Maine State Retirement System

Comprehensive Annual Financial Report

2006

For the Fiscal Year Ended
June 30, 2006

A Component Unit of the State of Maine

MAINE STATE
RETIREMENT SYSTEM

A Component Unit of the State of Maine

46 State House Station
Augusta, Maine 04333

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2006

Prepared by:
MSRS Department of Administration

Public Pension Coordinating Council

Public Pension Standards

2006 Award

Presented to

Maine State Retirement System

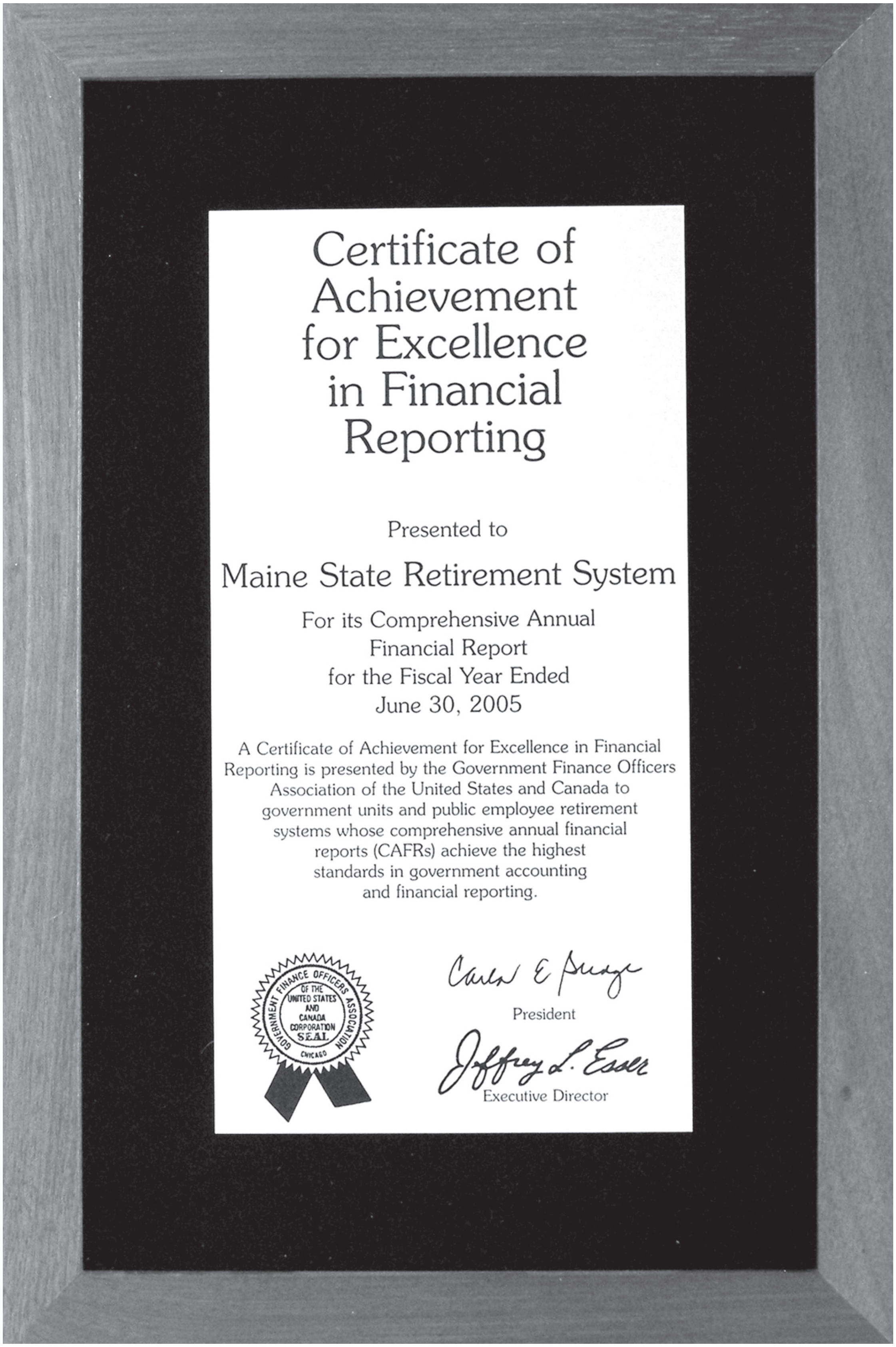
In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator


Certificate of Achievement for Excellence in Financial Reporting
Presented to
Maine State Retirement System
For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.
GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO
Carla E. Sludge
President
Jeffrey L. Esser
Executive Director

Note: Clicking on any item in the Table of Contents will jump you to that page.

Cntrl-Home will return you to the beginning.

MAINE STATE RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2006

TABLE OF CONTENTS

INTRODUCTORY SECTION

MSRS
MAINE STATE RETIREMENT SYSTEM

Gail Drake Wright, *Executive Director*
John C. Milazzo, *Chief Deputy Executive Director and General Counsel*

LETTER OF TRANSMITTAL

December 1, 2006

In accordance with the requirements of 5 M.R.S.A. §17102, I am pleased to present the Comprehensive Annual Financial Report ("CAFR" or "Annual Report") of the Maine State Retirement System ("MSRS" or the "System") for the fiscal year ended June 30, 2006. This report is written so as to conform to the requirements of the Governmental Accounting Standards Board (GASB). MSRS management takes full responsibility for the accuracy, completeness and fairness of the representations made in this report.

This CAFR, taken as a whole, provides details on all aspects of the System. The Introductory Section presents this Letter of Transmittal, identifies the members of the System's Board of Trustees, sets out the System's senior administrative staff, provides an organizational chart, lists the principal professional consultants who provided services to the System in FY 2006 and includes a legislative update on the second regular session of the 122nd Maine Legislature. Also in the Introductory Section as an attachment to this letter is a general overview of the Maine State Retirement System, including a discussion of the overall structure and general administration of the System. This is information about the System as an entity that does not vary significantly from year to year.

The Financial Section includes the report of the System's independent auditors and the System's audited financial statements for the fiscal year ended June 30, 2006 with notes, required supplementary information and notes to supplementary information. The firm of Baker Newman & Noyes audited the System's financial information for the second year in FY 2006. Management's Discussion and Analysis (MD&A) and trust fund balances by System employer/program are also included in this Section, as well as financial information on the Group Life Insurance Plan.

The Investment Section presents detail, at June 30, 2006, of principal investments for the MSRS defined benefit plans and Group Life Insurance Plan. Additional information on investments is found in the MD&A, financial statements and notes. The Actuarial Section includes the June 30, 2005 actuarial valuations for the four principal retirement programs administered by the System: the State employee and teacher program, the legislative program, the Judicial program and the program of the Consolidated Plan for Participating Local Districts (PLDs). (Valuations for the several non-consolidated PLD plans are not included but are available from the System.) The Statistical Section includes selected data thought to be of interest to persons interested in the System.

FUNDING OF DEFINED BENEFIT RETIREMENT PLANS AND GROUP LIFE INSURANCE PLAN

The System's defined benefit retirement plans are by far the dominant element in its financial activities and position. The design of defined benefit plans by nature presupposes that the return on invested contributions will supply a significant amount of the benefit-funding resources of such plans. When the investment markets do not provide the return expected, the resulting funding shortfall must be made up by employer contributions. For this reason, the performance of the investment markets is the single most significant factor affecting the financial activities or position of the System, and the effects of market performance flow through to contributions made by its participating employers.

As with all actuarially-funded defined benefit plans, the System utilizes actuarial methods and procedures that integrate short-term market behavior with the very long demographic time horizon of the plan. This actuarial "smoothing" of investment results moderates the volatility of employer contribution requirements and the budget effects thereof. Finally, while investment market performance affects plan funding requirements, it does not affect benefits being paid or to be paid in the future. The basic defined benefit retirement plan equation provides that, over the long term, contributions plus investment earnings must be equal to benefits.

The interplay of liabilities (i.e., the obligation to pay benefits) and assets (i.e., contributions and investment earnings thereon) can be seen in the plan's funded ratio and changes in funded ratios over time. The funded ratio of the State employee/teacher program has improved steadily and consistently since the mid-1980s, though it has been affected by poor investment markets in a few years. The funding ratio of the State Employee/Teacher plans at June 30, 2006 was over 71.1 percent compared to 69.7 percent in 2005.

The Judicial program, while slightly underfunded last year, has become slightly overfunded this year. The greater than 100 percent funded status of the Consolidated Plan for PLDs continues and reflects the circumstances and its structure and relatively recent inception. Information regarding overall funding progress appears in the MD&A on page 21. More information on the funding levels of all of the System's retirement programs can be obtained from the System.

The Group Life Insurance Plan is funded by premiums paid by its participants and investment returns on reserves. The investment strategy for these reserves is discussed in the Investment Section on page 54. In November 2005, the Board changed its investment strategy for this plan, combining assets with and adopting the same strategy employed for its defined benefit plan assets. As a result of the System's extensive premium and asset/liability study, the funding structure of the plan and premium rates were revised, to be effective FY 2007.

Investments

Both the necessary inflows of employer and member contributions and healthy long-term returns from the investment of assets are essential to the sound funding of the defined benefit retirement programs administered by the System. The centerpiece of the policy is the mix of investment types in which assets are invested and the allocation of assets among asset classes. Under the policy, the System invests in domestic equities, international equities, Treasury Inflation Protected Securities (TIPS), fixed income securities, and real estate. In 2005, the Board initiated a 5 percent allocation to real estate to be phased-in over two years. At the close of FY 2006, the allocation to real estate was at 3.25%. The System's Board of Trustees is responsible for establishing the policy that is the framework for investment of the System's assets. An Investment Advisory Committee of the Board of Trustees, which includes investment experts in addition to Trustees, advises the Board on all investment matters, including policy. At its most basic level, the policy consists of allocations to asset classes. The choice of asset classes reflects the Board's assessment of expected investment return and the nature, level, and management of risk. The defined benefit plan assets perform two functions. They collateralize the benefits owed to participants, and they provide investment earnings. All benefit payments must eventually be funded from contributions or from investment earnings.

The Northern Trust Company serves as the System's custodial bank and the System executed a new three-year contract with Northern Trust in FY 2006. Northern Trust also administers the System's securities lending program.

The 122nd Legislature passed a law requiring the MSRS to divest of non-commingled investments in the Republic of Sudan when it could be done in accordance with sound investment criteria and the Board's fiduciary responsibilities. The Board must report to the Legislature in January 2007 about its progress in this regard.

Additional information, including information about performance, is contained in the Investment Section, beginning on page 54.

HIGHLIGHTS OF THE PAST YEAR

In 2006 the Board undertook a major actuarial experience study of the State employee/teacher plans. The findings from this study were extensive and resulted in the Board adopting new economic actuarial assumptions governing the State employee/teacher, judicial and legislative plans, and the plans for participating local districts. For more information, see Management's Discussion and Analysis on page 21.

The System also undertook an experience study and actuarial valuation of the Group Life Insurance Plan. As a result of this work, both the premium rate structure and premium rates were markedly revised. In the past, the System has funded the Group Life Insurance Plan on a pay-as-you-go basis. As a result of a revaluing of the Plan's liabilities under Other Post Employment Benefits (OPEB) disclosure standards, the Board elected to devise a different premium structure that is closely tied to these disclosure standards. Because of the differentiation of active and retired person liabilities and the identification of unfunded actuarial liabilities under these standards, rates changed for most insurance categories.

In 2006, the System launched a major project to install a complete "line-of-business" technology system that will result in the automation of nearly all pension administrative services and functions of the MSRS. Vitech Systems Group was the vendor selected to deliver, configure, customize, and implement the line-of-business automated system. As part of its contract, Vitech will provide continual updates and maintenance services for four years after delivery of the full system. At the time of this transmittal, design work on the new system is well underway. While the magnitude of this undertaking has put a considerable strain on human resources at the System, the project is progressing well. The project is co-managed by the System's two Deputy Executive Directors with the consultation of an experienced pension technology consultant.

The future planned implementation of a new full technology system has imposed an absolute conversion deadline for legacy member creditable service information. The efforts of the System to manually determine its active members' past service credit, earnable compensation and retirement eligibility, and to produce annual statements of retirement information have paid impressive and unparalleled dividends in FY 2006 and the beginning of FY 2007. We expect all data and service calculations for active members to be in electronic form and capable of being electronically maintained in real time by the end of calendar year 2008.

Our significant progress in the member statement area allowed us to confidently seek a Public Pensions Standards Award for the first time. And indeed, we have been recognized with the Public Pension Standards 2006 Award for demonstrating a high level of plan design, funding, member communications, and administrative practices. We look forward to providing ever improving services to our members with the full implementation of our new technology system.

RECENT DEVELOPMENTS

The System is also in the process of redesigning its defined contribution plans for PLD participants. We are introducing an exciting new program called MaineSTART that is designed to encourage members to start a supplemental savings program for retirement. MaineSTART offers a family of funds by Vanguard designed to be very low cost and enticingly easy to manage. We will report more fully on the implementation of these plans next year. We hope eventually to be able to expand these plans beyond our Participating Local District members and offer them to all MSRS participants.

In November 2006, David S. Wakelin, Chair of the Board of Trustees for the past 15 years and Board member for 4 more, stepped down as Chair. Mr. Wakelin first became involved with the Maine State Retirement System in 1987 when he was appointed by the Governor to serve on the first Monks Commission, a panel established to study the funding methods, needs and benefit structure and operations of the MSRS. Peter M. Leslie, also a member of the first Monks Commission and Board member since 1995, has been elected as the new Chair. He was replaced as Vice Chair by Catherine R. Sullivan, now serving her third term as a Trustee. It should be well noted that under Mr. Wakelin's chairmanship, the assets of the System have grown from just over $1.0 billion in 1987 to a record $10.0 billion in September of 2006.

ACKNOWLEDGEMENTS

We are proud to inform you that for the second consecutive year, the System was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA). In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, with contents that meet or exceed program standards. We are extremely proud that we are recognized for handling and accounting for your retirement funds in a manner that satisfies generally accepted accounting practices and all applicable legal requirements. We expect ourselves to be in compliance with all of the Certificate of Achievement Program requirements into the future. This 2006 CAFR will also be submitted to the GFOA.

The preparation of this report has been a collaborative effort of senior management, the Accounting and Finance Department and the Communications Department. The System takes responsibility for all of the information contained in the report and confidently presents it as a basis for the many decisions of the Board of Trustees, staff and others who will rely on it.

Respectfully submitted,

Gail Drake Wright

Gail Drake Wright
Executive Director

I am joined in transmitting this Comprehensive Annual Financial Report to all of our constituencies by the System's Deputy Executive Director for Administration and the Associate Deputy Executive Director.

L E Saufley

William E. Saufley
Deputy Executive Director for Administration

Carl A. Cappello

Carl A. Cappello
Associate Deputy Executive Director

Appendix A to Letter of Transmittal

OVERVIEW OF THE SYSTEM

The Maine State Retirement System is an independent public agency of the State of Maine that traces its history to 1942. By the authority granted to it by the Maine Legislature, the System administers retirement plans that cover State employees, the State's public school teachers, judges, legislators, and employees of the 267 municipalities and other public entities, called "participating local districts" (PLDs) that have chosen to provide retirement plans through the MSRS. The System is also responsible for the payment of retirement and survivors' benefits to former governors and their surviving spouses. In addition, the System administers a Group Life Insurance Plan. This program provides or makes available life insurance benefits for active and retired System members and for the employees of a few PLDs for whom the MSRS administers only the Group Life Insurance Plan.

Board of Trustees

Responsibility for the operation of the Maine State Retirement System is held by the System's Board of Trustees, which is comprised of eight members. State law specifies the Board's composition. The law requires that each individual appointed to serve as a trustee is subject to the legislative confirmation process. All appointed trustees are required to have "a working knowledge of retirement policy and legal issues and a general knowledge and understanding of banking, finance, and investment practices." Three trustees are Retirement System members, one of whom is proposed and elected by the Maine Education Association, one of whom is proposed and elected by the Maine State Employees Association, and one of whom is a PLD member proposed by the governing body of the Maine Municipal Association. Four trustees are appointed by the Governor. Of these, one must be selected by the Governor from a list of nominees submitted by the Maine Retired Teachers Association and one must be an MSRS retiree selected from a list of nominees submitted by State and/or PLD retirees. The remaining two appointees are direct gubernatorial appointments, both of whom must be qualified through training or experience in investments, accounting, banking or insurance or as actuaries. The eighth trustee is the State Treasurer, who serves ex-officio. All trustee terms are three years, except for the two-year term of the State Treasurer. The Board annually elects its chair and vice chair from among its members.

The Board contracts for the services of an actuary to prepare annual valuations of the assets and liabilities of each of the retirement programs administered by the System. The actuary also provides information and recommendations as to sound and appropriate actuarial assumptions, which are utilized, together with valuation information, to determine the programs' funding requirements. The System's actuary in FY 2005 and 2006 was the firm of Cheiron.

The Board's management of MSRS investments is embodied in its investment policy. The policy states the Board's underlying investment objectives, sets out the investment strategies intended to realize the objectives and establishes guidelines and criteria for implementation of the strategies. The Board currently contracts with the firm of Ennis Knupp and Associates to advise it on the investment policy and the carrying out of the investment program.

The Board is the final administrative decision maker in matters involving the rights, credits, and benefits of members. It has established an administrative appeals process for the making of such decisions; in this process relevant factual information and legal requirements are identified and analyzed by the Hearing Officers who serve under contract. In decisions on disability retirement appeals, statutorily established medical boards and individual medical advisors provide recommendations as to the medical aspects of disability. The Board's final administrative decisions are appealable to Superior Court.

Administration

The Office of the Executive Director has overall administrative responsibility for the System. The Executive Director oversees all actuarial work and investments and has administrative responsibility for the internal audit function. Actuarial work is carried out with the assistance of an actuary; investment operations are carried out with the assistance of the System's Director of Investments, an investment consultant, investment managers and other appropriate consultants. In addition, the Office performs the executive functions of the System, prepares and manages the administrative budget, and has day-to-day responsibility for legislative matters, appeals, federal, state, and local governmental relations, planning, process improvement, and numerous special projects.

The Department of Service Programs administers the service and disability retirement programs, employer programs, survivor benefit and group life insurance programs, and records management. The Department is the System's primary contact for members, participating employers, and benefit recipients.

The Department of Administration is responsible for most administrative and support functions, and consists of the Accounting & Finance, Communications, Facilities, Human Resources, Information Technology, Payrolls Administration, and Support Services units. The System's primary responsibility is the administration of defined benefit retirement plans. Retirement and related benefits provided by MSRS include:

- service retirement benefits, which provide retirement income to qualified members;
- disability retirement benefits, which provide income to a member who becomes disabled under MSRS law while the member is in service and before the member retires; and
- death benefits, which are paid to a member's designated beneficiaries.

Administration of these programs includes financial administration, investments, recordkeeping of members' work and compensation data, and provision of retirement-related services to members, employers and retirees.

The System also administers two defined contribution retirement plans that are established under sections 401(a) and 457(b) of the Internal Revenue Code. These plans are available to employees of those employers in the Consolidated Plan for PLDs that have adopted one or both of the plans.

The System itself and all of its programs are established by and operate within the scope of Maine statutes. The operation of the System's defined benefit retirement plans is also governed by provisions of the Maine Constitution, not all of which apply to all of the plans.

Membership and Contributions

State employees and teachers are covered under the Maine State Retirement System's State employee and teacher plan. State employees are required by law to become members of the MSRS when hired. There is an exception to this rule for elected and appointed officials, for whom membership is optional. Public school teachers must also become members of the MSRS when hired.

PLD employees become members of the MSRS when they are hired if their employer participates as a PLD in the MSRS at that time and if they meet the membership eligibility requirements in effect when they are hired. For some PLD employees, membership is optional. These employees include those employed by their PLD before the PLD joined the MSRS, those whose employers provide Social Security under a federal Law, elected and appointed officials, and chief administrative officers.

The Maine Legislative Retirement System, also administered by MSRS, was established to provide a retirement plan for those serving in the Maine Legislature. Except as provided by statute, membership in the Maine Legislative Retirement System is mandatory for legislators entering service on or after December 3, 1986.

The Maine Judicial Retirement System was established to cover Maine's judges. Membership in the Maine Judicial Retirement System is a condition of employment for all judges serving on or after December 1, 1984.

All members of each plan within the System contribute a percentage of their compensation to the System. Each employer also contributes to the System in an amount that is a percentage of total wages paid to members who are employees of that employer.

The State pays the employer contribution on behalf of all teacher members as well as all State employee members. Employer contribution percentages are actuarially determined by plan and vary from year to year. Further details regarding plan provisions can be found elsewhere in this report in the actuarial valuation for each plan.

