel, with worldwide operations, and international investments, like Deutsche Bank and bonds issued by the government of France. The activities of these companies and entities span every part of the globe. The Sudan legislative mandate requires identifying those that relate to this troubled country and

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# Message from the Executive Director

I have received some telephone calls in the past several months from members concerned about the funding of the Maine State Retirement System and the System's ability to meet its long-term obligations to pay retirement benefits. The steady stream of articles in the press about some private corporations and their poorly funded and failing defined benefit plans seems to be fueling this concern.

I want to use my message in this issue of our Newsletter both to provide information about the funding of the defined benefit plan for State employees and teachers and offer some reassurance about future funded levels.[1] This plan has a funded level of 71%, last measured on June 30, 2006. This level is updated every year once June 30 data become available. While 71% is not 100%, the progress in improving this funded level has been sure. (For example, at June 30, 1990 it was 34%.)

The funded level is based on many projections, using complex actuarial techniques, including projections of how many dollars in retirement benefits the Maine State Retirement System will pay to retirees in the future and how much the System will earn on its investments of the assets already in the Trust Fund over the same future period. In general terms, the funded percentage is a measure of assets, including projected investment earnings, compared to the projected future payouts to members (that is, projected "liabilities"). In actuality, there are more complex facets of the funded percentage such as accounting for projected retirement contributions by the State and members, but that is the general concept.

This percentage is called an "actuarial" funded level because it is built on all these multiple projections by the actuary. To project what future payouts in retirement benefits for retirees will be, the actuary takes each member of the System and projects a future benefit and expected life span for that member. In the aggregate, these separate projections, after offsetting employer and member projected contributions, when compared to the dollars MSRS is projected to accumulate over the same time period give a measure of how well funded the plan is. These projections are trued up every year resulting in variation of the funded percent from year to year.

I would like to focus on a particular aspect of this 71% actuarial funded level that is unique to Maine. This is the requirement in the Constitution of the State of Maine that the State pay off any liabilities that are not funded by the Year 2028. This unfunded amount is generally referred to as the unfunded actuarial liability or "UAL" and it represents the obligations that do not have projected assets to cover them. A schedule of payments on this UAL, which dictates how much the State must pay each year against this shortfall, is constitutionally mandated and has been in place since July 1, 1997. This requirement to pay down these monies owed is an insurance policy for members on the funding of the Plan.

The schedule for payment of the shortfall is for 31 years and we are presently on the ninth year. This means that in 22 years, as required by the constitution, the State Employee/Teacher Defined Benefit Retirement Plan is intended and expected to be fully funded. There will of course be variation from year to year when actual investment experience over those years replaces the projections in the calculations, and when changes in projections for future payouts and some additional complexities in the constitutional requirements are taken into account, but members can rest assured that there is a mandatory, clear path and commitment to full funding of this defined benefit plan.

Unlike private pension plans, your MSRS benefit has the State of Maine behind it, prepared to deliver on its promises to members and retirees. By continuing to make extra contributions to reduce the UAL today, the State is ensuring that funding is adequate to provide these promised benefits in the future without a sudden jolt to the State treasury. Maine has chosen this route, rather than to defer the problem to a future generation to solve, as is the case with some federal programs. When you read news accounts of pension failures and Congressional responses to the problems, you should be reassured by the steps that Maine has taken to avert any crisis in the years ahead.

Gail Drake Wright

[1] Note that I am talking only about the defined benefit plan for State employees and teachers. The plan for legislators is fully funded every year. On June 30, 2006, the Judicial Plan was fully funded; the Consolidated Defined Benefit Plan for participating local districts is funded at a level greater than 100%.

# 2006 Legislative Update

**Legislation Enacted in the**
**Second Regular Session of the 122nd Legislature**
**Effective date of all bills: August 23, 2006**

## An Act To Require the Maine State Retirement System To Divest Itself of Holdings in Those Businesses or Corporations Doing Business in the Nation of Sudan and To Repeal Requirements Relating to Shareholder Initiatives by State Officials on State Investments in Northern Ireland

PL 2005, Chapter 537 [LD 1758]

This bill requires the Board to review the System's investments and to determine the extent to which assets are invested in companies doing business in or with Sudan. Where such actions can be accomplished consistent with sound investment policy and its fiduciary responsibilities, the Board will divest the System of any such holdings. Certain types of holdings are exempted from this divestiture requirement. Divestment must be complete by January 1, 2008 and the Board must report on the progress of the divestment on January 1, 2007 and each January 1st thereafter. This divestiture requirement is repealed July 1, 2009. *See related article on page 1.*

## An Act to Clarify the Change of Beneficiary Provision in the Maine State Retirement System Laws

PL 2005, Chapter 560 [LD 1850]

This bill amends the conditions under which a retirement beneficiary can be changed. Under current law, if a spouse or former spouse is the named retirement beneficiary, that beneficiary designation can be changed only with the consent of the beneficiary. Under this new law, spousal consent is required only if the designated beneficiary was the spouse at the time that the designation occurred (i.e. at retirement).