The State's employer contribution on behalf of all State employees and all teachers has two components: (1) the normal cost contribution, which, with current member contributions, supports benefits currently being earned by active members and (2) the unfunded actuarial liability (UAL) contribution, which is payment on the amortized debt that represents the liability for benefits in excess of the amount supported by assets of the System. The Maine Constitution requires that the UAL be fully funded in not more than 31 years from July 1, 1997. The amortization period at the end of FY 2006 is 22 years, requiring full payment of the UAL by the end of FY 2028.

The System also administers pay-as-you-go retirement plans for judges who retired prior to the establishment of the Maine Judicial Retirement System in 1984 and governors and their surviving spouses. The plans are funded each biennium by a direct appropriation from the Legislature and in the case of active governors, by employee contributions required by statute.

The Group Life Insurance Plan is provided or made available to all State employees, public school teachers, and the employees of those PLDs who elect to offer this coverage to their employees, as well as members of the Legislative and Judicial Retirement Systems. Basic coverage for the employee is equal to the employee's annual base compensation rounded up to the next $1,000; supplemental coverage for the employee and coverage for dependents are also available.

Financial Reporting

The System, through its management staff, is responsible for establishing and maintaining an internal control structure that protects assets from theft, fraud, or misuse and ensures that financial recordkeeping is complete and accurate. Management is also responsible for the completeness, accuracy and fair presentation of financial information and for all disclosures. This responsibility notably encompasses the System's financial statements themselves, including the amounts therein that, necessarily, are based on estimates and judgments.

The System's operating funds are provided by its participating employers. Total operating expenses for staff and all other costs of operations, with the exception of certain investment-related expenses required by law to be paid directly from investments, are allocated among the System's three employer/employee groups (i.e., State employees (including for this purpose judges and legislators), teachers, and PLDs). The System's administrative budget allocating these funds is approved annually by the Legislature. The System's financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis, in accordance with the standards and requirements of the Governmental Accounting Standards Board (GASB). The financial statements are presented in accordance with GASB Statement No. 25, Financial Reporting for Defined Benefit Plans, and GASB Statement No. 34, Basic Financial Statements - Management's Discussion and Analysis for State and Local Governments. Financial information presented throughout this Report is consistent with the financial statements. The financial statements are prepared on the accrual basis of accounting.

The System also has an Internal Audit program, staffed by one internal auditor. This program is currently focused on first-time, in-depth audits of internal controls in all of the departments at the System. The internal auditor presents audit reports to both management and the Audit Committee of the Board of Trustees.

The independent auditor, Baker Newman & Noyes (BNN), has conducted an audit of the financial statements in accordance with, as stated in its audit report, generally accepted auditing standards and including those tests and procedures BNN deemed necessary to express its opinion in its audit report.

The auditors have unrestricted access to the Board and the Board's Audit Committee to discuss the audit and their findings with respect to the integrity of the System's financial reporting and adequacy of the System's internal controls.

The System's defined benefit retirement plans are reported as an agent multiple employer plan. Separate actuarial valuations are performed for each of the retirement programs that the Retirement System administers; contributions, inflows, and benefits payments are separately tracked and recorded, and separate trust fund balances are attributed to each such program. The System reports the Group Life Insurance program as a separate plan. The System's financial statements, notes thereto and required supplementary information are prepared accordingly. As additional supplementary information, the System includes with its financial statements a schedule that sets out in relevant detail the trust fund balances of the State employee and teacher program, the Maine Judicial Retirement System program, the Maine Legislative Retirement System program, and the Consolidated Plan for PLDs and the non-consolidated PLDs combined.

BOARD OF TRUSTEES, MANAGEMENT STAFF, and PRINCIPAL PROFESSIONAL CONSULTANTS
June 30, 2006

BOARD OF TRUSTEES

David S. Wakelin, Chair	Public Member, Governor's direct appointee
Peter M. Leslie, Vice Chair	Public Member, Governor's direct appointee
John S. Eldridge, III	Maine Municipal Association appointee
Eunice C. Mercier	Retired State Employee, Governor's appointee from retirees' groups nominees
Catherine R. Sullivan	Retired Teacher, Governor's appointment from Maine Retired Teachers Association
Benedetto Viola	Maine State Employees' Association appointee by election
Kenneth L. Williams	Maine Education Association appointee by election
David G. Lemoine	State Treasurer, *Ex-officio* Member

SENIOR ADMINISTRATIVE STAFF

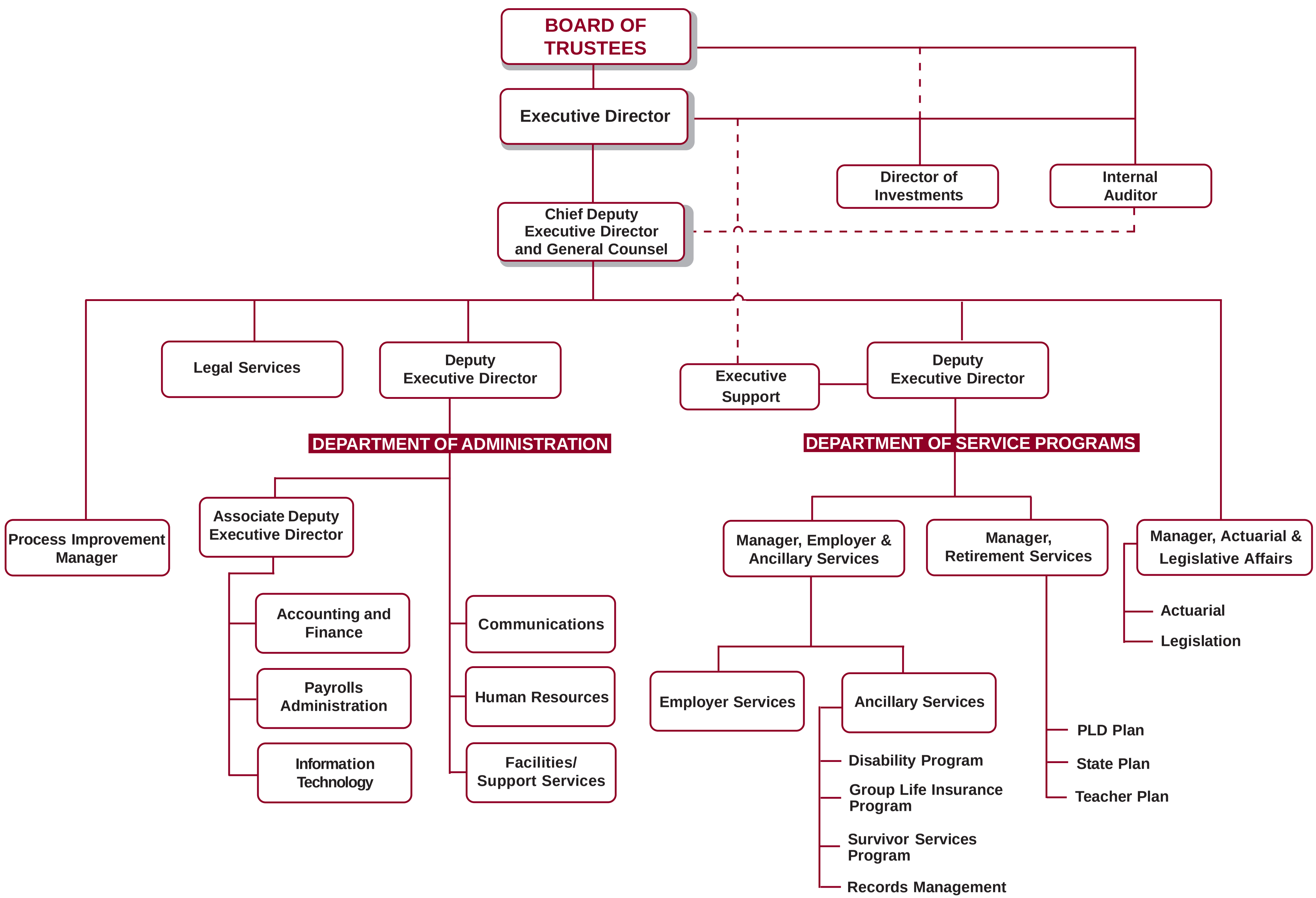
Gail Drake Wright	Executive Director
John C. Milazzo	Chief Deputy Executive Director and General Counsel
William E. Saufley	Deputy Executive Director
Christine S. Gianopoulos	Deputy Executive Director
Michael B. Simmons	Director of Investments
Carl A. Cappello	Associate Deputy Executive Director
Patsy M. Gosselin	Process Improvement Manager
Rebecca A. Grant	Manager, Retirement Services
Marlene McMullen-Pelsor	Manager, Employer and Ancillary Services
Kathy J. Morin	Manager, Actuarial and Legislative Affairs

PRINCIPAL PROFESSIONAL CONSULTANTS

Actuary	**Investment Consultant**	**Auditors**	**Internal Auditor**
Cheiron	Ennis Knupp & Associates	Baker Newman & Noyes	John F. Fleming

See page 64 for a list of professional investment management firms.

Maine State Retirement System — Organizational Chart by Function



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.

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.

[This page intentionally left blank.]

Financial Section

BAKER | NEWMAN | NOYES LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Maine State Retirement System

We have audited the accompanying statements of fiduciary net assets of Maine State Retirement System (the System) (A Component Unit of the State of Maine) as of June 30, 2006 and the related statements of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2005 financial statements and, in our report dated October 5, 2005, we expressed an unqualified opinion on the financial statements of the System.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the System as of June 30, 2006 and the changes in fiduciary net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 21 through 29 and the historical pension information on pages 48 through 52 are not required parts of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
September 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006 Financial Report

Introduction

This Management Discussion and Analysis (MD&A) is prepared by the management staff of the Maine State Retirement System (MSRS or the System) for the purpose of providing an overview of the System's financial statements.

Financial Reporting Structure

The System's financial statements are prepared on an accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) pronouncements. The accrual basis of accounting requires the recognition and recording of financial transactions and other related events when they occur and not just in conjunction with the inflows and outflows of cash and other resources.

The total funds managed by the System are constitutionally restricted and held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and oversees their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan. The System administers an agent multiple employer pension plan and reports its financial statements on an aggregated basis.

The System reports the Group Life Insurance (GLI) Plan as a separate plan and in a separate column in the financial statements.

The Statements of Fiduciary Net Assets report the balance of net assets held in trust for future pension and group life insurance benefits as of the fiscal year end, with comparative values reported as of the previous fiscal year end. The Statements of Changes in Fiduciary Net Assets report the net increase in net assets for the fiscal year, with comparative values reported for the previous fiscal year. This increase, when added to the previous year's net assets, results in the total net assets as reported in the Statements of Fiduciary Net Assets.

The Schedule of Funding Progress for the Defined Benefit Plan (required supplementary information) presents a summary of the defined benefit retirement plans administered by the System. This Schedule compares the actuarial value of pension assets to actuarial accrued liabilities, as of actuarial valuation dates over a period of six years, and presents the unfunded actuarial accrued liability (UAAL). The Schedule also presents the actuarial funded ratio and the UAAL as a percentage of the covered payroll of all members.

The Schedule of Employers' Contributions (required supplementary information) presents the annual required contributions as defined by GASB for all employers participating in MSRS defined benefit plans and compares it to actual employer contributions, over a six-year period, as well as the percentage of the required to actual contributions for each year.

The Schedule of Funding Progress for the Group Life Insurance Plan (required supplementary information) compares the actuarial value of plan assets with actuarial liabilities, as of actuarial valuation dates over a period of six years, and presents the unfunded actuarial liability (UAL). The Schedule also presents the actuarial funded ratio.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006 Financial Report
(continued)

Financial Highlights and Analysis

The net assets of the System in 2006 increased by $600 million (7%) from the prior year's net asset balance. This increase was due primarily to $665 million of Net Investment Income during fiscal year 2006, offset by increased benefits and other deductions. By comparison, Net Investment Income during fiscal year 2005 was $943 million. As of June 30, 2006, approximately 48% of the System's assets were invested in domestic common stocks, 18% in foreign common stocks, 29% in Treasury Inflation Protected Securities (TIPS), 2% in other fixed-income securities, and 3% in real estate, either with direct holdings or through investment in common/collective trusts. Investment returns were somewhat lower in 2006 than they were in 2005, resulting in a smaller increase in net assets in 2006 as compared to 2005.

The net assets of the System in 2005 increased by $879 million (11%) from the prior year's net asset balance. This increase was due primarily to $943 million of Net Investment Income during fiscal year 2005. By comparison, Net Investment Income during fiscal year 2004 was $1,144 million. As of June 30, 2005, approximately 48% of the System's assets were invested in domestic common stocks, 17% in foreign common stocks, 31% in Treasury Inflation Protected Securities (TIPS), 3% in other fixed-income securities, and 1% in real estate, either with direct holdings or through investment in common/collective trusts.

The following are the Condensed Comparative Statements of Changes in Fiduciary Net Assets and Condensed Comparative Statements of Fiduciary Net Assets for the System for the fiscal years ended June 30, 2006, 2005 and 2004:

Condensed Comparative Statements of Changes in Fiduciary Net Assets

(Dollar Values Expressed in Millions)

	June 30, 2006	June 30, 2005	June 30, 2004
ADDITIONS:			
Member Contributions	$ 153.0	$ 147.1	$ 140.6
Employer Contributions	322.1	291.8	300.1
Net Investment and Other Income	665.2	943.4	1,144.3
Total Additions	**$ 1,140.3**	**$ 1,382.3**	**$ 1,585.0**
DEDUCTIONS:			
Benefits	$ 510.6	$ 477.4	$ 441.5
Other	29.2	26.1	25.2
Total Deductions	**$ 539.8**	**$ 503.5**	**$ 466.7**
Net Increase (Decrease)	**$ 600.5**	**$ 878.8**	**$ 1,118.3**
Net Assets, Beginning of Year	**$ 8,972.3**	**$ 8,093.5**	**$ 6,975.2**
Net Assets, End of Year	**$ 9,572.8**	**$ 8,972.3**	**$ 8,093.5**

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006 Financial Report
(continued)

Condensed Comparative Statements of Fiduciary Net Assets

(Dollar Values Expressed in Millions)

	June 30, 2006	June 30, 2005	June 30, 2004
Cash and Receivables	$ 240.4	$ 547.8	$ 99.3
Investments at Fair Value	9,382.4	8,574.8	8,026.5
Securities Lending Collateral	2,673.9	2,636.5	230.6
Other Assets	3.7	1.4	1.4
Total Assets	**$ 12,300.4**	**$ 11,760.5**	**$ 8,357.8**
Investment Purchases	$ 24.8	$ 125.4	$ 11.9
Securities Lending Payable	2,673.9	2,636.5	230.6
Investment Management Fees Payable	6.6	4.8	2.3
Other Liabilities	22.4	21.5	19.5
Total Liabilities	**$ 2,727.6**	**$ 2,788.2**	**$ 264.3**
Net Assets Held in Trust for Benefits	**$ 9,572.8**	**$ 8,972.3**	**$ 8,093.5**

Assets

Total assets increased $540 million (4.6%) during 2006. This increase is primarily attributable to increases in Investments at Fair Value and Securities Lending Collateral, offset by a decrease in Cash and Receivables. The $808 million (9.4%) increase in Investments at Fair Value is attributable primarily to investment income and a shift from cash and receivables to investments as of June 30. The $307 million decrease in Cash and Receivables primarily consists of a $261 million decrease in Cash and Cash Equivalents and a $57 million decrease in the receivables for securities sold. The System records as an asset and corresponding liability, the cash collateral it holds due to its securities lending activity. The System's custodian records an Investment Purchase or Sale Receivable between the time it enters into a trade and the time that trade is settled. The receivable for outstanding trades at June 30, 2006 was approximately $57 million less than at June 30, 2005, due to the timing of investment purchases by the System's investment managers.

Total assets increased $3,403 million (40.7%) during 2005. This increase was primarily attributable to an increase in the Securities Lending Collateral, coupled with increases in Cash and Receivables and Investments at Fair Value. The $2,406 million (1,043.3%) increase in Securities Lending Collateral was attributable primarily to the shift in the TIPS portfolio from a commingled fund to a separately managed account which the System utilizes in its securities lending program. The System records as an asset and corresponding liability, the cash collateral it holds due to its securities lending activity.

Refer to the Investment Section for more information on the System's investments.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006 Financial Report
(continued)

Liabilities

The System's custodian records an Investment Purchase or Sale between the time it enters into a trade and the time that trade is settled. The outstanding trades at June 30, 2006 were approximately $101 million less than at June 30, 2005, due to the timing of investment purchases by the System's investment managers. The System records as an asset and corresponding liability, the cash collateral it holds due to its securities lending activity. On June 30, 2006, the amount of loans outstanding in the securities lending program was $37 million more than at June 30, 2005.

Outstanding trades at June 30, 2005 were approximately $114 million more than at June 30, 2004. On June 30, 2005, the amount of loans outstanding in the securities lending program was $2,406 million more than at June 30, 2004, attributable primarily to the shift in the TIPS portfolio from a commingled fund to a separately managed account which the System utilizes in its securities lending program.

Additions to Fiduciary Net Assets

Additions to fiduciary net assets during fiscal year 2006 totaled $1,140 million, a decrease of 17.5% from the additions to fiduciary net assets in fiscal year 2005. This was largely due to the fact that net investment income grew less in 2006 than in 2005 by 29.5% ($278 million). Investment results were less positive due to the fact that the TIPS portfolio had a negative return of -6.0%.

During fiscal year 2005, additions to fiduciary net assets totaled $1,382 million, a decrease of 12.8% from the additions to fiduciary net assets in fiscal year 2004. This was largely due to the fact that net investment income was smaller in 2005 than in 2004 by 17.6% ($201 million). Investment results were less positive due to the fact that returns in the stock market in 2005 were lower than returns in 2004.

Pension Contributions

The State's contributions to the Regular and Special Plans on behalf of State employees totaled $89.5 million, $86.4 million, and $85.4 million for fiscal years 2006, 2005, and 2004, respectively. The State's contributions on behalf of teachers totaled $174.2 million, $165.5 million and $156.6 million, for fiscal years 2006, 2005, and 2004, respectively.

An additional employer contribution is mandated by statute to be made when sufficient General Fund Surplus (GFS) monies exist at fiscal year end. Because GFS monies existed at June 30, 2006, 2005 and 2004, contributions of $17 million, $13 million and $22 million, respectively, were accrued by the System as an estimate of what the System would receive from the State. These additional contributions were allocated, according to System policy, in equal parts to the State employee and teacher components of the plan. Thus, total State contributions in 2006 on behalf of State employees were $98 million and on behalf of teachers were $183 million.

The State's fiscal 2006 contribution on behalf of judges was $1.0 million; in fiscal year 2005 this contribution was also $1.0 million. Because of the funding methodology and funded status of the Maine Legislative Retirement Plan, no employer contribution was required in fiscal years 2006 or 2005. For Participating Local Districts (PLDs) in the Consolidated Plan, the range of employer contributions as a percent of earnable compensation in fiscal year 2006 and in fiscal year 2005 was 1.5% to 6.5%. The net effect of the Consolidated Plan's funding status and established funding approach is that Plan employers' normal cost contributions may be, and currently are, less than what the true normal cost would otherwise require but will not be less than a base level that reflects the then-current funding status. New entrants to the Consolidated Plan pay the true normal cost for a period of three years. The range of true normal cost in fiscal year 2006 was 3.6% to 16.8%.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006 Financial Report
(continued)

Member and employer data, contribution and benefit data for the 28 nonconsolidated PLDs are specific to each PLD and are obtainable from the System. Contribution amounts for all of these membership groups are available at the System.

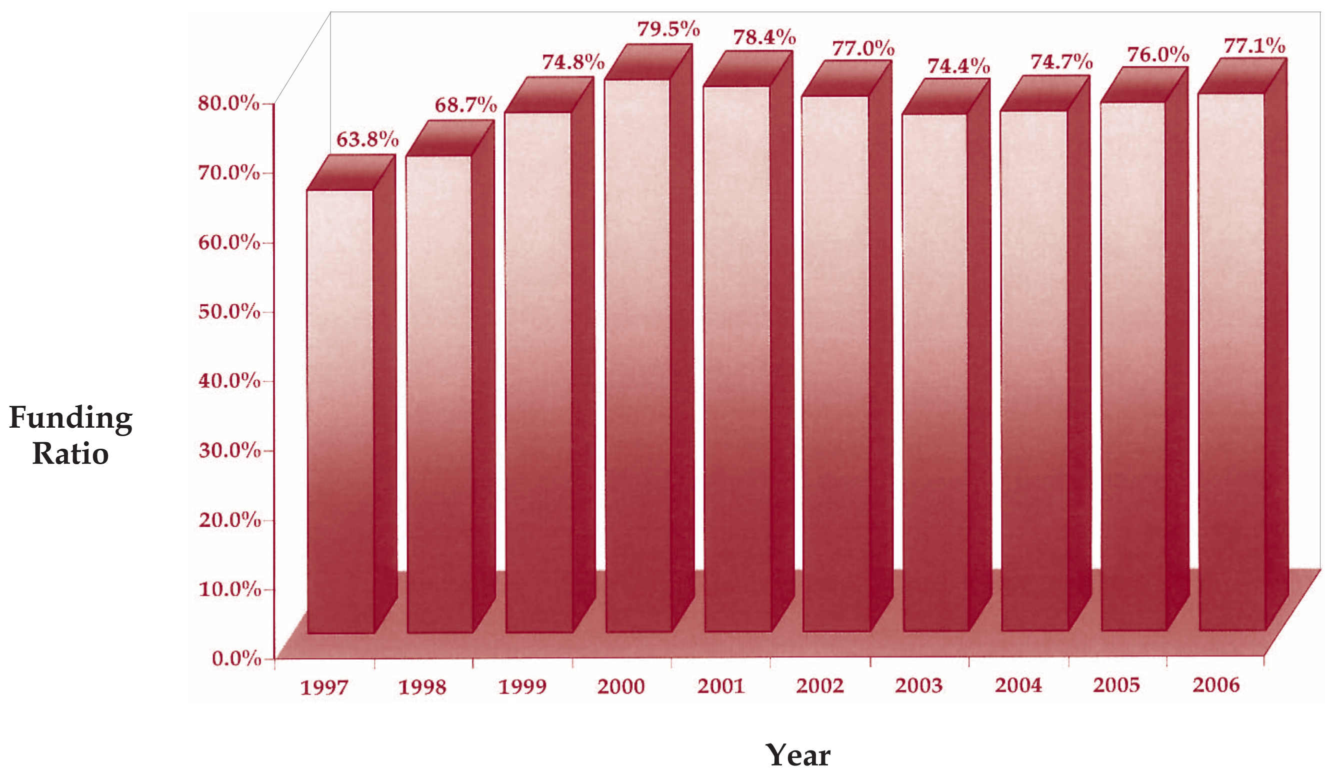
Deductions from Fiduciary Net Assets

Total deductions from fiduciary net assets during fiscal year 2006 increased by 7.2% ($36 million). The fiscal year 2006 increase is due to the increased cost of benefits paid and refunds and withdrawals of contributions. The increase in benefits is the result of the routine application of a cost-of-living adjustment of 2.5% and a 2.1% increase in the number of retirees and beneficiaries receiving benefits. Benefit payments exceeded contributions in 2006 by $36 million. Contributions totaled $475 million, and benefit payments totaled $511 million.

Total deductions from fiduciary net assets during fiscal year 2005 increased by 7.9% ($37 million). The fiscal year 2005 increase was due to the increased cost of benefits paid. The increase in benefits was the result of the routine application of a cost-of-living adjustment of 3.3% and a 2.5% increase in the number of retirees and beneficiaries receiving benefits. Benefit payments exceeded contributions in 2005 by $39 million. Contributions totaled $439 million, and benefit payments totaled $477 million.

System Funding Status

FUNDING PROGRESS



MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006 Financial Report
(continued)

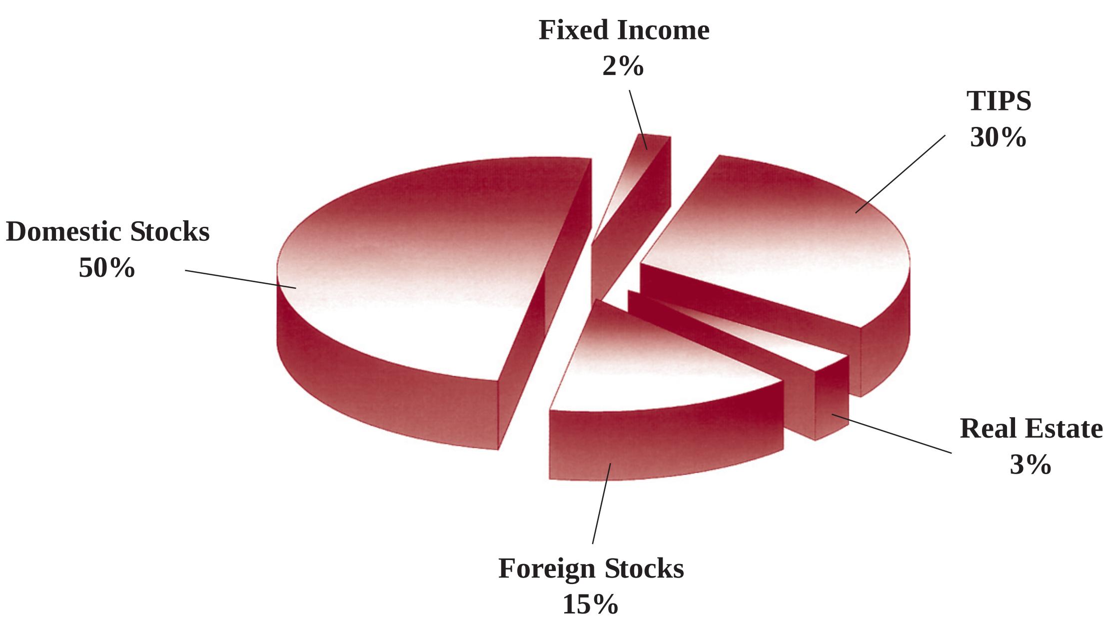
At June 30, 2006, the System was actuarially funded at 77.1% which is an increase from its actuarial funding level of 76.0% at June 30, 2005. As illustrated in the chart, the funded ratio of the System increased steadily from 1996 to a peak of 79.5% in 2000 after which there was a decline over the following three years to 74.4% at the end of fiscal year 2003, with an increase in 2004, 2005 and in 2006. The increase in funding level for 2006 is a function of the combination of the performance of the investment portfolio and the increase in the actuarial value of assets relative to the actuarial accrued liability.

Investments

The assets of all the defined benefit retirement plans that the System administers are commingled for investment purposes. Beginning November 30, 2005, these assets also include assets of the Group Life Insurance ("GLI") Plan. Previously, GLI assets had been invested in a low risk mutual fund focusing on short maturity fixed income securities. As of June 30, 2006 and 2005, GLI investments totaled $43.4 million and $42.9 million respectively.

Essentially all of the assets administered by the System are invested in five asset classes: publicly traded domestic stocks, publicly traded foreign stocks, Treasury Inflation Protected Securities (TIPS), other publicly traded fixed income securities, and real estate. Publicly traded derivative securities are used in some portfolios to emulate one or more of the five asset classes. Approximately 0.1% of assets are invested other than in these classes, primarily in cash and cash-like securities. The investment policy established by the System's Board of Trustees assigns strategic target allocations for each of the five asset classes. As of June 30, 2006, the targets are 50% for domestic stocks, 15% for foreign stocks, 30% for TIPS, 3.25% for real estate, and 1.75% for other fixed income. Only minor variations resulting from market activity and controlled by a formally approved rebalancing methodology are allowed between actual allocations and the strategic targets.

TARGET ASSET ALLOCATIONS - Fiscal Year 2006



MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006 Financial Report
(continued)

Essentially all of the assets invested by the System are in portfolios managed by professional investment management firms. These managers act as fiduciaries and invest the assets assigned to them in accordance with the System's investment policy and their separate contractual arrangements. At June 30, 2006, total assets in these portfolios (together with the amounts otherwise managed) were $9.6 billion. The total assets as of June 30, 2005 were $8.9 billion. The investment return for the fiscal year ending June 30, 2006 was positive 7.5%. The investment return for the fiscal year ending June 30, 2005 was positive 11.8%. Investment returns in fiscal year 2006 were less than in 2005 because approximately 30% of the System's portfolio is invested in TIPS, which returned less than in 2005. In 2006 the System's TIPS investments returned a negative 6.0%, compared to 16.8% in 2005. Over the ten year period ended June 30, 2006, the average annual investment return was positive 7.9%.

System Membership

The following membership counts derive from actuarial valuation data:

	June 30		Percentage
	2006	2005	change
Current participants:			
Vested and nonvested	52,282	52,434	-0.3%
Terminated participants			
Vested	7,141	6,248	14.3%
Retirees and beneficiaries receiving benef	32,918	32,250	2.1%
Total Membership	**92,341**	**90,932**	**1.5%**

The number of State employees at June 30, 2006 in the Regular and Special plans was 14,538, a decrease of 97 from June 30, 2005. The number of Teachers at June 30, 2006 was 28,105, a decrease of 170 from June 30, 2005. Membership for judges was 56, an increase of one from the previous year. Membership for Legislators was 174, an increase of one over June 30, 2005. The Consolidated Plan for Participating Local Districts (PLDs) offers 11 retirement plans. Each PLD in the Consolidated Plan chooses the plan or plans under which its employees will be covered. Membership in the Consolidated Plan at June 30, 2006 was 9,409, an increase of 223 over June 30, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006 Financial Report
(continued)

Group Life Insurance Plan

Financial Highlights and Analysis

Group Life Insurance Plan Actuarial Data
(Dollar Values Expressed in Millions)

	June 30		
	2006	**2005**	**2004**
Actuarial Value of Assets	$43.5	$41.8	$40.1
Actuarial Liability	$129.8	$127.0	$91.7
Unfunded Actuarial Liability	**$86.3**	**$85.2**	**$51.6**

The actuarially determined liabilities of the Group Life Insurance Plan at June 30, 2006 totaled $129.8 million, compared to $127.0 million at June 30, 2005, and $91.7 million at June 30, 2004. The obligations are significantly greater in 2005 and subsequent years than in prior years primarily because of improved recordkeeping ability.

Currently Known Facts, Decisions, or Conditions

In FY06, MSRS undertook a major actuarial experience study of the State employee/teacher plans. The findings from this study were extensive and resulted in the Board changing the economic actuarial assumptions governing the State employee/teacher, judicial and legislative plans, and the plans for participating local districts. The following adjustments to the economic assumptions, effective July 1, 2006, were made:

Assumption	*Previous Value*	New Value
Investment Return	8.0%	**7.75%**
Post-retirement COLA	4.0%	**3.75%**
Across-the-board Wage Increase	5.5%	**4.75%**
Retiree mortality basis	Pre-1998	**Post-1998**

There were also changes to demographic assumptions for State employees/teachers in part with respect to retirement and withdrawal rates. In a separate review, the retirement rates for judicial employees were also revised. All of the changes are effective for the 2006 valuation which is based on June 30, 2006 data. Therefore,

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006 Financial Report
(continued)

the changes are not applicable to the 2005 valuation report included in the Actuarial Section of this Comprehensive Annual Financial Report. However, the revised assumptions are used in the actuarial valuation at June 30, 2006, and therefore are reflected in the Schedule of Funding Progress for these plans.

Requests for Information

Questions concerning this Management Discussion and Analysis, other parts of the System's financial statements or the System's financial activities should be directed to Maine State Retirement System, Carl A. Cappello, Associate Deputy Executive Director, at 46 State House Station, Augusta, Maine 04333 or at (207) 512-3100 or toll-free at (800) 451-9800.

STATEMENTS OF FIDUCIARY NET ASSETS
June 30, 2006
With Summarized Information as of June 30, 2005

	Pension	Group Life Insurance	2006 Total	2005 Summarized
Assets:				
Cash and cash equivalents (note 3)	$ 170,855,823	$ 815,543	$ 171,671,366	$ 433,389,152
Investments at fair value (notes 3 and 4):				
Debt securities:				
U.S. Government and government agencies	2,947,504,294	13,703,137	2,961,207,431	3,016,214,001
Corporate	395,418,848	1,854,573	397,273,421	167,366,767
Foreign bonds	–	–	–	34,015,244
Common equity securities	2,421,177,529	11,255,389	2,432,432,918	2,070,003,616
Preferred equity securities	14,447,577	67,354	14,514,931	6,144,680
Common/collective trusts	3,554,426,283	16,532,174	3,570,958,457	3,274,162,531
Real estate/mortgages	6,028,211	8,293	6,036,504	6,924,146
Total investments	9,339,002,742	43,420,920	9,382,423,662	8,574,830,985
Receivables:				
State and local agency contributions and premiums (note 6)	27,799,500	916,716	28,716,216	23,251,228
Accrued interest and dividends	28,667,735	90,259	28,757,994	23,059,295
Due from brokers for securities sold	11,233,546	31,703	11,265,249	68,065,397
Total receivables	67,700,781	1,038,678	68,739,459	114,375,920
Collateral on loaned securities (note 5)	2,661,542,074	12,378,485	2,673,920,559	2,636,500,591
Fixed assets, net of accumulated depreciation	3,528,512	115,874	3,644,386	1,445,421
Total assets	12,242,629,932	57,769,500	12,300,399,432	11,760,542,069
Liabilities:				
Accounts payable	1,072,059	24,284	1,096,343	966,400
Due to brokers for securities purchased	24,701,881	50,149	24,752,030	125,406,611
Other liabilities	19,458,544	1,833,132	21,291,676	20,606,477
Accrued investment management fees	6,525,355	30,325	6,555,680	4,799,256
Obligations under securities lending activities (note 5)	2,661,542,074	12,378,485	2,673,920,559	2,636,500,591
Total liabilities	2,713,299,913	14,316,375	2,727,616,288	2,788,279,335
Net assets held in trust for pension and group life insurance benefits (the information on funding progress is shown on pages 48-49)	$ 9,529,330,019	$ 43,453,125	$ 9,572,783,144	$ 8,972,262,734

See accompanying notes.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2006
With Summarized Information for the Year Ended June 30, 2005

	Pension	Group Life Insurance	2006 Total	2005 Summarized
Additions:				
Investment income:				
From investing activities:				
Net appreciation in the fair value of plan investments	$ 514,881,621	$ 562,431	$ 515,444,052	$ 838,961,503
Interest	118,982,549	553,282	119,535,831	79,041,746
Dividends	47,078,853	218,958	47,297,811	36,918,875
Less:				
Investment expenses	(20,133,445)	(58,193)	(20,191,638)	(13,820,581)
Net income from investing activities	660,809,578	1,276,478	662,086,056	941,101,543
From securities lending activities:				
Securities lending income	106,739,265	496,430	107,235,695	50,804,175
Securities lending expenses:				
Borrower rebates	(102,751,070)	(477,882)	(103,228,952)	(47,625,130)
Management fees	(904,613)	(4,207)	(908,820)	(854,419)
Total securities lending expenses	(103,655,683)	(482,089)	(104,137,772)	(48,479,549)
Net income from securities lending activities	3,083,582	14,341	3,097,923	2,324,626
Total net investment income	663,893,160	1,290,819	665,183,979	943,426,169
Contributions and premiums (note 6):				
Members	144,397,946	8,632,935	153,030,881	147,078,785
State and local agencies	321,901,020	216,103	322,117,123	291,827,175
Total contributions	466,298,966	8,849,038	475,148,004	438,905,960
Total additions	1,130,192,126	10,139,857	1,140,331,983	1,382,332,129
Deductions:				
Benefits paid, net	503,027,886	7,571,942	510,599,828	477,433,409
Refunds and withdrawals	18,907,578	32,002	18,939,580	15,992,655
Claims processing expenses (note 7)	–	596,730	596,730	630,176
Administrative expenses	9,459,332	216,103	9,675,435	9,534,715
Total deductions	531,394,796	8,416,777	539,811,573	503,590,955
Net increase	598,797,330	1,723,080	600,520,410	878,741,174
Net assets held in trust for pension and group life insurance benefits:				
Beginning of year	8,930,532,689	41,730,045	8,972,262,734	8,093,521,560
End of year	$9,529,330,019	$ 43,453,125	$9,572,783,144	$8,972,262,734

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

1. Overview of the Maine State Retirement System Benefit Plans

Defined Benefit Plan

The Maine State Retirement System (the System), which is a component unit of the State of Maine, is the administrator of a public employee retirement system established and administered under the Laws of the State of Maine. The System provides pension, disability, and death benefits to its members, which includes employees of the State, public school employees (defined by Maine law as teachers and for whom the State is the employer for retirement contribution and benefit purposes) and employees of 267 local municipalities and other public entities (participating local districts, or PLDs) in Maine, each of which contracts for participation in the System under provisions of the relevant statutes.

Individual PLDs are permitted by law to withdraw from participation in the System. Withdrawal precludes the PLD's nonmember employees, if any, and its employees hired subsequent to withdrawal from membership in the System. Depending on the circumstances and requirements of the PLD's participation under the System, a withdrawn PLD has continuing funding obligations after withdrawal with respect to its employees who are active members at time of withdrawal and who continue to be members thereafter, to its terminated vested employee members, and to its former employee members who are retired at the time of withdrawal.

Pension funds managed by the System are constitutionally restricted and held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and oversees their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan. Management's interpretation of the State of Maine statutes is that the System is administering an agent multiple employer plan for financial reporting purposes.

At June 30, the membership counts are as follows:

	2006	2005
Current participants:		
Vested and nonvested	52,282	52,434
Terminated participants:		
Vested	7,141	6,248
Retirees and beneficiaries receiving benefits	32,918	32,250
	92,341	90,932

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

Group Life Insurance Plan

The Group Life Insurance Plan was established by the State Legislature to provide group life insurance benefits to all State employees, Teachers, members of the Judiciary and the Legislature, as well as Elected and Appointed Officers of the State, that are eligible for membership in the Maine State Retirement System. Group Life Insurance benefits are also provided to the employees of PLDs that elect to participate in the Group Life Insurance Plan. The System offers a group life insurance plan under a policy that is administered by a third party insurance company.

2. Summary of Significant Accounting Policies

Basis of Accounting

The System's financial statements are prepared using the accrual basis of accounting.

Revenue Recognition

Pension contributions and group life insurance premiums are recognized as additions in the period when they become due pursuant to formal commitments or statutory or contractual requirements. Investment income is recognized when earned.

Benefits and Refunds

Pension and group life insurance benefits and contributions and premiums refunds to the System's members and beneficiaries are recognized as deductions when due and payable in accordance with the terms of the System. In addition, an estimate is made for group life insurance death benefits incurred before year end but not reported to the System until after year end. Benefits payable and benefits incurred but not reported are reflected as other liabilities.

Investments

Investments are reported at fair value. Debt and equity securities that are traded on recognized exchanges are valued at the last sales price and the current exchange rates on the reporting date. Other regularly traded securities, including derivatives, are valued by the System's custodians through a variety of external sources. Investments that do not have an established market are reported at estimated fair value. The fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date.

Net investment income includes net appreciation (depreciation) in the fair value of investments, interest and dividend income, foreign currency transaction gains and losses, and securities lending income, less investment expenses, which include investment management and custodial fees and all other significant investment related costs.

Due to/from Brokers

Amounts due to/from brokers for securities purchased or sold consist of trades not yet settled.

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

Cash and Cash Equivalents

The System considers all highly liquid debt instruments that have a maturity of 90 days or less when purchased to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions. These estimates affect the reported amounts of net assets held in trust for pension and group life insurance benefits at the date of the financial statements, the actuarial information included in the required supplementary information as of the actuarial information date, the changes in net assets during the reporting period and, when applicable, the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Risks and Uncertainties

The System makes investments in accordance with the Board of Trustees' investment policy in a combination of equities, fixed income securities, derivative financial instruments, other investment securities and mutual funds and common/collective trusts holding such investments. The System prohibits its investment managers from using leverage in its derivative financial instruments or from investing in speculative positions. Investment securities and securities underlying certain investments are exposed to various risks, such as interest rate risk, market risk, custodial credit risk and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, changes in the values of investment securities are likely to occur in the near term and it is at least possible that such changes could materially affect the amounts reported in the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

Employers' contributions to the System are established in an actuarial valuation on the basis of actuarial assumptions related to economic indicators (e.g., interest rates, inflation rates), and member and retiree compensation and demographics. By law, the assumptions are adopted by the Board of Trustees based on recommendation of the System's actuary. The System is also required by Maine law to perform an actuarial experience study whenever the Board of Trustees, on recommendation of its actuary, determines such a study to be necessary for actuarial soundness or prudent administration.

3. Cash and Investments

Custodial credit risk is the risk that in the event of a financial institution failure, the System's deposits may not be returned to it. Cash and cash like securities are held at two institutions: KeyBank National Association and Northern Trust Company. Balances in KeyBank up to $100,000 are insured by the Federal Deposit Insurance Corporation (FDIC). KeyBank mitigates custodial credit risk through use of securities repurchase arrangements.