## An Act To Implement Task Force Recommendations Relating to Parity and Portability of Benefits for Law Enforcement Officers and Firefighters

PL 2005, Chapter 636 [LD 1021]

Part A of this bill establishes a program to subsidize retiree medical insurance for municipal and county law enforcement officers and municipal firefighters. Eligibility to participate in this new program is directly linked to the retirement eligibility provisions of the retirement plan by which an individual is covered or from which retirement occurs. This new program will be administered by the State Division of Employee Health and Benefits and goes into effect on July 1, 2007. Questions regarding participation in this new program should be directed to that Division at (800) 422-4503.

Part B of this bill permits certain members to purchase portability of retirement service credit. In order to be eligible to make such a purchase, the member must be covered by a retirement plan that is also eligible for participation in the retiree health insurance program referenced above.

## An Act To Facilitate the Regionalization of Emergency Communications Dispatching Services

PL 2005, Chapter 668 [LD 2086]

This bill permits public safety communications dispatchers who move from a participating local district (PLD) to the Department of Public Safety (DPS) as a result of the consolidation of dispatching services to elect to have their PLD plan service made portable to their State plan. For those who make such an election, the Department of Public Safety will pay the additional employer liability associated with the portability of service.

## MSRS CONDUCTS EXPERIENCE STUDY

The defined benefit plans administered by the Maine State Retirement System are funded based on complex analyses and projections by its actuary regarding the amount of funds the System is expected to have on hand over time and how much it will pay out in retirement benefits (see the *Executive Director's Message*). The System periodically conducts an "experience study" to look at whether these analyses and projections are resulting in the most accurate measurement of projected long-term payouts in retirement benefits and whether the correct levels of contributions are being made to fund these future obligations. This study examines the actual experience of the System in several areas and compares that experience to what had been projected. If this comparison reveals discrepancies, adjustments are made in assumptions that have been used in the projections, which in turn results in corrections in the amount of dollars public employers must pay to the System to fund the defined benefit plans.

Both demographic and economic factors affect the plans' long-term obligations. Demographic factors include whether members are retiring at the age or with the years of service at which they have been anticipated to retire and whether people are living as long or longer than anticipated life expectancies. Economic factors include how actual investment earnings compare to expected investment returns and how salary increases compare to projected increases.

The System recently completed an Experience Study that looked at these, as well as other factors for the period July 1997 to June 2005. One of the most interesting findings relates to the demographic assumptions and the common view that the "baby boomer retirement bubble" will add significant funding pressure to pension systems. The Study showed that, for the period studied, rates of retirement are not increasing and, in fact, individuals are working longer, often well beyond the point that they are eligible to retire. This finding is true in all plans administered by the System. Not only are individuals working longer, but in general, they are also living longer. Taken together, later retirements and longer life expectancy have somewhat offsetting effects on a retirement plan when looking at funding. Individuals working longer results in more employee and employer contributions being paid into the plan. At the same time, longer life expectancy results in the System paying retirement benefits over a longer period of time.

The Study also found that for some economic assumptions, projections did not match actual experience. For example, an analysis of the investment history of MSRS and other public funds' investment returns, as well as the forecast for future investment returns, showed that an adjustment to the investment return assumption would be prudent. As a result of the Study, the annual investment return assumption was changed from 8% to 7.75%. Another factor that influences Plan funding is projected salary growth. The Study showed that, for the period studied, salaries did not increase as much as projected. This resulted in a reduction in the assumption the actuary makes for future salary increases from 5.5% to 4.75%.

In an Experience Study, each assumption is looked at individually and also as part of a whole. A look at the past actual experience allows a more accurate projection of future experience. The result is the ability to project more accurately the expected long-term financial position of the retirement plan. When taken in combination with the annual measurements taken of the funded status of the plan, this study allows the System to stay the course of ensuring financial viability of the retirement system, which translates into protecting the benefits of our members and retirees. We thought that you would like to know that we continually and actively monitor the retirement plans and perform periodic check ups to ensure that they remain the plans upon which you can rely.

## INTEREST RATE CHANGE

The interest rate charged by MSRS for the purchase of creditable service has been reduced by the Board of Trustees from 8% to 7.75% effective July 1, 2006. This reduction stems from the results of the System's recent Experience Study. Read more about the results of the study in the *Experience Study* article.