Cash equivalents at Northern Trust are invested in the Short Term Investment Fund (STIF). The STIF is composed of short term debt securities held in a collective fund for the benefit of the System and other investors. All securities purchased in the STIF must either be payable on demand or have a maturity not exceeding fifteen months from the time of purchase. In addition, no transaction may be effected if as a

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

result thereof more than 20% of the STIF will be obligations having maturity dates more than 91 days from the date of the transactions. The System's custodial credit risk exposure for cash and investments at June 30 is summarized in the table below:

	2006	2005
Exposed to Custodial Credit Risk (uninsured and uncollateralized)	$ 10,563,659	$ 21,675,638
Not Exposed to Custodial Credit Risk	9,543,531,369	8,986,544,499
Total Market Value	$ 9,554,095,028	$ 9,008,220,137

Amounts not exposed to custodial credit risk are registered in the name of the System and held by the System's custodian or because their existence is not evidenced by securities that exist in physical or book entry form.

These amounts are disclosed in the financial statements at June 30 as follows:

	2006	2005
Cash and cash equivalents	$ 171,671,366	$ 433,389,152
Investments	9,382,423,662	8,574,830,985
Total Market Value	$ 9,554,095,028	$ 9,008,220,137

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. The following table summarizes the System's fixed income portfolio credit ratings for the fiscal year ended June 30, 2006 and 2005:

Quality Rating	2006	2005
AAA	$ 513,212,652	$ 380,883,977
AA	5,300,848	–
AA-	33,113,917	–
A+	12,598,010	–
A	27,701,622	12,062,964
A-	12,600,882	–
BBB+	–	701,526
BBB	1,503,791	2,805,476
BBB-	6,025,151	2,010,548
BB+	1,374,474	11,562,641
BB	7,294,158	9,911,055
BB-	2,640,274	7,848,244
B+	5,221,375	–
Total credit risk debt	628,587,154	427,786,431
U.S. Government & Agencies(1)	2,729,893,698	2,789,809,581
	$ 3,358,480,852	$3,217,596,012

(1) *Includes securities issued by GNMA, which is explicitly guaranteed by the U.S. Government, and excludes securities issued by FHLMC and FNMA.*

As a matter of practice, there are no overarching limitations for credit risk exposures in the portfolio. The System's contractual guidelines with each manager specify a level of tracking error. Tracking error is the standard deviation of the difference between the manager's return and that of their benchmark. The manager has the responsibility of determining the amount of credit risk which is compatible with the specified tracking error. In addition, the contractual guidelines generally specify credit quality limits which are appropriate for the portfolio's strategy. Managers may not hold unrated securities, unless the security is downgraded subsequent to purchase, in which case the manager has a period of time to divest the security.

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of investment in a single issue. As of June 30, 2006 and 2005, the System did not have investments in any one organization, other than the U.S. government, which represented greater than 5% of plan net assets.

The investments of the Group Life Insurance Fund were in a single common collective trust until November 2005; after that time the investments are commingled with the Pension Fund and allocated based on relative net asset balances.

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All of the System's fixed income portfolios are managed in accordance with contractual guidelines. These guidelines specify a level of tracking error. The investment manager has the responsibility of determining the amount of interest rate risk which is compatible with the specified tracking error. In addition, contractual guidelines generally specify a range of effective duration for the portfolio. Duration is widely used in the management of fixed income portfolios as a measure of a debt investment's exposure to fair value changes arising from changing interest rates. The following table details the System's interest rate risk for its investments at June 30, using the segmented time distribution method.

June 30, 2006

Investment Type	Market Value	Less than 1 Year	1 to 6 Years	6 to 10 Years	10+ Years
Asset-Backed Securities	$ 57,288,697	$ –	$ 5,506,196	$ 1,167,561	$ 50,614,940
Corporate Bonds	122,872,972	9,983,774	107,600,798	2,587,514	2,700,886
Government Bonds	3,567,878	–	–	–	3,567,878
Government Mortgage-Backed Securities	233,722,231	–	–	–	233,722,231
Treasury Inflation Protected Securities	2,723,917,322	–	–	–	2,723,917,322
Nongovernment-Backed Collateralized Mortgage Obligations	213,217,290	–	5,738,390	–	207,478,900
Other Fixed Income	3,894,462	–	3,894,462	–	–
Total	$ 3,358,480,852	$ 9,983,774	$ 122,739,846	$ 3,755,075	$ 3,222,002,157

June 30, 2005

Investment Type	Market Value	Less than 1 Year	1 to 6 Years	6 to 10 Years	10+ Years
Asset-Backed Securities	$ 75,330,977	$ 2,101,170	$ 766,377	$ 1,329,268	$ 71,134,162
Commercial Paper	1,871,290	1,871,290	–	–	–
Corporate Bonds	36,524,112	18,383,378	18,140,734	–	–
Government Bonds	35,239,230	–	6,264,000	2,968,835	26,006,395
Government Mortgage-Backed Securities	229,533,724	–	–	–	229,533,724
Treasury Inflation Protected Securities	2,784,962,191	–	–	–	2,784,962,191
Nongovernment-Backed Collateralized Mortgage Obligations	53,640,388	–	–	–	53,640,388
Short-Term Bills and Notes	494,100	494,100	–	–	–
Total	$ 3,217,596,012	$ 22,849,938	$ 25,171,111	$ 4,298,103	$ 3,165,276,860

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

Foreign currency risk is that changes in exchange rates will adversely impact the recorded fair value of an investment. The System's currency exposures reside primarily in the System's international equity investments. Managers may or may not hedge a portfolio's foreign currency exposure with currency forward contracts depending on their views of the currency relative to the dollar. All of the System's portfolios are managed in accordance with contractual guidelines. These guidelines specify a level of tracking error. The investment manager has the responsibility of determining the amount of foreign currency risk that is compatible with the specified tracking error. The System's exposure to foreign currency risk in U.S. dollars as of June 30, is highlighted in the table below:

June 30, 2006			
Currency	**Cash**	**Equity**	**Total**
Australian Dollar	$ –	$ 19,059,451	$ 19,059,451
Brazilian Real	909,050	–	909,050
Canadian Dollar	–	36,397,353	36,397,353
Swiss Franc	(2,346,626)	56,782,893	54,436,267
Chilean Peso	1,014,652	–	1,014,652
Chinese Yuan Renminbi	11,805,706	–	11,805,706
Danish Krone	–	3,190,012	3,190,012
Euro	352,090	282,456,112	282,808,202
British Pound Sterling	1,837,796	108,618,915	110,456,711
Hong Kong Dollar	4,123,588	20,351,610	24,475,198
Indonesian Rupiah	1,892	2,140,750	2,142,642
Japanese Yen	928,766	133,764,204	134,692,970
South Korean Won	–	12,736,177	12,736,177
Mexican Peso	653,837	1,829,985	2,483,822
Malaysian Ringgit	–	1,043,750	1,043,750
Norwegian Krone	171,668	7,344,728	7,516,396
Swedish Krona	257,245	18,887,160	19,144,405
Singapore Dollar	47,129	4,578,367	4,625,496
Slovak Koruna	–	1,957,396	1,957,396
Turkish Lira	–	2,127,491	2,127,491
New Taiwan Dollar	578,916	9,055,570	9,634,486
South African Rand	168,985	15,701,751	15,870,736
Total	$ 20,504,694	$ 738,023,675	$758,528,369

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

June 30, 2005

Currency	Cash	Equity	Fixed Income	Total
Australian Dollar	$ –	$ 22,743,622	$ –	$ 22,743,622
Canadian Dollar	(1,700,150)	24,618,408	–	22,918,258
Swiss Franc	(4,115,894)	39,740,565	–	35,624,671
Danish Krone	–	937,144	–	937,144
Euro	(25,174,948)	176,461,752	26,006,395	177,293,199
British Pound Sterling	(938,638)	61,733,550	–	60,794,912
Hong Kong Dollar	–	8,720,779	–	8,720,779
Hungarian Forint	–	614,631	–	614,631
Indonesian Rupiah	(68,187)	2,701,721	–	2,633,534
Japanese Yen	1,465,756	99,563,536	–	101,029,292
South Korean Won	–	35,718,754	–	35,718,754
Mexican Peso	–	1,321,921	–	1,321,921
Malaysian Ringgit	–	2,006,345	–	2,006,345
Norwegian Krone	–	1,026,771	–	1,026,771
Swedish Krona	–	14,535,126	–	14,535,126
Singapore Dollar	–	3,246,242	–	3,246,242
Turkish Lira	–	529,577	–	529,577
New Taiwan Dollar	2,011,929	7,968,496	–	9,980,425
South African Rand	49	9,161,530	–	9,161,579
Total	$(28,520,083)	$ 513,350,470	$ 26,006,395	$510,836,782

Fixed income foreign investments at June 30, 2005 mature as follows:

Date	
April 7, 2027	$ 7,582,785
April 1, 2030	11,335,025
April 25, 2055	7,088,585
	$ 26,006,395

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

4. Derivative Securities

Derivative financial instruments are financial contracts whose value depends on the value of one or more underlying assets, reference rates or financial indices. They include futures, forwards, options, and swap contracts. In addition, some traditional securities can have derivative-like characteristics, e.g., asset-backed securities, including collateralized mortgage obligations (CMOs), which are sensitive to changes in interest rates and to prepayments.

The System is a party, both directly and indirectly, to various derivative financial investments that are used in the normal course of investing to enhance returns on investments and to manage the risk of exposure to changes in value due to fluctuations in market conditions. The System's investments in derivatives are not leveraged, nor do they represent speculative investment activity. These investments may involve, to varying degrees, elements of credit and market risk. Custodial credit risk is the risk that in the event of a financial institution failure, the System's investments may not be returned to it. Derivative securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name. The System's investments in derivative securities only have nominal exposure to custodial credit risk. Credit risk, also called counterparty risk, is the possibility that loss may occur from the failure of a counterparty to perform according to the terms of the contract. Credit risk is managed, in the case of exchange-traded derivatives, by the execution of trades through a clearinghouse and, in the case of over-the-counter transactions, by managers' due diligence assessment and approval of counterparties. Market risk arises due to adverse changes in market price or to interest rate or foreign exchange rate fluctuations that may result in a decrease in the market value of a financial investment and/or increase its funding cost. Market risk is managed by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits.

Foreign currency forward contracts are used to hedge against the currency risk in the System's foreign equity and fixed income security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed upon price. The contracts are valued at forward exchange rates, and the changes in value of open contracts are recognized in the statement of changes in fiduciary net assets. The unrealized gain or loss on forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in the statements of changes in fiduciary net assets. As of June 30, 2006 and 2005, the fair value of forward currency contracts held by the System was $17,666,494 and $13,455,881, respectively.

The System's fixed income managers invest in CMOs to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2006 and 2005, the carrying value of the System's CMO holdings totaled $206,904,539 and $53,640,388, respectively.

The System's managers also invest in swaps. Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities. Long swap positions increase exposure to long term rates; short positions decrease exposure. Credit default swaps are used to manage credit exposure. Purchased credit default swaps decrease credit exposure, while written credit default swaps increase exposure. Total return swaps are a means to gain exposure to an index. As of June 30, 2006 and 2005, the System carried swaps with fair market values of $5,545,878 and $(5,300,566) and notional values of $905,012,518 and $97,900,000, respectively.

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

The System also holds investments in futures and options, which are used to manage various risks within the portfolio. A financial futures contract is an agreement between two parties to buy or sell units of a particular index or a certain amount of a security at a set price on a future date. The System may purchase and sell financial futures contracts to hedge against the effect of changes in the values of securities it owns or expects to purchase.

Upon entering into such a contract, the System is required to pledge to the broker an amount of cash or securities equal to a certain percentage of the contract amount (initial margin deposit). Pursuant to the contract, the System agrees to receive from, or pay to, the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as "variation margin" and are recorded by the custodial bank on behalf of the System as unrealized gains or losses. When the contract is closed, the custodial bank on behalf of the System records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The potential risk to the System is that the change in value of futures contracts primarily corresponds to the value of the underlying instruments, which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that the System may not be able to close out its futures positions due to an illiquid secondary market or the potential inability of a counterparty to meet the terms of a contract.

Futures and options with a fair value of $(1,809,234) and $(5,031,719) and notional value of $1,182,038,801 and $745,869,337 were held for investment purposes at June 30, 2006 and 2005, respectively. Gains and losses on futures and options are determined based upon quoted market prices and recorded in the statements of changes in plan net assets.

In addition to the derivative financial instruments directly held, the System may have indirect exposure to risk through its ownership interests in commingled investment funds, which use, hold or write derivative financial instruments. There also may be indirect exposure in the securities lending programs in which the System participates, in which some collateral pools may include derivatives (note 5). Where derivatives are held in those funds/pools, risks and risk management are as described above.

5. <u>Securities Lending</u>

The System has entered into agreements with its master custodian to lend to broker-dealers and other entities any type of security held in the System's portfolio and custodied at the master custodian. Securities are loaned against collateral that may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned against collateral generally valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned against collateral valued at 105% of the market value of the securities plus any accrued interest.

Noncash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of System's loans was approximately 232 days and 169 days as of June 30, 2006 and 2005, respectively.

Cash open collateral is invested in a short-term investment pool, the Global Core Collateral Section, which had an interest sensitivity of 39 and 28 days as of June 30, 2006 and 2005, respectively. Cash collateral may also be invested separately in "term loans," in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

During fiscal years 2006 and 2005, there were no violations of legal or contractual provisions, and no borrower or lending agent default losses identified to the System by the securities lending agent.

There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to the System on approximately the fifteenth day of the following month.

Custodial credit risk is the risk that the System's securities are not returned due to the insolvency of a borrower and the master custodian has failed to live up to its contractual responsibilities relating to the lending of those securities. The master custodian's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. At June 30, 2006 and 2005, all of the collateral for securities lending is subject to custodial credit risk.

Because of the program's collateralization of loans, generally at 102% (or more), plus accrued interest for fixed income securities, the System believes that there is no credit risk as defined in GASB 28 and GASB 40.

Some of the System's assets are held in common/collective trusts and are subject to similar agreements arranged by those trusts. The income from those arrangements and the associated collateral are not included in the securities lending amounts reported.

Securities on loan by asset class:

	2006	2005
Domestic equity	$ 164,211,206	$ 126,435,054
International equity	243,443,014	204,785,132
Domestic fixed income	15,876,934	5,715,426
International fixed income	–	17,843,027
U.S. Government and government agencies	2,634,717,010	2,803,643,010
Total securities on loan	$ 3,058,248,164	$3,158,421,649

Securities lending collateral:

	2006	2005
Short-term investment collateral pool	$ 2,673,920,559	$2,636,500,591
Noncash collateral (debt and equity securities, at fair value)	441,347,998	609,417,834
Total collateral	$ 3,115,268,557	$3,245,918,425

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

6. Contributions

Defined Benefit Contributions

Retirement benefits are funded by contributions from members and employers and by earnings from investments. Disability and death benefits are funded by employer contributions and by investment earnings. Member and employer contributions are each a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employers' contribution rates are determined by annual actuarial valuations.

The Maine Constitution, Maine statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, based on certain assumptions, are expressed as percentages of annual covered payroll and are sufficient to accumulate adequate assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method, except for the contribution rate for legislators, which is based on the aggregate method. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan. For participating local districts having separate (i.e., unpooled) unfunded liabilities, the level percentage of payroll method is also used.

Included in the State and Local Agency Contributions in the statements of changes in fiduciary net assets are contributions received from the State of Maine on behalf of state employees, judges, and teachers in the total amount of $264.6 million and $252.9 million for the years ended June 30, 2006 and 2005, respectively. There were no contributions due from the State of Maine on behalf of legislators in 2006 or 2005.

The State of Maine is required by Maine law to remit a percentage of its unallocated General Fund Surplus, if sufficient, at the end of its fiscal year to the System, in order to reduce any unfunded pension liability for state employees and teachers. For fiscal years 2006 and 2005, this additional contribution was approximately $17,000,000 and $13,000,000, respectively. This amount is included as contributions receivable at June 30.

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

Retirement contribution rates for all employee members are set by law. Employer retirement contribution rates as applied to State employee members' and teacher members' compensation are the actuarially determined rates as adjusted in the State's budget process to reflect differences in, e.g., salary growth projections. PLD employer contribution rates are the actuarially determined rates. The rates in effect in 2006 and 2005 are as follows:

Contribution Rates
(effective July 1 through June 30 of each fiscal year)

	2006	2005
State:		
Employees[(1)]	7.65 – 8.65%	7.65 – 8.65%
Employer[(1)]	15.09 – 45.94%	13.39 – 38.18%
Teachers:		
Employees	7.65%	7.65%
Employer	17.23%	16.02%
Participating local districts:		
Employees[(1)]	3.0 – 8.0%	3.0 – 8.0%
Employers[(1)]	1.5 – 6.5%	1.5 – 6.5%
Employer other[(2)]	5.1 – 10.3%	5.1 – 9.0%

(1) Employer and Employee retirement contribution rates vary depending on specific terms of plan benefits for certain classes of employees or in the case of PLDs, on benefit plan options selected by a particular PLD. The contributions of withdrawn entities that do not have active employees but continue to have other liabilities are set in dollar amounts, not as rates.

(2) "Employer Other" retirement contribution rates vary depending on specific terms of plan benefits in the benefit plan options selected by the PLD. These rates are assessed for a three year period to previously withdrawn PLDs who choose to return to participation in the System, and to public entities that newly elect to participate in the System as a PLD employer.

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

Group Life Insurance Premiums

The basic life benefits for participants are funded by the State, school districts, participating local districts and individuals. Participants pay additional premiums for Supplemental and Dependent insurance based upon the coverage selected.

Premium rates are those determined by the Board to be actuarially sufficient to pay anticipated claims. The State pays a premium rate of $0.30 per $1,000 of coverage per month for active state employees. Active teachers and employees of participating local districts, as well as retired members of participating local districts, pay a premium rate of $0.22 and $0.46 per $1,000 of coverage per month, respectively, some or all of which may be deducted from employees' compensation as per individual agreements between employers and employees.

Included in the State and Local Agency Premiums in the statements of changes in fiduciary net assets are group life insurance premiums received from the State of Maine on behalf of active and retired state employees, judges, and legislators in the total amount of $6.4 million and $6.3 million for the years ended June 30, 2006 and 2005, respectively.

7. **Benefits**

Defined Benefit Plan

The System's retirement programs provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten year requirement was reduced by legislative action to five years for State employees and teachers; separate legislation enacted the same reduced requirement for judges, legislators, and employees of PLDs). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees and teachers, judges and legislative members is age 60 or 62. The normal retirement age is determined by whether a member had at least ten years of creditable service on June 30, 1993. For PLD members, normal retirement age is 60. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employee and teacher members and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 6.0%.

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

Group Life Insurance Plan

Group Life Insurance Plan coverage available to eligible participants includes Basic insurance which consists of life insurance and accidental death and dismemberment insurance in the amount equal to the participant's annual base compensation rounded up to the next $1,000. Additional insurance coverage of equal amounts to that described for Basic insurance, known as Supplemental insurance, is available to each participant who elects coverage under the Basic insurance. Participants may also elect to insure the life of a dependent not otherwise insured in the group under the Basic and Supplemental insurance provisions of the plan.

For most participant groups, upon service retirement, Basic life insurance only in an amount equal to the retiree's average final compensation will continue at no cost to the participant given that the retiree participated in the group life insurance plan prior to retirement for a minimum of 10 years. The initial amount of Basic life that is retained in retirement is subsequently reduced at the rate of 15% per year to the greater of 40% of the initial amount or $2,500. For additional information concerning the exceptions for members of the judiciary who retired prior to September 14, 1979, please contact the Group Life Insurance Unit of the MSRS.

If a participant becomes eligible for disability retirement, the amount of Basic insurance in force at the time of such retirement will be continued until normal retirement age, after which the amount will be reduced at the same rate as for a service retiree. The 10-year participation requirement does not apply to recipients of disability retirement benefits.

Under the Accidental Death and Dismemberment provisions of the plan, no legal action can be brought to recover under any benefit after 3 years from the deadline for filing claims. The deadline for filing claims under the Accidental Death and Dismemberment provisions of the plan is 90 days after the date of the loss giving rise to the claim.

All benefits are processed and paid by a third-party administrator (TPA). The fees incurred for services performed by the TPA totaled $596,730 and $630,176 for the years ended June 30, 2006 and 2005, respectively, and are listed as claims processing expenses in the basic financial statements.

8. Statutory and Constitutional Requirements

An amendment to the Maine constitution approved in November 1995 requires the State to fund the unfunded actuarial liabilities of the State and teacher plans existing on June 30, 1996, over a period not to exceed 31 years beginning July 1, 1997. The amendment also prohibits the creation of new unfunded liabilities in the State and teacher plans except those arising from experience losses, which must be funded over a period of not more than ten years. In addition, the amendment requires use of actuarially sound current cost accounting, reinforcing existing statutory requirements. In 1998, the State enacted a statute that required the State to fund the unfunded actuarial liabilities of the State and teacher plans existing on June 30, 1998 over a period not to exceed 25 years, commencing June 30, 1998, thus adopting a shorter amortization period than required by the State constitution. In 2000, the amortization period was further reduced by the Legislature to 19 years, commencing June 30, 2000. The two legislative changes made in 1998 and 2000 shortened the amortization period by a total of nine years. In 2004, the Legislature re-extended the amortization period to the full extent permitted under the constitution for the fiscal 2004 – 2005 biennial budget, including a "sunset" provision which would have the effect of

NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005
(continued)

reducing the amortization period beginning July 1, 2005 (the beginning of fiscal year 2006) back to 14 years. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028.

9. System's Employees

Defined Benefit Plan

The System, as the employer of its staff, is a participating employer (i.e., a PLD) in the Consolidated Plan for Participating Local Districts administered by the Maine State Retirement System. As such, System employees are required by statute to contribute 6.5% of their annual covered salaries. The System is required to contribute at an actuarially established normal cost rate under the actuarial valuation of the Consolidated Plan. The normal cost rate was 2.8% of annual covered payroll for 2006, 2005 and 2004, respectively, and the employer contribution on behalf of its employees, equal to the required contribution, was $154,076, $152,086 and $160,022 for 2006, 2005 and 2004, respectively. The actuarial assumptions used in the Consolidated Plan valuation are described in the actuarial assumptions and methods footnote to the required supplementary information.

Group Life Insurance Plan

The System, as the employer of its staff, is a participating employer (i.e., a PLD) in the Group Life Insurance plan administered by the Maine State Retirement System. The System pays the premiums for Basic only coverage for all active employees. Employees who elect additional coverage under the Supplemental and/or Dependent provisions have the additional required premiums withheld from their pay in order to fund such coverage.

The System was required to pay premiums for Basic coverage at the rate of $0.46 per $1,000 of coverage for the 2006, 2005, and 2004 fiscal years. The total premiums the System paid on behalf of its active employees were $27,441, $27,221, and $26,787 for 2006, 2005, and 2004, respectively.

The System, as a PLD, is also required to continue to pay the Basic Group Life Insurance premiums due for its retirees, based upon the reduced coverage for retired employees. The total premiums paid by the System on behalf of its retirees were $2,793, $2,531, and $2,381, for 2006, 2005, and 2004, respectively.

REQUIRED SUPPLEMENTAL SCHEDULE

SCHEDULE OF HISTORICAL PENSION INFORMATION DEFINED BENEFIT PLAN

June 30, 2006
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
June 30, 2006	$ 9,530,598,662	$ 12,357,418,259	$ 2,826,819,597	77.1%	$ 1,872,588,130	151.0%
June 30, 2005	8,888,156,289	11,689,732,025	2,801,575,736	76.0	1,821,366,540	153.8
June 30, 2004	8,273,559,503	11,068,596,692	2,795,037,189	74.7	1,764,751,029	158.4
June 30, 2003	7,787,205,499	10,470,578,120	2,683,372,621	74.4	1,719,311,023	156.1
June 30, 2002	7,612,509,160	9,889,494,007	2,276,984,847	77.0	1,681,423,896	135.4
June 30, 2001	7,389,558,862	9,425,021,636	2,035,462,774	78.4	1,580,530,753	128.8

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS

Year Ended:	Annual Required Contribution	Annual Contribution	Percentage Contributed
2006	$ 300,345,741	$ 317,474,622	105.7%
2005	269,285,655	282,292,459	104.8
2004	259,147,805	290,572,267	112.1
2003	261,213,019	285,646,014	109.4
2002	252,503,429	415,551,283	164.6
2001	264,648,938	264,648,938	100.0

See notes to historical pension information.

See accompanying independent auditors' report.

REQUIRED SUPPLEMENTAL SCHEDULE

SCHEDULE OF HISTORICAL PENSION INFORMATION
GROUP LIFE INSURANCE PLAN

June 30, 2006
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Dollars in Millions

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Liability	(b-a) Unfunded Actuarial Liability	(a/b) Funded Ratio
June 30, 2006	$ 43.5	$ 129.8	$ 86.3	33.5%
June 30, 2005	41.8	127.0	85.2	32.9
June 30, 2004	40.1	91.7	51.6	43.7
June 30, 2003	39.0	87.3	48.3	44.7
June 30, 2002	36.6	83.2	46.6	44.0
June 30, 2001	34.0	79.5	45.5	42.8

See notes to historical pension information.

See accompanying independent auditors' report.

NOTES TO HISTORICAL PENSION INFORMATION
June 30, 2006 - UNAUDITED

1. Basis of Presentation

For reporting purposes, the historical pension information includes combined amounts for all participating entities: State employees, teachers, judicial and legislative employees, as well as employees of participating local districts.

2. Actuarial Methods and Assumptions – State, Teacher, Judicial, and PLD Valuations

The information in the historical pension information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 2006, is as follows:

Actuarial Cost Method

Costs are developed using the entry age normal cost method (based on a level percentage of covered payroll), except for the costs of the legislative plan, where the aggregate method is used. The aggregate method does not technically define an actuarial accrued liability. For purposes of the schedule of funding progress disclosure, in which all plans are combined, the accrued actuarial liability of approximately $7.9 million equals the actuarial value of assets. Under the entry age normal method, the accrued liability and the present value of future normal costs are determined by summing the individual entry age results for each participant. The normal cost is then determined in aggregate by spreading the present value of future normal costs as a level percentage of expected future covered payroll. Entry age is defined as the first day service is credited under the plan.

Experience gains and losses, i.e., decreases or increases in liabilities and/or in assets when actual experience differs from the actuarial assumptions, affect the unfunded actuarial accrued liability.

Asset Valuation Method

Assets are valued for funding purposes using a three-year moving average. Under this method, the year-end actuarial asset value equals 1/3 of the current fiscal year-end fair value, as reported in the financial statements, plus 2/3 of the "expected market value." For purposes of this calculation, the "expected market value" is the preceding fiscal year's actuarial asset value, adjusted for the current fiscal year's cash flows with interest accumulated at the actuarial assumed rate of return on investments.

Amortization

The unfunded actuarial accrued liability of the state employee and teacher plan is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements (note 8 to the Financial Statements). The unfunded actuarial accrued liability credit of the judicial plan is amortized over a period of which 11 years remained at June 30, 2006.

The Initial Unpooled Unfunded Actuarial Liabilities (IUUALs) of PLDs are amortized over periods established for each PLD separately. During fiscal years 2006 and 2005, various PLDs contributed in total approximately $128,881 and $6,800, respectively, to reduce or pay in full their IUUALs. The Consolidated Plan has no Pooled Unfunded Actuarial Liability.

NOTES TO HISTORICAL PENSION INFORMATION
June 30, 2006 - UNAUDITED
(continued)

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2006 are as follows:

Investment Return – 7.75% per annum, compounded annually; changed from 8.0% used at June 30, 2005.

Salary Increases – State employee and teacher plan, 4.75% to 10.0% per year (5.5% to 9.5% used at June 30, 2005); judicial plan, 4% per year (5% used at June 30, 2005); Consolidated Plan for PLDs, 4.5% to 9% per year.

Mortality Rates – For active State employee members and non-disabled retirees of the State employees', participating local district's and judicial plans, the UP 1994 Tables are used; for active members and non-disabled retirees of the teacher's plan, 85% of the UP 1994 Tables are used; for all recipients of disability benefits, the RPA 1994 Table for pre-1995 disabilities is used.

Cost of Living Benefit Increases – 3.75% per annum; changed from 4.0% used at June 30, 2005.

3. Actuarial Methods and Assumptions – Legislative System

The historical pension information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 2006, is as follows:

Actuarial Cost Method

The aggregate actuarial funding method is used to determine costs. Under this funding method, the total employer contribution rate consists of only one element, the normal cost rate. The normal cost rate is developed by taking the difference between the present value of future benefits, less future member contributions, and less the actuarial value of fiduciary assets and dividing the difference by the present value of future payroll.

Under the aggregate actuarial funding method, there is no unfunded actuarial liability since the Actuarial Accrued Liability is set exactly equal to the actuarial value of assets.

Asset Valuation Method

The actuarial valuation employs a technique for determining the actuarial value of assets which dampens swings in market value. The specific technique adopted in this valuation recognizes in a given year one third of the investment return that is different from the 7.75% actuarial assumption for investment return.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2006 are as follows:

Investment Return – 7.75% per annum, compounded annually; changed from 8% used at June 30, 2005.

Salary Increases – 4.75% per year; changed from 5% used at June 30, 2005.

Mortality Rates – For all active and non-disabled retired legislators, the UP 1994 Tables are used; for all recipients of disability benefits, the RPA 1994 Tables for pre-1995 disabilities is used.

Cost of Living Benefit Increases – 3.75% per annum; changed from 4% used at June 30, 2005.

NOTES TO HISTORICAL PENSION INFORMATION
June 30, 2006 - UNAUDITED
(continued)

4. <u>Actuarial Methods and Assumptions – Group Life Insurance Plan</u>

Many of the assumptions used to determine the actuarial liability are the same as for the pension plan.

The information in the historical group life information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 2006, is as follows:

<u>Actuarial Cost Method</u>

The individual entry age normal method is used to determine liabilities. Under the individual entry age normal method, a normal cost rate is calculated for each employee. This rate is determined by taking the value, as of age at entry into the plan, of the member's projected future benefits, and dividing it by the value, also as of the member's entry age, of his expected future salary. The normal cost for each employee is the product of his pay and his normal cost rate. The normal cost for the group is the sum of the normal costs for all members.

The actuarial liability is defined as the present value of future benefits less the present value of future normal costs. The unfunded actuarial liability is the total of the actuarial liability for all members less the actuarial value of the System's assets.

Experience gains and losses, i.e., decreases or increases in liabilities and/or in assets when actual experience differs from the actuarial assumptions, affect the unfunded actuarial liability.

<u>Asset Valuation Method</u>

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2006 are as follows:

Investment Return – 7.75% per annum, compounded annually; changed from 8% used at June 30, 2005.

Salary Increases – State employee and teacher plan, 4.75% to 10.0% per year (5.5% to 9.5% used at June 30, 2005); judicial plan, 4% per year (5% used at June 30, 2005); legislative plan, 4.75% per year (5% used at June 30, 2005); Consolidated Plan for PLDs, 4.5% to 9% per year.

Mortality Rates – For all active members and non-disabled retirees of the State employees', participating local district's, judicial and legislative plans, the UP 1994 Tables are used; for active members and non-disabled retirees of the teacher's plan, 85% of the UP 1994 Tables are used; for all recipients of disability benefits, the RPA 1994 Table for pre-1995 disabilities is used.

Cost of Living Benefit Increases – N/A.

Participation Percent for Future Retirees – 100% of those currently enrolled.

Conversion Charges – Apply to the cost of active group life insurance not retiree group life insurance.

Form of Benefit Payment – Lump Sum.

INVESTMENTS SECTION

ENNISKNUPP
25 Years

November 20, 2006

Board of Trustees
Maine State Retirement System
46 State House Station
Augusta, ME 04333-046

As independent investment advisor to the Board of Trustees of the Maine State Retirement System ("MSRS"), we comment on the reporting of MSRS investment results, MSRS investment policy and the Board's oversight of System investments.

Investment Results. Investment results are calculated independently by Northern Trust, and reviewed by Ennis Knupp + Associates for reasonableness. It is our understanding that all measurements and comparisons have been made using standard performance evaluation methods. MSRS investment results, as presented in this report, fairly represent, in our opinion, the investment performance of MSRS assets.

Investment Policy. MSRS assets are managed under well-articulated policies, which, in our opinion, are appropriate to the circumstances of MSRS. Investment policy is progressive, yet prudent. The policies ensure diversification and exhibit attention to risk control generally. Throughout the year the Board, Executive Director and staff have taken appropriate measures to ensure that investments have conformed with the Board's policies.

Prudent Oversight. While delegating day-to-day investment management responsibility to its staff, the Board retains the responsibility to monitor all aspects of investment. In our opinion, the Board has established and executed an appropriately comprehensive process for overseeing the management of assets. Through regular reviews by the Board, quarterly performance appraisals by an independent firm, and the day-to-day oversight activities of the staff, the Board has achieved a high degree of awareness and critical oversight of MSRS investments.

Very truly yours,

Neeraj Baxi

Neeraj Baxi, CFA
Principal

Ennis Knupp + Associates
10 South Riverside Plaza, Suite 1600
Chicago, Illinois 60606-3709

vox 312 715 1700
fax 312 715 1952
www.ennisknupp.com

INVESTMENT ACTIVITY

The table and graph below summarize portfolio activity for the ten years ended June 30, 2006. During this period, assets increased by approximately two and one quarter times from $4.3 billion to $9.6 billion. Approximately $5.1 billion of this increase is attributable to net investment gains, with the remainder attributable to contributions in excess of benefit payments over the period. In the year ended June 30, 2006 benefit payments again exceeded contributions, and this is expected to continue in the future.

The rates of return displayed in the table are time weighted rates of return, based on the market value of the assets. The table displays the net invested assets of the investment portfolio. Securities lending liabilities are netted against securities lending collateral. Certain assets, such as cash in the System's operating bank accounts and office buildings are not considered part of the investment portfolio, and are therefore not included in the table or graph.

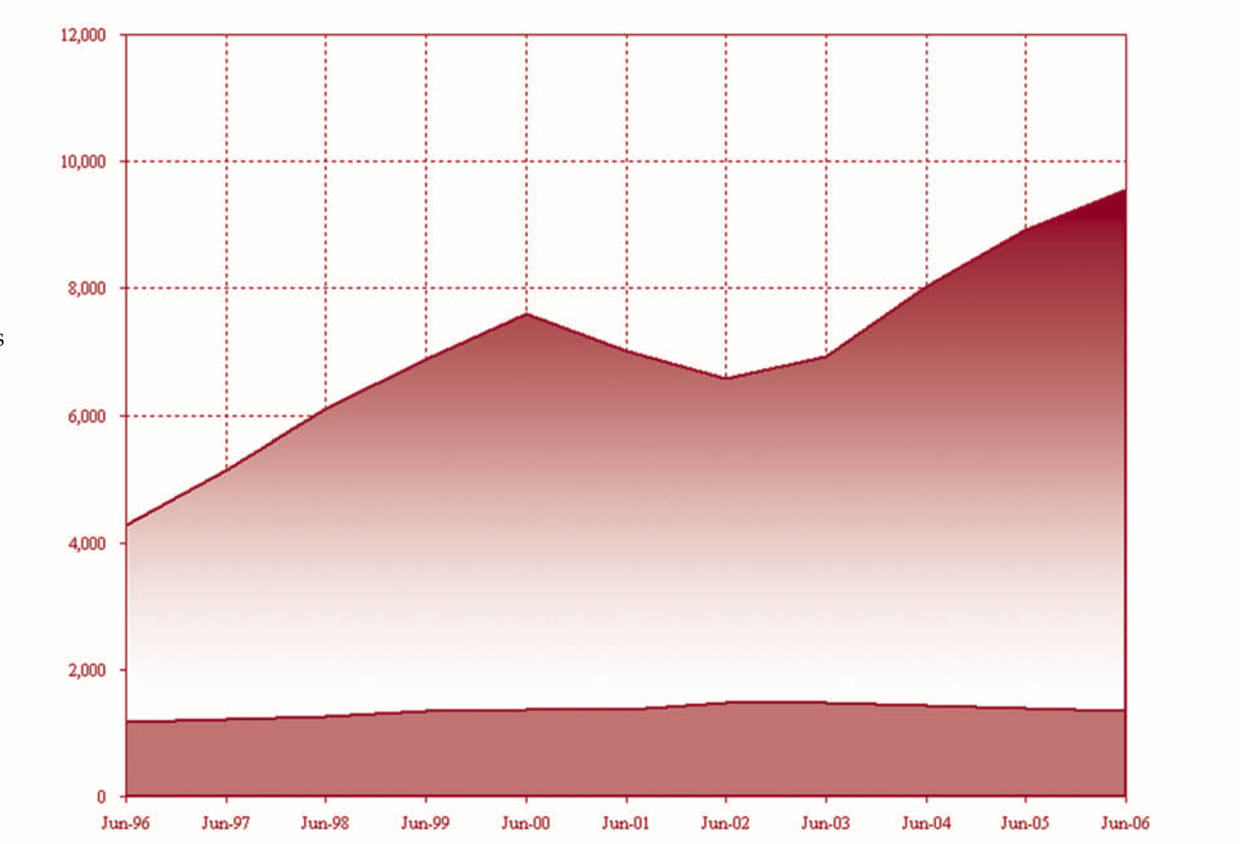
Prior to November 30, 2005, assets of the Group Life Insurance Plan were invested separately from the consolidated assets of the defined benefit plans. The Board of Trustees terminated this practice when they determined that the asset mix of the consolidated plans was a more appropriate investment strategy for the Group Life Insurance Plan. The assets of the Group Life Insurance Plan have been commingled with the consolidated assets of the defined benefit plans since November 30, 2005, and these assets are reflected in the tables that follow. See pages 66-67 for further information regarding the Group Life Insurance Plan.

SUMMARY OF INVESTMENT ACTIVITY

FY Ended June 30	**Opening Market Value**	**Closing Market Value**	**Rate of Return**
	(In Millions)		
2006	$8,921	$9,559	7.5%
2005	8,021	8,921	11.8%
2004	6,919	8,021	16.6%
2003	6,574	6,919	5.3%
2002	7,001	6,574	-7.5%
2001	7,587	7,001	-7.9%
2000	6,885	7,587	9.7%
1999	6,104	6,885	11.1%
1998	5,141	6,104	17.9%
1997	4,273	5,141	18.9%
10-year period	$4,273	$9,559	7.90%

SUMMARY OF INVESTMENT ACTIVITY *(continued)*

(In Millions of Dollars)



INVESTMENT PORTFOLIO

The graph above illustrates the importance of investment returns to the financing of the System's benefit plans. In this section, the investment strategy that MSRS has adopted to optimize the financial health of the plans is reviewed.

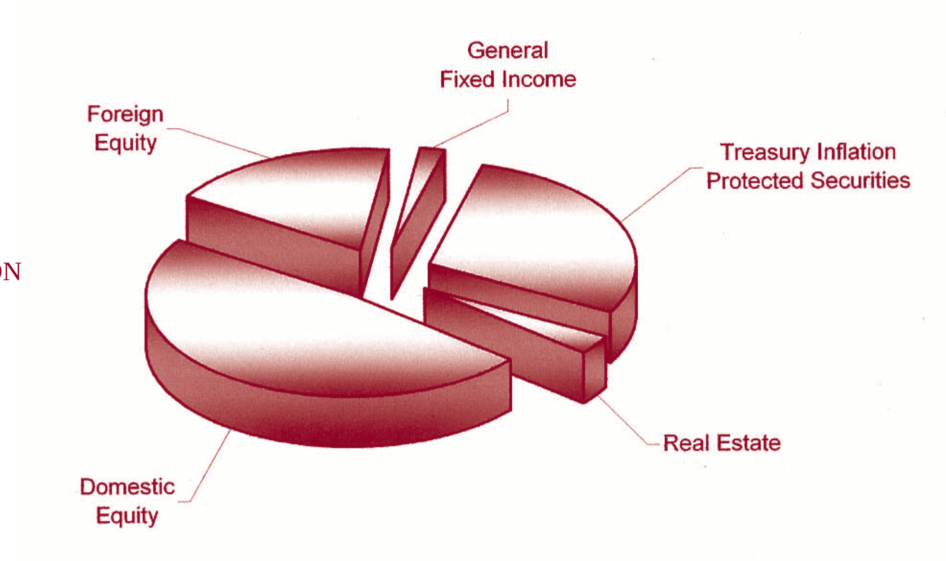
The System invests essentially all of the plan assets in five major asset classes: publicly traded domestic stocks, publicly traded foreign stocks, publicly traded bonds, real estate, and Treasury Inflation Protected Securities (TIPS). MSRS also uses derivatives positions to emulate these asset classes. Currently, less than 0.5% of the assets are invested in assets outside of these five categories. The table and pie charts below display the actual allocations at June 30 for the years ended June 30, 2006 and 2005. MSRS assigns target allocations for each asset class, with minor variations permitted between actual allocations and the targets. The current strategic targets are 50% for domestic stocks, 15% for foreign stocks, 1.75% for general fixed income securities, 3.25% for real estate and 30% for TIPS.