## RETIREES AND HEALTH INSURANCE

Although a retiree's health insurance premium may be deducted from his/her MSRS benefit check each month, the MSRS does not administer any health insurance program. You should direct all questions regarding health insurance to the administrator of the health insurance program under which you are covered. For a list of various administrators, visit www.msrs.org/general_faqs.htm.

*Sudan* **continued from page 1**

discontinuing those investments when divestment falls within sound investment criteria and is consistent with the Board's fiduciary obligations to its members.

States like Illinois and others listed earlier, as well a number of private colleges and endowments, are working on divestment initiatives and developing lists of securities to exclude from their portfolios. In some cases, the mandate is to divest of all Sudan-related enterprises. In others, the trustees have discretion to target only companies whose activities support the Sudanese government, or to exclude companies engaged only in humanitarian work (perhaps providing medical supplies and equipment) or with incidental or indirect ties to Sudan. MSRS is reviewing some of these lists, developing its own, and formulating a strategy to prioritize and evaluate investments for divestment before 2008. In January, the System will report on its progress to the Legislature.

*For more information about the situation in Sudan, visit the United Nations Sudan Information Gateway,* www.unsudanig.org*, or the UN Office for Coordination of Humanitarian Affairs,* www.irinnews.org.

## Trade Association Sues to Block Illinois Divestment Law

The Washington-based National Foreign Trade Council (NFTC), a trade group of Fortune 500 companies, is instituting a court challenge to the first-in-the-nation Illinois law banning Sudan-related investments of public pension funds. Based on a U.S. Supreme Court case in 2000 striking down a Massachusetts law against contracting with companies having ties to Burma, the NFTC is challenging the constitutionality of the state's entry into the arena of foreign policy.

## TRUSTEES SET COLA AT 4%

At its July meeting, the MSRS Board of Trustees adopted a cost-of-living adjustment (COLA) of 4% for all eligible MSRS benefit recipients. The COLA takes effect with the September 2006 benefit.

Maine law directs the Board of Trustees to make an adjustment, not to exceed 4%, whenever there is a change in the Consumer Price Index (CPI) for the period July 1-June 30. The statute directs the MSRS to use the Consumer Price Index for All Urban Consumers (CPI-U). This index reflects changes in purchasing power for the largest group of consumers, including retired persons. This year the CPI-U increase is 4.3%, which is over the 4% cap set by law.

When the rise in CPI-U is more than 4%, the Board must submit a supplemental budget request to the Governor for the extra funds to cover the full amount of the COLA for State, teacher, and legislative retirees. For eligible participating local district and judicial retirees, the law requires MSRS to report to the Legislature. The earliest the Legislature would consider COLA matters would be in its next session beginning in January 2007.

State employee and teacher retirees whose normal retirement age is 60 are eligible to receive the cost-of-living adjustment in the first September after having been retired for at least 12 months. For example, if you retired on or before September 1, 2006, you may receive a COLA in September 2007. If you retire as of October 1, 2006, you may receive a COLA in September 2008. If your normal retirement age is 62, you are not eligible to receive a COLA until at least 12 months after you reach age 62.

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## *WELCOME!*

The System extends a warm welcome to new and returning Participating Local District (PLD) members and their employers. Effective July 1, 2006, the **North Berwick Water District** and the **Town of Windham** became the newest employers to join the PLD Consolidated Plan. Returning to MSRS are **Franklin County**, the **Town of Limestone**, **Waldo County**, the **City of Westbrook**, and the **Westbrook Fire and Police Departments**.

# CHANGING FACES

On June 15, a changing of the guard occurred at the MSRS reception desk. Judy Ronco, the "face of MSRS" for many years, began her own retirement adventure. Filling the role she left behind is Diane Glidden, another long-time MSRS employee.

Diane's name will be familiar to many State employees as the knowledgeable voice callers encountered whenever they called MSRS. Diane, a long time local resident, has been with MSRS since 1990. She worked for six years with MSRS Benefits Payroll and another ten years in the Retirement Services unit. When asked about her new position Diane says, "I think the best part of my new duties is that I'm still doing what I like best, which is helping our members, but now I get to talk with them face to face."

*COLA* **continued from page 5**

Participating Local District (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 and annually thereafter. For example, if you retired on or before March 1, 2006, you will receive a COLA in September 2006.

If you do not know if you are eligible for a COLA, check with your payroll office or contact the MSRS.

Maine State Retirement System
Retirement News

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**Retirement Services**
State Employee, Legislative or Judicial Members
(207) 512-3158

Teacher Members
(207) 512-3159

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

**Employer Services**
(207) 512-3200

**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

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