The Board of Trustees is of the view that a prudent investment strategy for these plan assets requires accepting some level of investment risk. The Board allocates 65% to 70% of assets to equities and equity-like securities and is of the view that this provides a prudent compromise between low risk and high return for the plans.

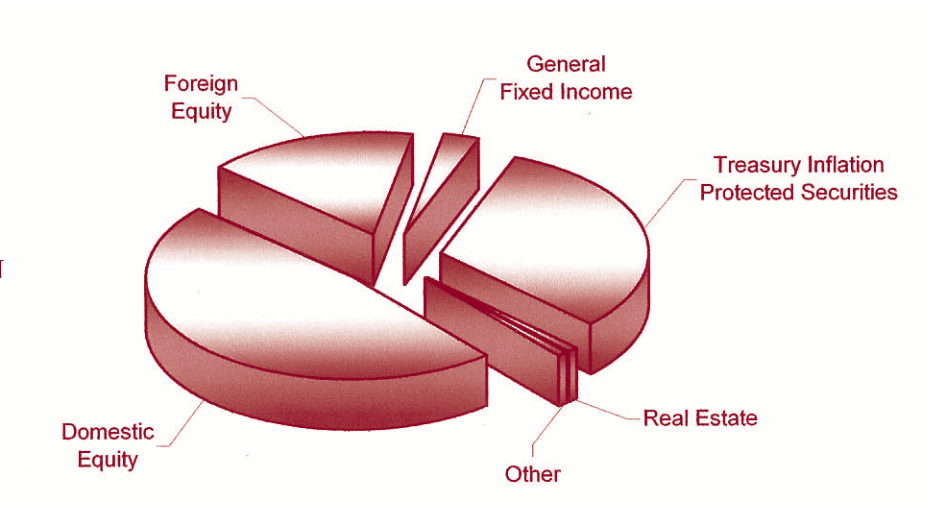
STRATEGIC ASSET ALLOCATION

Actual Allocations as of:	Domestic Equity	Foreign Equity	General Fixed Income	Treasury Inflation Protected Securities	Real Estate	Other
June 30, 2006	48%	18%	2%	29%	3%	0%
June 30, 2005	48%	17%	3%	31%	1%	1%

STRATEGIC ASSET ALLOCATION
At June 30, 2006



STRATEGIC ASSET ALLOCATION
At June 30, 2005



The System does not shift funds between asset classes based on short-term forecasts or results. The Board believes such "market timing" is a high-cost and high-risk strategy, inconsistent with the long-term nature of pension investments. In 2005, the Board of Trustees decided to initiate a 5% allocation to real estate. This allocation was to be phased in and funded through the gradual reduction of the target allocation for general fixed income investments from 5% to 0%. This change in allocation will be completed in 2007. In 2004, the System reduced its target allocation for general fixed income investments from 35% to 5% and created a target allocation of 30% for long maturity TIPS. Because benefit payments are tied to inflation, and because these payments are due many years into the future, the Board believes that the allocation to TIPS will better ensure that there are sufficient assets to pay these liabilities than would general fixed income instruments.

Because most of its benefit payments are not due for several decades into the future, the System has concluded that it is prudent to invest a substantial portion of its assets in equities. For the past ten years, the System has invested between 60% and 65% of its assets in equities. Over sufficiently long periods of time, equities have been shown to outperform bonds. (See Performance: Actual Returns vs. Benchmark Returns on pages 62-63). The System expects this relationship to hold in the future.

Essentially all of the assets of the System's plans are in portfolios managed by professional investment management firms. These managers act as fiduciaries and invest the assets assigned to them in accordance with the System's investment policies and the individual agreements between MSRS and the investment managers.

Approximately 52% of assets were invested in passively managed index funds and separate accounts at June 30, 2006. The Board of Trustees views index funds as a cost-effective way of investing in most of the world's capital markets. However, the System does make use of actively managed portfolios where it has identified managers who are thought to be able to add value over an index fund, net of all costs. In 2006, the MSRS added one new manager in global equities and two new real estate managers. At June 30, 2005, approximately 56% of assets were invested in passively managed index funds. The decrease to 52% that occurred during FY 2006 was the result of replacing passively managed domestic and foreign equity index funds with actively managed accounts. In addition, the passive general fixed income fund continued to be reduced in order to fund the real estate allocation as described previously. Historically, the System's proportion of passively managed assets is between 50% and 60%.

The System uses a single firm to manage all of its passive investments. This enables the System to obtain attractive fees and also provides other cost savings on certain kinds of transactions. Since passively managed portfolios have extremely low risk of underperforming their benchmarks, the Board finds this concentration of risk to be appropriate.

BENEFIT PLANS
INVESTMENT PORTFOLIO

	at 6/30/2006		at 6/30/2005	
	millions of dollars	**% of assets**	**millions of dollars**	**% of assets**
Active Equity				
Jacobs Levy Equity Management	775	8%	805	9%
Wellington Management Company	537	6%	516	6%
Pacific Investment Management (PIMCO)	780	8%	792	9%
Legg Mason	286	3%	274	3%
Capital Guardian	583	6%	511	6%
Grantham, Mayo, Van Oterloo (GMO)	457	5%	424	5%
Templeton Investment Counsel	289	3%	0	0%
Barclays Global Investors	591	6%	533	6%
Other	0	0%	1	0%
	4,297	45%	3,855	43%
Passive Equity				
Barclays Global Investors (Domestic)	2,012	21%	1,835	20%
Barclays Global Investors (Foreign)	163	2%	223	2%
	2,175	23%	2,058	23%
Passive General Fixed Income				
Barclays Global Investors	157	2%	224	2%
Other	2	0%	3	0%
	159	2%	227	3%
Passive Treasury Inflation Protected Securities				
Barclays Global Investors	2,612	27%	2,673	30%
Real Estate				
Barclays Global Investors (Index REIT)	76	1%	22	0%
Principal	67	1%	20	0%
BlackRock	46	0%	0	0%
JP Morgan	35	0%	0	0%
Prudential	88	1%	20	0%
	311	3%	62	1%
Other				
Liquidity Account	4	0%	47	1%
PIMCO Low Duration Fund*	0	0%	43	0%
	4	0%	89	1%
Total Assets	9,559	100%	8,964	100%

* Group Life Insurance program investment prior to November 30, 2005. See page 66.

LARGEST HOLDINGS
At June 30, 2006

Top Ten Common Stock Holdings	$ Millions	% of Assets
GENERAL ELECTRIC CO	81	0.8%
EXXON MOBIL CORPORATION	75	0.8%
BANK OF AMERICA CORPORATION	61	0.6%
CITIGROUP INC	55	0.6%
JPMORGAN CHASE & CO	54	0.6%
PFIZER INC	49	0.5%
AMERICAN INTERNATIONAL GROUP	37	0.4%
GOOGLE INC	36	0.4%
MICROSOFT CORP	35	0.4%
SPRINT NEXTEL CORP	34	0.4%

Top Ten Bond Holdings	$ Millions	% of Assets
TIPS 2.375% of 01/15/2025	802	8.4%
TIPS 3.875% of 04/15/2029	789	8.2%
TIPS 3.625% of 04/15/2028	650	6.8%
TIPS 2.000% of 01/15/2026	287	3.0%
TIPS 3.375% of 04/15/2032	197	2.1%
FNMA POOL #877000 ADJ RT DUE 06-01-2035 BEO	40	0.4%
FNMA POOL #841068 ADJ RT DUE 11-01-2034 BEO	31	0.3%
FHLMC MULTICLASS SER T-62 CL 1A1 VAR DUE10-25-2044 REG	21	0.2%
CMO CITIGROUP MTG LN TR SER 2005-11 CL A2A 4.69999980927% DUE 09-25-2035 R	19	0.2%
CMO J P MORGAN MTG TR 2006-A2 CL 5-A-1 3.7533 DUE 12-31-2040 REG	15	0.2%

A complete list of securities holdings is available on request.

The System holds large positions in five Treasury Inflation Protected Securities (TIPS) issues. While the positions in these securities are large relative to other holdings, the Board believes they constitute an appropriate concentration of risk, since they are marketable securities carrying the full faith and credit of the government of the United States.

The System's index fund investments are made through commingled funds, with MSRS owning units in the funds, and having beneficial, rather than direct ownership of the securities. The largest holdings list reports beneficially owned securities as well as direct holdings held outside of the commingled funds.

SECURITIES LENDING

MSRS earns additional income on its investment portfolio by lending its securities. The System pays its custodian for managing the securities lending program. Information regarding the results of the securities lending program for the current and prior fiscal years may be found in the Financial Section starting on page 19.

Several of the collective trusts through which the System holds interests in commingled funds also lend securities. Because these trusts are legal entities separate from MSRS, their lending activities are not reflected in the securities lending results reported in the financial statements. The System shares in the income and the risks of the securities lending activity in the commingled funds, and the income is included in the total income and return figures in this Investment Section and the Financial Statements.

INVESTMENT PERFORMANCE

The table on the following pages displays the rates of return on the System's investment portfolio over the last ten years, and for the 3, 5, and 10-year periods ended June 30, 2006. Because the System's investment strategy has changed very little from year to year (aside from the substitution of TIPS for fixed income securities, and the addition of real estate funds), these results are determined almost entirely by the behavior of the capital markets. Negative returns for the years ended June 30, 2001 and 2002 were the result of declines in domestic and foreign stock markets, partially offset by gains in the domestic bond market.

The table contains three asset classes that were entered in 2005. The categories of Global Equity and Global Balanced were added because the Board has retained new managers whose investment mandates cross traditional asset class lines. The third added class is Real Estate.

Over the ten-year period, the average annual rate of return on the System's assets was 7.9%. MSRS experienced eight years of positive returns and two years of negative returns. These results are consistent with the long-term risk/return strategy that forms the basis of the System's policies. At 7.9%, the ten-year return is very close to the 8% investment return assumption utilized in the actuarial process throughout this period.

Because the Board of Trustees rarely changes its asset class allocation targets, most of the System's investment return is determined by the choice of targets, i.e., by the System's choice of investment strategy and, as mentioned above, the behavior of the capital markets in general. A minor portion of the investment return is determined by how well the investment managers perform their assignments. To measure this, the Board compares the return on each manager's portfolio to an appropriate benchmark. Over the ten years ended June 30, 2006, the return on the System's actual total portfolio slightly trailed the return on its total performance benchmark. Positive performance in four of the ten years was offset by negative performance in six of the ten years. In terms of asset classes, negative performance in domestic and international equities over the ten years was partially offset by positive or equal performance in other categories.

The total return figures in the table below are net of all expenses that can be directly attributed to the investment program (see Expenses, page 64). The table reports time weighted rates of return based on the market value of the assets.

PERFORMANCE: ACTUAL RETURNS VS. BENCHMARK RETURNS

	TOTAL FUND			DOMESTIC EQUITY			FOREIGN EQUITY			GLOBAL EQUITY		
FY Year Ended June 30	Actual Return	Benchmark Return	Performance	Actual Return	Benchmark Return	Performance	Actual Return	Benchmark Return	Performance	Actual Return	Benchmark Return	Performance
2006	7.5%	7.3%	0.2%	9.5%	9.9%	-0.4%	27.9%	27.9%	0.0%	20.6%	18.0%	2.6%
2005	11.8%	12.1%	-0.3%	7.9%	8.2%	-0.3%	15.7%	16.5%	-0.8%	-1.4%	-0.4%	-1.0%
2004	16.6%	15.9%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			
2003	5.3%	4.3%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			
2002	-7.5%	-6.8%	-0.7%	-17.6%	0.0%	-17.6%	0.0%	0.0%	0.0%			
2001	-7.9%	-7.8%	-0.1%	-10.2%	-11.0%	0.8%	-20.1%	-19.7%	-0.4%			
2000	9.7%	9.1%	0.6%	9.9%	-10.9%	20.8%	18.9%	-15.3%	34.2%			
1999	11.1%	12.7%	-1.6%	18.3%	23.6%	-5.3%	4.5%	30.6%	-26.1%			
1998	17.9%	18.7%	-0.8%	26.7%	28.9%	-2.2%	4.5%	2.2%	2.3%			
1997	18.9%	19.0%	-0.1%	27.6%	29.3%	-1.7%	16.2%	12.8%	3.4%			
3 years ended 2006	11.9%	11.7%	0.2%	12.8%	13.0%	-0.2%	24.6%	25.3%	-0.7%			
5 years ended 2006	6.4%	6.3%	0.1%	3.6%	4.0%	-0.5%	10.8%	11.4%	-0.6%			
10 years ended 2006	7.9%	8.1%	-0.2%	7.9%	8.5%	-0.6%	6.7%	6.8%	-0.1%			

Notes:

Fiscal year ended June 30, 2005 returns for Global Equity, Global Balanced, and Real Estate and their benchmarks are partial year returns.

Fiscal year ended June 30, 2004 returns for Treasury Inflation Protected Securities and the benchmark are partial year returns.

The General Fixed Income Return includes the Group Life Insurance Plan return for the period July 1, 2005 through November 30, 2005.

Certain returns in the Total Fund, Domestic Equity, and Foreign Equity categories prior to the year ended 2003 have been adjusted slightly from prior editions of the Comprehensive Annual Financial Report due to a change from quarterly-based calculations to monthly-based calculations that was applied retroactively.

TABLE CONTINUED ON NEXT PAGE

PERFORMANCE: ACTUAL RETURNS VS. BENCHMARK RETURNS

GLOBAL BALANCED			REAL ESTATE			GENERAL FIXED INCOME			TREASURY INFLATION PROTECTED SECURITIES		
Actual Return	Benchmark Return	Performance	Actual Return	Benchmark Return	Performance	Actual Return	Benchmark Return	Performance	Actual Return	Benchmark Return	Performance
7.6%	7.6%	0.0%	20.2%	20.5%	-0.4%	-0.5%	-0.8%	0.3%	-6.0%	-6.2%	0.2%
3.0%	1.8%	1.2%	6.6%	6.6%	0.0%	6.8%	6.8%	0.0%	17.2%	17.0%	0.2%
						0.0%	0.0%	0.0%	4.5%	4.8%	-0.3%
						0.0%	0.0%	0.0%			
						0.0%	0.0%	0.0%			
						7.2%	8.4%	-1.2%			
						10.4%	11.6%	-1.2%			
						1.4%	-0.8%	2.2%			
						10.5%	10.5%	-0.1%			
						8.7%	8.2%	0.6%			
						3.0%	2.1%	0.9%			
						5.8%	5.0%	0.8%			
						6.6%	5.8%	0.8%			

Benchmarks:

Total Fund: A combination of the the benchmarks for the five major asset classes using the target asset class weights.

Domestic Equity: DJ Wilshire 5000

Foreign Equity: Morgan Stanley Capital Internatinal All Country World Ex-U.S. Free, since Jan. 1, 1998 Morgan Stanley Capital International Europe, Australia, and Far East Index, prior to Jan 1, 1998

Global Equity: Morgan Stanley Capital International All Country World Index since December 31, 2004

Global Balanced: A combination of the benchmarks for Domestic Equity, Foreign Equity, and TIPS benchmarks, approximating the Total Fund benchmark

Real Estate: A combination of DJ Wilshire Real Estate Securities Index and National Council of Real Estate Investment Fiduciaries Property Index since July 1, 2005
DJ Wilshire Real Estate Securities Index from December 31, 2004 to June 30, 2005

General Fixed Income: Lehman Brothers Aggregate Bond Index, since Dec. 31, 2003
Lehman Brothers Universal Bond Index, from March 31, 2003 to Dec. 31, 2003
Lehman Brothers Aggregate Bond Index, prior to March 31, 2003

Treasury Inflation Protected Securities: Lehman Brothers U.S. Treasury Inflation Notes 10+ Year Index since Dec. 31, 2003

TABLE CONTINUED FROM PREVIOUS PAGE

INVESTMENT EXPENSES

The adjacent table displays investment management expenses directly attributable to the investment program and paid directly by the System. Examples of directly attributable expenses include fees paid to investment managers and compensation and expenses of the System's own investment staff. Examples of expenses that are not directly attributable to the investment program and therefore not included in expenses include office space expense and time spent on investment matters by staff other than full-time investment staff. Other expenses not paid directly by the System include the expenses of securities lending programs conducted by managers of the commingled funds.

Where the table displays an expense as a percentage of assets, the percentage is calculated with respect to the assets associated with the particular expense item. For example, Jacobs Levy's $2.72 million of management fees in 2006 was 0.35% of the assets managed by Jacobs Levy. The rise in investment management expenses in 2006 as compared to 2005 is due to increases in the real estate allocation and changes in the active investment portfolio that were effected partway through fiscal year 2005.

Expenses as a percentage of assets have been less than 0.25% annually throughout the ten-year period ended June 30, 2006. This compares favorably to, for example, investment expenses of 1% or more annually for typical mutual funds.

INVESTMENT MANAGEMENT EXPENSES

Detail for year ended 6/30/2006	Dollar Expense	% of Assets
Investment management fees	18,801,622	0.20%
Active Equity		
Jacobs Levy Equity Management	2,716,503	0.35%
Wellington Management Company	2,562,114	0.48%
Pacific Investment Management (PIMCO)	2,168,248	0.28%
Legg Mason	1,224,947	0.43%
Capital Guardian	2,590,447	0.44%
Grantham, Mayo, Van Oterloo (GMO)	1,862,385	0.41%
Templeton Investment Counsel	511,332	0.18%
Barclays Global Investors	1,933,810	0.33%
Other	2,600	1.01%
Passive Equity		
Barclays Global Investors (Domestic)	217,544	0.01%
Barclays Global Investors (Foreign)	69,053	0.04%
Passive General Fixed Income		
Barclays Global Investors	37,478	0.02%
Other	0	0.00%
Passive Treasury Inflation Protected Securities		
Barclays Global Investors	260,715	0.01%
Real Estate		
Barclays Global Investors (Index REIT)	48,000	0.06%
Principal	359,282	0.54%
BlackRock	241,716	0.52%
JP Morgan	29,120	0.08%
Prudential	387,068	0.44%
Other		
Liquidity Account	127,236	0.15%
PIMCO Low Duration Fund*	76,280	
Other Investment Expenses	1,375,747	

* Represents the investment expenses associated with the Group Life Insurance Plan from June 30, 2005 through November 30, 2005.

Total for FY ended June 30	$ millions	% of Total Assets
2006	18.8	0.20%
2005	15.3	0.17%
2004	12.0	0.16%
2003	9.6	0.14%
2002	10.4	0.15%
2001	10.8	0.15%
2000	12.2	0.17%
1999	12.1	0.19%
1998	10.6	0.19%
1997	10.7	0.23%

BROKERAGE COMMISSIONS
Year Ended June 30, 2006

Broker	Commissions $ millions	Amount traded $ millions	Commissions % of amount traded	Shares traded in millions	Commissions cents per share
CITIGROUP	0.27	292.52	0.09%	41.3	0.7
INVESTMENT TECHNOLOGY GROUP	0.27	1,306.80	0.02%	43.6	0.6
LIQUIDNET INC	0.16	249.18	0.06%	8.3	1.9
MERRILL LYNCH	0.15	146.27	0.10%	7.8	1.9
MORGAN STANLEY	0.14	178.38	0.08%	12.8	1.1
GOLDMAN SACHS	0.13	110.75	0.12%	11.6	1.1
BEAR STEARNS	0.12	227.51	0.05%	7.8	1.5
CREDIT SUISSE FIRST BOSTON	0.11	100.74	0.11%	6.9	1.6
UBS	0.09	76.47	0.12%	6.7	1.3
LEHMAN BROS INC	0.06	70.66	0.08%	1.9	3.2
ALL REMAINING BROKERS	0.82	822.27	0.10%	46.9	1.7
	2.34	**3,581.55**	**0.07%**	**195.5**	**1.2**

Commissions reported above are those paid directly by MSRS. The table does not include other transaction costs that the System may incur, nor does it include brokerage commissions incurred indirectly through investments in commingled funds. Brokerage commissions and other transaction costs are excluded from the expense table on page 64. Those commissions and expenses are accounted for in the net income and total return figures reported elsewhere in this report.

Selection of brokers is at the discretion of the System's investment managers, subject to their fiduciary obligations. MSRS does not have any directed brokerage programs, commission recapture programs, or similar arrangements. Some of the System's managers have soft dollar arrangements with brokers, in which the broker agrees to provide additional services to the manager beyond trade execution.

GROUP LIFE INSURANCE PLAN

INVESTMENT ACTIVITIES AND PERFORMANCE

The Group Life Insurance program is supported by premiums paid by its participants and by reserves. Substantially all the reserves are maintained in an investment portfolio, for which the summary results are displayed below. (Certain assets, such as the cash in the operating bank account, are not considered part of the investment portfolio.) Over this period, there has been a small net cash outflow from the investment portfolio, and the increase in portfolio value is solely attributable to investment return.

SUMMARY OF INVESTMENT ACTIVITIES

FY Ended June 30	Opening Fair Market Value	Closing Fair Market Value	Rate of Return
2006	42.9	44.3	3.1%
2005	41.8	42.9	2.7%
2004	41.5	41.8	0.7%
2003	39.3	41.5	5.5%
2002	36.6	39.3	7.5%
2001	34.4	36.6	9.5%
2000	32.9	34.4	3.8%
1999	29.7	32.9	3.9%
1998	28.0	29.7	6.1%
1997	28.3	28.0	6.1%
Ten years ended 2006	28.3	44.3	4.9%

During Fiscal Year 2006, the assets were combined with those of the other plans in the general investment portfolio. This change occurred on November 30, 2005. In the Board's view, this change will better position the Plan to meet its future obligations. Prior to November 30, 2005, the assets were invested in a medium term, investment grade fixed income portfolio, managed by Pacific Investment Management Company (PIMCO) in a mutual fund. Prior to April 2005, the funds were managed by State Street Global Advisors in a commingled fund of a similar nature. Because the assets were invested in a mutual fund, they were not available for the System's own securities lending program. Any securities lending undertaken by the mutual fund is not covered in this report, although any results are reflected in the total return and gain/loss figures.

Over the ten-year period ended June 30, 2006, the actual return on the portfolio was slightly higher than the return on the performance benchmark as reflected by the table on the following page. A portion of investment return is determined by how well the investment manager performs its assignment. To measure this, MSRS compares the returns on the actual portfolio to an appropriate benchmark. Positive performance in seven of the ten years slightly exceeded negative performance in the remaining three years. The table displays time weighted rates of return.

The fees paid by the portfolio are consistent with those detailed in the fees and expenses tables of the previous section. For the period of time the portfolio was invested in a mutual fund, fees were consistent with other holders of the institutional class of shares, as detailed in the fund's prospectus.

GROUP LIFE INSURANCE PLAN
PERFORMANCE: ACTUAL RETURNS VS. BENCHMARK RETURNS
Fiscal Years Ended June 30

FY Ended June 30	Actual Return	Benchmark Return	Performance
2006	3.1%	3.9%	-0.8%
2005	2.7%	2.1%	0.6%
2004	0.7%	0.5%	0.2%
2003	5.5%	4.9%	0.6%
2002	7.5%	7.0%	0.6%
2001	9.5%	9.3%	0.2%
2000	3.8%	5.5%	-1.7%
1999	3.9%	4.7%	-0.8%
1998	6.1%	5.3%	0.8%
1997	6.1%	5.3%	0.8%
3 years ended 2006	2.2%	2.2%	0.5%
5 years ended 2006	3.9%	3.6%	0.4%
10 years ended 2006	4.9%	4.8%	0.1%

Benchmarks:

Merrill Lynch 1 to 3 year Treasury Index prior to Jan. 1, 2000
Lehman Brothers 1 to 3 year Govt. Bond Index from Jan. 1, 2000 through March 31, 2005
Merrill Lynch 1 to 3 year Treasury Index from April 1, 2005 through November 30, 2005
Maine State Retirement System Total Fund Benchmark since December 1, 2005

ACTUARIAL SECTION

The System's Comprehensive Annual Financial Report (CAFR) includes actuarial reports for its plans prepared as of June 30th of the fiscal year prior to the fiscal year of the CAFR itself. These are presented in order to better align the data contained in the valuation with its resulting effect on the System's financial condition, as described by the financial statements.

Actuarial valuations presented in this FY 2006 Comprehensive Annual Financial Report are for the year ended June 30, 2005. Data with respect to four valuations are presented:

- State Employee and Teacher Plan
- Legislative Retirement System
- Judicial Retirement System
- Consolidated Plan for Participating Local Districts

State and Teacher, Legislative and Judicial Plans – Results of plan valuations prepared as of June 30 of an even-numbered year are implemented as employer contribution rates in the State's biennial budget that covers the two-year period beginning July 1st of the following year of the valuations. For example, the results of the June 30, 2004 valuations established the employer contribution rates for the FY 2006-2007 biennium which began July 1, 2005. The State of Maine makes the employer contribution for all non-grant funded employees who are members under the State Employee and Teacher plan and the Legislative and Judicial plans. Valuation results as of June 30 of odd-numbered years, such as the June 30, 2005 valuation, while comprising important information, are not used to set State employer contribution rates.

Consolidated Plan for Participating Local Districts (PLD) – The Consolidated Plan valuation is prepared each year, reporting results as of June 30th. These results are then implemented in PLD budgets covering a twelve month period that begins as of July 1st one year later. For example, the valuation results for the period ending June 30, 2005 established the participating employer rates for the twelve month period beginning July 1, 2006. Each participating local district that is in the Consolidated Plan makes the employer contribution required by the Consolidated Plan valuation for the plan(s) covering its employee members.

JUNE 30, 2005

ACTUARIAL VALUATION

CHEIRON Classic Values, Innovative Advice

January 18, 2006

Board of Trustees
Maine State Retirement System
#46 State House Station
Augusta, Maine 04333-0046

Dear Members of the Board:

At your request, we have conducted our annual actuarial valuation of each of the funded pension plans administered by the Board of the Maine State Retirement System as of June 30, 2005. The results of the valuation are contained in the enclosed exhibits.

Funding Objective
The funding objective of the System is to establish contribution rates that, over time, will remain level as a percent of payroll. In order to achieve this, we developed a contribution rate that will provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus a level percent of payroll amortization of the unfunded liability over a specified period.

To our knowledge the State has consistently funded the full amounts required based on the actuarial valuations and specific statutory provisions.

Assumptions and Methods
The actuarial assumptions and methods used in these valuations have been recommended by the actuary, and adopted by the Board of Trustees, based on the actuary's most recent review of each Plan's experience.

We believe that all the costs, liabilities, rates of interest, and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations) and which, in the aggregate, offer our best estimate of anticipated experience affecting the System. Nevertheless, the emerging costs will vary from those presented in this report to the extent that actual experience differs from that projected by the actuarial assumptions.

The calculations in the following exhibits have been made on a basis consistent with our understanding of the System's funding requirements and goals, and of GASB Statements No. 25 and 27. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Reliance on Others
In performing this analysis, we relied on data and information (some oral and some written) supplied by the System's staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

8200 Greensboro Drive, Suite 1125, McLean, VA 22102 Tel: 877 CHEIRON (243.4766) Fax: 703.893.2006 www.cheiron.us

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable of for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Supporting Schedules
The figures disclosed in the Required Supplemental Schedules to the Financial Section were provided by Cheiron. In addition, we were responsible for the current year entries in all of the schedules to be found in this Actuarial Section. Numbers reported for previous years were developed by the prior actuary and are reported per their valuation reports.

Certification
I believe that the State's pension plans are adequately and appropriately financed, in that the contributions are determined and funded on a level cost as a percentage of payroll basis using reasonable actuarial methods and assumptions.

I hereby certify that, to the best of my knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Guides to Professional Conduct, Amplifying Opinions, and Supporting Recommendations and Interpretations of the Actuarial Standards Board. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,
Cheiron

Fiona E. Liston

Fiona E. Liston, FSA, EA
Consulting Actuary

SECTION I
DEMOGRAPHIC INFORMATION

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date June 30,	Number of Active Members	Annual Salaries of Active Members	Average Annual Pay	Percentage Increase in Average Pay
State Employee and Teacher Plan				
2005	42,910	$1,508,645,818	$35,158	2.78%
2004	42,816	$1,464,608,355	$34,207	2.20%
2003	42,862	$1,434,596,605	$33,470	2.99%
2002	43,264	$1,405,943,887	$32,497	4.89%
2001	42,575	$1,318,999,535	$30,981	3.01%
2000	42,023	$1,263,818,345	$30,074	
Consolidated Plan for Participating Local Districts				
2005	9,186	$300,582,274	$32,722	0.80%
2004	8,859	$287,585,984	$32,463	2.42%
2003	8,720	$276,384,548	$31,695	6.92%
2002	8,843	$262,143,592	$29,644	4.53%
2001	8,753	$248,220,217	$28,358	2.11%
2000	8,559	$237,703,542	$27,772	
Judicial Retirement System				
2005	55	$5,697,519	$103,591	4.51%
2004	56	$5,550,873	$99,123	0.95%
2003	56	$5,498,574	$98,189	1.49%
2002	54	$5,224,201	$96,744	1.75%
2001	56	$5,324,725	$95,084	3.38%
2000	57	$5,242,615	$91,976	
Legislative Retirement System				
2005	173	$1,913,426	$11,060	(7.44%)
2004	176	$2,102,999	$11,949	5.59%
2003	175	$1,980,328	$11,316	0.60%
2002	169	$1,901,011	$11,249	3.61%
2001	171	$1,856,472	$10,857	4.35%
2000	169	$1,758,251	$10,404	

SECTION I
DEMOGRAPHIC INFORMATION *(continued)*

SCHEDULE OF BENEFIT RECIPIENTS VALUATION DATA

Valuation Date June 30,	Total Number of Benefit Recipients at Year End	Annual Payments to Benefit Recipients	Average Annual Benefit	Percentage Increase in Average Benefit
State Employee and Teacher Plan				
2005	25,123	$406,220,642	$16,169	5.27%
2004	24,388	$374,579,605	$15,359	4.19%
2003	23,768	$350,388,824	$14,742	3.46%
2002	23,228	$330,969,987	$14,249	4.94%
2001	22,819	$309,844,558	$13,578	5.81%
2000	22,306	$286,252,637	$12,833	
Consolidated Plan for Participating Local Districts				
2005	6,618	$74,615,077	$11,275	5.70%
2004	6,554	$69,907,181	$10,666	4.67%
2003	6,483	$66,065,496	$10,191	4.20%
2002	6,325	$61,854,927	$9,779	4.45%
2001	6,289	$58,880,257	$9,362	5.71%
2000	6,169	$54,637,091	$8,857	
Judicial Retirement System				
2005	43	$2,116,914	$49,231	1.27%
2004	41	$1,993,183	$48,614	0.07%
2003	38	$1,846,018	$48,579	2.67%
2002	38	$1,798,065	$47,318	1.63%
2001	33	$1,536,407	$46,558	(2.62%)
2000	33	$1,577,806	$47,812	
Legislative Retirement System				
2005	104	$151,096	$1,453	4.23%
2004	92	$128,270	$1,394	2.73%
2003	92	$124,843	$1,357	1.94%
2002	78	$103,835	$1,331	5.79%
2001	76	$95,636	$1,258	2.98%
2000	70	$85,534	$1,222	

SECTION II
ACCOUNTING INFORMATION *(continued)*

ACCOUNTING STATEMENT INFORMATION
as of June 30, 2005

	State Employee & Teacher Plan	Consolidated Plan for PLD	Judicial Retirement System	Legislative Retirement System
A. FASB No. 35 Basis				
1. Present Value of Benefits Accrued and Vested to Date				
a. Members Currently Receiving Payments	$4,538,294,376	$795,259,457	$19,705,693	$1,438,281
b. Vested Terminated and Inactive Members	294,700,051	25,056,827	282,382	1,216.,947
c. Active Members	3,282,386,231	573,720,620	15,934,212	1,173,618
d. Total PVAB	$8,115,380,658	$1,394,036,904	$35,922,287	$3,828,846
2. Assets at Market Value	6,997,802,832	1,735,008,951	42,041,709	7,441,788
3. Unfunded Present Value of Accrued Benefits, But Not Less Than Zero	$1,117,577,826	$0	$0	$0
4. Ratio of Assets to Value of Benefits (2) / (1)(d)	86%	124%	117%	194%
B. GASB No. 25 Basis				
1. Actuarial Liabilities				
a. Members Currently Receiving Payments	$4,538,294,376	$795,259,457	$19,705,693	$1,438,281
b. Vested Deferred and Inactive Status Members	294,700,051	25,056,827	282,382	1,216,947
c. Active Members	5,166,255,611	760,881,833	21,943,055	4,751,247
d. Total	$9,999,250,038	$1,581,198,117	$41,931,130	$7,406,475
2. Actuarial Value of Assets	6,964,597,457	1,726,776,134	41,842,216	7,406,475
3. Unfunded Actuarial Liability	$3,034,652,581	($145,578,017)	$88,914	$0
4. Ratio of Actuarial Value of Assets to Actuarial Liability (2) / (1)(d)	70%	109%	100%	107%

SECTION II
ACCOUNTING INFORMATION *(continued)*

STATEMENT OF CHANGES IN
Total Actuarial Present Value of All Accrued Benefits

	State Employee & Teacher Plan	Consolidated Plan for PLD	Judicial Retirement System	Legislative Retirement System
Actuarial Present Value of Accrued Benefits as of June 30, 2004	$7,763,787,479	$1,254,872,006	$33,601,966	$3,678,004
Increase (Decrease) During Years Attributable to:				
Passage of Time	604,849,427	97,405,157	2,607,651	287,617
Benefits Paid – FY 2005	(406,339,266)	(74,615,077)	(2,012,657)	(165,577)
Assumption Change	0	0	0	0
Plan Amendment	0	0	0	0
Benefits Accrued, Other Gains/Losses	153,083,018	116,374,818	1,725,327	28,802
Net Increase (Decrease)	351,593,179	139,164,898	2,320,321	150,842
Actuarial Present Value of Accrued Benefits as of June 30, 2005	$8,115,380,658	$1,394,036,904	$35,922,287	$3,828,846

SECTION II
ACCOUNTING INFORMATION *(continued)*

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

	State Employee & Teacher Plan	Consolidated Plan for PLD	Judicial Retirement System	Legislative Retirement System
Valuation date	June 30, 2005	June 30, 2005	June 30, 2005	June 30, 2005
Actuarial cost method	Entry age	Entry age	Entry age	Aggregate
Amortization method	Level percent closed	Level dollar open	Level percent closed	N/A
Remaining amortization period	23 years	15 years	12 years	N/A
Asset valuation method	3-Year smoothed market	3-Year smoothed market	3-Year smoothed market	3-Year smoothed market
Actuarial assumptions:				
Investment rate of return*	8.00%	8.00%	8.00%	8.00%
Projected salary increases*	5.50%-9.50%	4.50%-9.0%	4.00%	5.00%
Includes inflation at*	5.50%	4.50%		
Cost-of-living adjustments	4.00%	4.00%	4.00%	4.00%
Most Recent Review of Plan Experience:	1997	2001	1997	1997

The actuarial assumptions used have been recommended by the actuary and adopted by the Plan's Board of Trustees based on the most recent review of the Plan's experience.

The rate of employer contributions to the Plan is composed of the normal cost and an amortization of the unfunded actuarial accrued liability. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average new entrant. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial accrued liability.

SECTION II
ACCOUNTING INFORMATION *(continued)*

ANALYSIS OF FINANCIAL EXPERIENCE
Gain and Loss in Accrued Liability During Year
Resulting from Differences Between Assumed Experience and Actual Experience
For Year Ended June 30, 2005

	State Employee & Teacher Plan	Consolidated Plan for PLD	Judicial Retirement System	Legislative Retirement System
Type of Activity				
Investment Income	$16,350,568	$6,722,639	$96,424	$47,685
Combined Liability Experience	3,388,524	(3,406,292)	(3,429,543)	(47,685)
Gain (or Loss) During Year from Financial Experience	$19,739,092	$3,316,347	($3,525,967)	$0
Non-Recurring Items	0	0	0	0
Composite Gain (or Loss) During Year	**$19,739,092**	**$3,316,347**	**($3,525,967)**	**$0**

SECTION II
ACCOUNTING INFORMATION *(continued)*

SOLVENCY TEST
Aggregate Accrued Liabilities For

Valuation Date June 30,	(1) Active Member Contributions	(2) Retirees Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
State Employee and Teacher Plan							
2005	$1,569,409,748	$4,832,994,427	$3,596,845,863	$6,964,597,457	100%	100%	16%
2004	1,464,936,256	4,387,963,456	3,589,489,687	6,452,570,243	100%	100%	17%
Consolidated Plan for Participating Local Districts							
2005	$217,657,321	$820,316,284	$543,224,512	$1,726,776,134	100%	100%	127%
2004	195,013,387	772,474,507	524,178,904	1,633,016,411	100%	100%	127%
Judicial Retirement System							
2005	$6,026,669	$19,988,075	$15,916,386	$41,842,216	100%	100%	99%
2004	5,600,058	18,534,194	12,254,479	39,210,995	100%	100%	123%
Legislative Retirement System							
2005	$1,042,450	$2,655,228	$3,708,797	$7,406,475	100%	100%	100%
2004	1,359,835	2,203,021	3,264,622	6,827,478	100%	100%	100%

This chart will be built up to the required six-years of disclosures.

STATE EMPLOYEE AND TEACHER PLAN
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

STATE EMPLOYEE AND TEACHER PLAN

A. ACTUARIAL ASSUMPTIONS

1. Rate of Investment Return:

State Employees: 8.0%   Teachers: 8.0%

2. Cost-of-Living Increases in Benefits:

State Employees: 4.0%   Teachers: 4.0%

3. Rates of Salary Increase (% at Selected Ages):

Age	State Employees and Teachers
20	9.5%
25	8.3
30	7.2
35	6.7
40	6.2
45	5.7
50	5.5
55	5.5
60	5.5
65	5.5

The above rates include a 5½% across-the-board increase at each age.

Calculations have been adjusted to account for the 5% per year/10% over three-years cap on final pay.

4. Rates of Termination (% at Selected Ages):

	State Employees Service		
Age	0-1	1-2	2+
20	25.0%	17.5%	18.8%
25	25.0	17.5	12.5
30	25.0	17.5	10.0
35	25.0	17.5	7.5
40	25.0	17.5	5.0
45	25.0	17.5	5.0
50	25.0	17.5	5.0
55	25.0	17.5	5.0

STATE EMPLOYEE AND TEACHER PLAN
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

Rates of Termination (% at Selected Ages) *continued*:

	Teachers Service		
Age	0-1	1-2	2+
20	33.0%	24.0%	18.8%
25	27.5	24.0	12.5
30	27.5	24.0	10.4
35	27.5	24.0	8.3
40	27.5	24.0	6.1
45	27.5	24.0	4.0
50	27.5	24.0	4.0
55	27.5	24.0	4.0

* *Members with ten or more years of service and whose age plus service totals 60 or more are assumed to elect deferred vested benefits; other terminations are assumed to elect refunds.*

5. Rate of Mortality for Active Healthy Lives and Post-7/1/1998 Retired Healthy Lives at Selected Ages (number of deaths per 10,000 members)*:

	State Employees	
Age	Male	Female
20	5	3
25	7	3
30	9	4
35	9	5
40	12	8
45	17	10
50	28	15
55	48	25
60	86	48
65	156	93
70	255	148

	Teachers	
Age	Male	Female
20	5	3
25	6	3
30	7	3
35	8	4
40	10	6
45	14	9
50	24	13
55	40	21
60	73	41
65	133	79
70	217	125

* *For State Regular and Teachers 5% of deaths assumed to arise out of and in the course of employment; for State Special 20% of deaths are assumed to arise out of and in the course of employment.*

STATE EMPLOYEE AND TEACHER PLAN
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

6. Rates of Mortality for Pre-7/1/1998 Retired Healthy Lives at Selected Ages (number of deaths per 10,000 members):

	State Employees	
Age	Male	Female
20	5	3
25	6	3
30	8	5
35	11	7
40	16	9
45	29	14
50	53	22
55	85	33
60	131	55
65	213	96
70	361	165

	Teachers	
Age	Male	Female
20	5	2
25	6	3
30	7	4
35	10	6
40	14	8
45	23	12
50	42	18
55	71	27
60	109	44
65	174	77
70	292	129

7. Rates of Mortality for Future Disabled Lives and Post-7/1/1998 Retired Disabled Lives at Selected Ages (number of deaths per 10,000 members):

	State Employees	
Age	Male	Female
25	92	72
30	112	89
35	134	109
40	160	126
45	193	144
50	236	165
55	295	191
60	362	226
65	446	272
70	576	331

	Teachers	
Age	Male	Female
25	92	72
30	112	89
35	134	109
40	160	126
45	193	144
50	236	165
55	295	191
60	362	226
65	446	272
70	576	331

STATE EMPLOYEE AND TEACHER PLAN
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

8. Rates of Mortality for Pre-7/1/1998 Retired Disabled Lives at Selected Ages (number of deaths per 10,000 members):

	State Employees	
Age	Male	Female
25	391	528
30	315	467
35	321	326
40	332	215
45	349	191
50	376	207
55	420	240
60	488	288
65	595	366
70	763	487

	Teachers	
Age	Male	Female
25	391	528
30	315	467
35	321	326
40	332	215
45	349	191
50	376	207
55	420	240
60	488	288
65	595	366
70	763	487

9. Rates of Retirement at Selected Ages (number retiring per 1,000 members):

Age	State Employees*	Teachers
45	35	25
50	57	25
55	150	113
59	180	183
60	350	350
61	350	350
62	350	350
63	350	350
64	350	350
65	350	350
70	1,000	1,000

* *Members of Special Groups are assumed to retire when first eligible for unreduced benefits.*

10. Rates of Disability at Selected Ages (members becoming disabled per 10,000 members)**:

Age	State Employees	Teachers
25	6.8	4.6
30	7.6	5.0
35	10.2	5.5
40	19.0	6.8
45	27.9	15.5
50	42.7	24.3
55	81.0	33.0
60	119.3	41.8

** *10% assumed to receive Workers' Compensation benefits offsetting disability benefit; also, rates for State Special groups are higher by 7 per 10,000 at all ages.*

STATE EMPLOYEE AND TEACHER PLAN
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

11. Family Composition Assumptions:

80% of active members are married and have two children born when the member is 24 and 28; children are dependent until age 18; female spouse is three years younger than male spouse; member has no dependent parents; unmarried members have beneficiaries entitled to benefits worth 80% as much as those of married members' beneficiaries.

12. Vacation/Sick Leave Credits:

For members who had ten years of service on July 1, 1993, credits for unused vacation and sick leave may be used to increase final average compensation and/or creditable service. In order to reflect this, projected benefits are increased by 1.0% for state employees and 1.3% for teachers.

13. Date of Last Actuarial Experience Study:

The last actuarial experience study was performed in 1997 and covered the Plan's experience for the period July 1, 1993 through June 30, 1996. The actuarial assumptions displayed in this section were adopted in 1998 as a result of the findings of that experience study.

14. Change of Actuary:

The June 30, 2005 valuation was prepared by a different actuarial firm than used in prior years. In making the transition, the new firm was able to replicate the 2004 actuarial valuation results to within industry tolerances.

STATE EMPLOYEE AND TEACHER PLAN
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

B. ACTUARIAL METHODS

1. Funding Method:

The Entry Age Normal method is used to determine costs. Under this funding method, a total contribution rate is determined which consists of two elements: the normal cost rate and the unfunded actuarial liability (UAL) rate.

For Teachers and State Employees, including each of the State Special Plans, a normal cost rate is determined for a typical new entrant. This rate is determined by taking the value, as of age at entry into the Plan, of the member's projected future benefits, reducing it by the value of future member contributions, and dividing it by the value, also as of the member's entry age, of the member's expected future salary.

In addition to contributions required to meet the Plan's normal cost, contributions are required to fund the Plan's unfunded actuarial liability. The actuarial liability is defined as the present value of future benefits less the present value of future normal costs and future member contributions. The unfunded actuarial liability is the total of the actuarial liability for all members less the actuarial value of the Plan's assets. The actuarial liability includes projections of future member pay increases and future service credits and should not be confused with the Accrued Benefit Liability.

The unfunded actuarial liability is amortized by annual payments. The payments are determined so that they will be a level percentage of pay, assuming payroll increases 5.5% per year. The UAL measured as of June 30, 2005 is amortized over a 23 year period.

2. Asset Valuation Method:

For purposes of determining the State contribution to the Plan, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process.

In determining the actuarial value of assets, we calculate an expected actuarial value based on cash flow for the year and imputed returns at the actuarial assumption. This expected value is compared to the market value and one-third of the difference is added to the preliminary actuarial value to arrive at the final actuarial value.

C. PLAN PROVISIONS

1. Membership:

Membership is a condition of employment for state employees and teachers, and optional for elected and appointed officials.

Membership ceases on the earlier of withdrawal of contributions, retirement, or death.

STATE EMPLOYEE AND TEACHER PLAN
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

2. Member Contributions:

Except as otherwise described below, members are required to contribute 7.65% of earnable compensation.

Contribution Requirements for Special State Employee Groups

State police, inland fisheries and wildlife officers, and marine resources officers employed before 9/1/84 – 8.65% of earnable compensation for 20 years; 7.65% thereafter.

Forest rangers and state prison employees employed before 9/1/84 – 8.65% of earnable compensation until eligible for retirement; 7.65% thereafter.

1998 Special Plan employees which include state prison employees, airplane pilots, forest rangers, defense, veterans and emergency management firefighters employed at Bangor International Airport, corrections employees, Baxter State Park Authority rangers, fire marshals, investigators and inspectors, oil and hazardous materials emergency response workers and capitol security officers – 8.65% of earnable compensation for 25 years; 7.65% thereafter.

State police employed on or after 9/16/84 and special agent investigators hired before 6/21/82 – 8.65% of earnable compensation for 25 years; 7.65% thereafter.

Inland fisheries and wildlife officers and marine resources officers employed on or after 9/1/84 – 8.65% of earnable compensation for 25 years; 7.65% thereafter.

3. Average Final Compensation:

For purposes of determining benefits payable under the Plan, average final compensation is the average annual rate of earnable compensation for the three years of creditable service (not necessarily consecutive) which produce the highest such average.

For compensation paid on or after July 1, 1993, increases in earnable compensation of greater than 5% per year or 10% over the highest three years are not included in calculating average final compensation unless the employer pays the cost of including such compensation. Earnable compensation does not include sick and vacation pay for those members who had less than ten years of service at July 1, 1993. For members for whom sick and vacation pay is includible in earnable compensation, these payments are included in applying the caps described in the preceding paragraph.

4. Creditable Service:

Creditable service includes service while a member, certain service prior to the establishment of the Plan, purchased military service credit, other purchased service credit, and service while receiving disability benefits under the Plan.

STATE EMPLOYEE AND TEACHER PLAN
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

5. Service Retirement Benefits:

A. Regular Plan (State Employees and Teachers)

i. Provisions for Members With at Least Ten Years of Creditable Service on July 1, 1993

Normal Retirement Age: 60

Eligibility for Members in Active Service and Inactive Members: 25 years of creditable service.

Eligibility Alternative for Members in Active Service: At least one year of creditable service immediately before retirement and at least normal retirement age.

Eligibility for Members not in Active Service at Retirement, and not in Active Service on or After October 1, 1999: At least ten years of creditable service and at least normal retirement age.

Eligibility for Members not in Active Service at Retirement, but in Active Service on or After October 1, 1999: At least five years of creditable service and at least normal retirement age.

Benefit: 1/50 of average final compensation multiplied by years of membership service and up to 25 years of prior service, reduced by approximately 2¼% for each year retirement age is less than age 60.

Form of Payment: Life annuity.

ii. Provisions for Members With Less Than Ten Years of Creditable Service on July 1, 1993

Normal Retirement Age: 62

Eligibility for Members in Active Service and Inactive Members: 25 years of creditable service.

Eligibility Alternative for Members in Active Service: At least one year of creditable service immediately before retirement age and at least normal retirement age.

Eligibility for Members not in Active Service at Retirement, and not in Active Service on or After October 1, 1999: At least ten years of creditable service and at least normal retirement age.

Eligibility for Members not in Active Service at Retirement, but in Active Service on or After October 1, 1999: At least five years of creditable service and at least normal retirement age.

STATE EMPLOYEE AND TEACHER PLAN
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

Benefit: 1/50 of average final compensation multiplied by years of membership service and up to 25 years of prior service, reduced by 6% for each year retirement age is less than age 62.

Form of Payment: Life annuity.

B. Special Plans (State Employees)

i. State Police Employed Before 9/16/84; Inland Fisheries and Wildlife Officers and Marine Resource Officers Employed Before 9/1/84

Eligibility: 20 years of creditable service in named positions.

Benefit: One-half of average final compensation plus 2% for each year of service in excess of 20. If greater, the pro-rated portion of the benefit for service before July 1, 1976 is based on annual pay instead of average final pay.

Form of Payment: 50% joint and survivor annuity, or life annuity.

ii. Forest Rangers Employed Before 9/1/84

Eligibility: Age 50 with 25 years of creditable service as a forest ranger.

Benefit: One-half of average final compensation plus 2% for each year of service earned after qualification for retirement. If greater, the pro-rated portion of the benefit for service before July 1, 1976 is based on annual pay instead of average final pay.

Form of Payment: Life annuity.

iii. Airplane Pilots Employed Before 9/1/84

Eligibility: Age 55 and 25 years of creditable service as an airplane pilot.

Benefit: Greater of (1) one-half of average final compensation plus 2% for each year of service earned after qualification for retirement, and (2) if retiring after age 60, the benefit under the general formula.

Form of Payment: Life annuity.

iv. Liquor Inspectors Employed Before 9/1/84

Eligibility: Age 55 and 25 years of creditable service as a liquor inspector.

Benefit: One-half of average final compensation plus 2% for each year of service earned after qualification for retirement. If greater, the pro-rated portion of the benefit for service before July 1, 1976 is based on annual pay instead of average final pay.

Form of Payment: Life annuity.

STATE EMPLOYEE AND TEACHER PLAN
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

v. State Prison Employees Employed Before 9/1/84

Eligibility: Age 50 and 20 years of creditable service as a prison employee.

Benefit: One-half of average final compensation plus 2% for each year of service earned after qualification for retirement.

Form of Payment: Life annuity.

vi. 1998 Special Plan

1998 Entrants: State prison employees, airline pilots, forest rangers and liquor inspectors, employed after 8/31/84; defense, veterans and emergency management firefighters employed on and after 7/1/98.

2000 Entrants: Baxter State Park Authority rangers, correctional employees and state fire marshals employed on or after 1/1/2000.

2002 Entrants: Capitol security officers and oil and hazardous materials emergency response workers.

Eligibility: Ten years of creditable service under the 1998 Special Plan in one or a combination of the covered capacities and the attainment of age 55 – OR – 25 years of creditable service in one or a combination of the covered capacities.

Benefit: For service prior to coverage in the 1998 Special Plan, 1/50 of average final compensation multiplied by years of service reduced for retirement before age 60 or 62, except certain prison employee benefits are reduced for retirement before age 55.

-AND-

For service under the 1998 Special Plan, 1/50 of average final compensation multiplied by years of service reduced for retirement before age 55.

Form of Payment: Life annuity.

vii. 25 & Out Plan

1998 Entrants: State police employed on or after 9/16/84 and special agent investigators hired before 6/21/82.

2002 Entrants: Inland fisheries and wildlife officers and marine resources officers employed on and after 8/31/84.

Eligibility: 25 years of creditable service in named positions.

Benefit: 1/50 of average final compensation multiplied by years of service.

STATE EMPLOYEE AND TEACHER PLAN
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

Form of Payment: Life annuity.

Members in Special Plans who fail to qualify for special plan benefits can receive regular plan benefits when and as eligible and qualified.

6. Disability Retirement Benefits Other Than No Age Benefits:

Eligibility: Disabled as defined in the MSRS statutes; employed prior to normal retirement age; employed prior to October 16, 1992 and did not elect No Age Disability Benefits.

Benefit: 66 2/3% of average final compensation, reduced by employment earnings over the specified statutory limit, and to the extent that the benefit, in combination with Workers' Compensation and Social Security, exceeds 80% of average final compensation.

Form of Payment: Payment begins on termination of service and ceases on cessation of disability or after five or two years, depending on disability plan, unless the member is unable to engage in any substantially gainful activity, in which case payments cease on the earlier of ten years following normal retirement age or on the date the service retirement benefit equals or exceeds the disability benefit.

Conversion to Service Retirement: During the period of disability, average final compensation is increased with cost-of-living adjustments and service is credited. On the date when service benefits reach a level of 66 2/3% of average final compensation or ten years after the normal retirement date, if earlier, the disability benefit converts to a service retirement benefit based on service and average final compensation at that point.

7. No Age Disability Retirement Benefits

Eligibility: Disabled as defined in the MSRS statutes; employed on or after October 16, 1992 or employed prior to October 16, 1992 and elected the provisions of No Age Disability.

Benefit: 59% of average final compensation, reduced by employment earnings over the specified statutory limit, and to the extent that the benefit, in combination with Workers' Compensation and Social Security, exceeds 80% of average final compensation.

Form of Payment: Payment begins on termination of service and ceases on cessation of disability or after five or two years, depending on disability plan, unless the member is unable to engage in any substantially gainful activity; in which case payments cease on the date the service retirement benefit equals or exceeds the disability benefit.

Conversion to Service Retirement: During the period of disability, average final compensation is increased with cost-of-living adjustments and service is credited. On the date when service benefits reach a level of 59% of average final compensation, the disability benefit converts to a service retirement benefit based on service and average final compensation at that point.

8. Pre-Retirement Ordinary Death Benefits:

Eligibility: Death while active, inactive eligible to retire, or disabled.

STATE EMPLOYEE AND TEACHER PLAN
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS
(continued)

Benefit: Designated beneficiary, spouse, child(ren), or parents entitled to benefit calculated as if deceased member had retired under Option 2 (see item 12); however, beneficiary may elect survivor benefits payable to a surviving spouse, dependent child(ren), parent, or other designated beneficiaries in monthly amounts varying by status of beneficiary and number of eligible survivors. Otherwise accumulated contributions with interest are payable to designated beneficiary, spouse, child(ren), older parents, or estate.

9. Pre-Retirement Accidental Death Benefits:

Eligibility: Death while active or disabled resulting from an injury received in the line of duty.

- If the member is survived by a spouse who has the care of dependent child(ren) of the member, the surviving spouse shall receive an annual sum equal to the member's average final compensation. When there is no longer any dependent child, the surviving spouse shall receive 2/3 of member's average final compensation until death.
- If the member is survived by a spouse who does not have the care of the member's dependent child(ren), the surviving spouse and dependent child(ren) shall share equally an annual sum equal to the member's average final compensation. When there is no longer any dependent child, the surviving spouse shall receive 2/3 of member's average final compensation until death.
- If the member leaves no spouse, the dependent child(ren) shall be paid an annual sum equal to the member's average final compensation. Benefits will cease when the last dependent child no longer meets the definition of "dependent child".

10. Refund of Contributions:

Eligibility: Termination of service without retirement or death.

Benefit: Member's accumulated contributions with interest.

11. Cost-of-Living Adjustments:

All service and disability retirement and survivor benefits are adjusted each year that there is a percentage change in the Consumer Price Index, based on the Index.

Cost-of-living adjustments are effective September 1 and are applied to all benefits which have been in payment for twelve months. The maximum annual increase or decrease is 4%. Average final compensation used in determining disability benefits for disabled members is similarly adjusted for purposes of determining the recipient's service retirement benefit if and when the recipient moves to service retirement.

Members on service retirement who did not have ten years of service on July 1, 1993 will not receive a cost-of-living adjustment until 12 months after their normal retirement age.

STATE EMPLOYEE AND TEACHER PLAN
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

12. Methods of Payment of Service Retirement Benefits:

At retirement, a member who retires with a benefit must choose from the following methods of payment:

Full Benefit: Unadjusted benefit paid for the life of the member only.

Option 1: Cash refund equal to the remaining employee contribution balance, if any, at the date of death (where the employee contribution balance has been reduced each month by the portion of the monthly benefit deemed to be provided by employee contributions).

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Joint and survivor annuity at any percentage other than those available under Option 2 and Option 3.

Option 5: Designated percentage of the benefit (not less than 51%) payable to the member, with the remaining percentage (the two to equal 100%) payable to a beneficiary (may only be a sole beneficiary) while both are alive. At the death of either, the higher of the two percentages is paid to the survivor for the survivor's life, and the lower-percentage benefit ceases to be paid.

Option 6: 100% joint and survivor annuity with pop-up*.

Option 7: 50% joint and survivor annuity with pop-up.*

Option 8: Option 4 with pop-up*.

* *The "pop-up" feature attached to a given Option means that in the case of a beneficiary predeceasing the member, the member's benefit will be revised prospectively to the amount that the benefit would have been had the member selected Full Benefit payment upon retirement.*

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS

A. ACTUARIAL ASSUMPTIONS

1. **Annual Rate of Investment Return:** 8.0%

2. **Cost-of-Living Increases in Benefits**: 4.0% (Where Applicable)

3. **Rates of Termination at Selected Ages*:**

Age	Regular	Special
25	19.5%	7.5%
30	12.5	7.5
35	10.0	4.2
40	7.5	3.2
45	5.3	2.2
50	3.6	2.0
55	2.3	2.0

* *Members with five or more years of service are assumed to elect deferred vested benefits; other terminations are assumed to elect refunds.*

4. **Rates of Active Healthy Life Mortality at Selected Ages (number of deaths per 10,000 members)**:**

Age	Male	Female
25	7	3
30	9	4
35	9	5
40	12	8
45	17	10
50	28	15
55	48	25

** *For Regulars, 5% of deaths are assumed to arise out of and in the course of employment; for Specials, 20% of deaths are assumed to arise out of and in the course of employment.*

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

5. Rates of Inactive Health Life Mortality at Selected Ages (number of deaths per 10,000 members):

Age	Male	Female
25	6	3
30	8	5
35	11	7
40	16	9
45	29	14
50	53	22
55	85	33

6. Rates of Mortality for Future Anticipated Disableds at Selected Ages (number of deaths per 10,000 members):

Age	Male	Female
25	92	72
30	112	89
35	134	109
40	160	126
45	193	144
50	236	165
55	295	191
60	362	226
65	446	272
70	576	331

7. Rates of Disabled Life Mortality at Selected Ages (number of deaths per 10,000 members):

Age	Male	Female
25	391	528
30	315	467
35	321	326
40	332	215
45	349	191
50	376	207
55	420	240
60	488	288
65	595	366
70	763	487

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

8. Rates of Retirement at Selected Ages (number retiring per 1,000 members):

Regular Plans

Age	Assumption
25	50
30	50
35	100
40	100
45	100
50	150
55	250
60	400
65	250
70	1,000

Special Plans

50% of those eligible to retire in each year.

9. Rates of Disability at Selected Ages (members becoming disabled per 10,000 members) **:

Age	Regular Plan	Special Plan
25	6	13
30	6	13
35	7	14
40	11	18
45	22	29
50	42	49
55	72	79

** 10% assumed to receive Workers' Compensation benefits offsetting disability benefit.

10. Family Composition Assumptions:

80% of active members are married and have two children born when the member is 24 and 28; children are dependent until age 18; spouses are same age; member has no dependent parents; unmarried members have beneficiaries entitled to benefits worth 80% as much as those of married members’ beneficiaries.

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

11. Salary Growth Assumption:

Rates of Increases at Selected Ages	
Age	Increase
25	9.0%
30	7.5
35	5.5
40	5.5
45	5.0
50	4.5
55	4.5
60	4.5

12. Date of Last Actuarial Experience Study:

The last actuarial experience study was performed in 2001 and covered the Plan's experience for the period July 1, 1996 through June 30, 2001. The actuarial assumptions displayed in this section were adopted in 2002 as a result of the findings of that experience study.

13. Change of Actuary:

The June 30, 2005 valuation was prepared by a different actuarial firm than used in prior years. In making the transition, the new firm was able to replicate the 2004 actuarial valuation results to within industry tolerances.

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

B. ACTUARIAL METHODS

1. Funding Method:

The Entry Age Normal method is used to determine costs. Under this funding method, the total employer contribution rate is determined which consists of two elements, the normal cost rate and the pooled unfunded actuarial liability (PUAL) rate. The actual contribution for a given PLD will include an IUUAL payment as well, unless the PLD came into the Plan with surplus assets.

For each Regular and Special Plan, a normal cost rate is determined for the average new entrant. This rate is determined by taking the value, as of age at entry into the Plan, of the member's projected future benefits, reducing it by the value of future member contributions, and dividing it by the value, also as of the member's entry age, of the member's expected future salary.

In addition to normal cost contributions calculated per Plan, the employers in each Plan are required to make contributions to fund that plan's PUAL, if any. The actuarial liability is defined as the present value of future benefits less the present value of future normal costs, less future member contributions, and less expected IUUAL payments. The PUAL is the total of the actuarial liability for all members less the actuarial value of the Plan's assets. The actuarial liability includes projections of future member pay increases and future service credits.

The Initial Unpooled Unfunded Actuarial Liability (IUUAL) was calculated at entry into the Consolidated Plan for each PLD. For PLDs with liabilities greater than assets, these amounts are amortized by annual payments over a fixed number of years. Additional unpooled unfunded liability amounts that arise for a given PLD after its entry to the Consolidated Plan are amortized over a period of not more than 15 years.

2. Asset Valuation Method

The actuarial valuation employs a technique for determining the actuarial value of assets which dampens the swings in market value. The specific technique adopted in this valuation recognizes in a given year one-third of the investment return that is in excess of the 8.00% actuarial assumption for investment return.

C. PLAN PROVISIONS

1. Member Contributions:

Members are required to contribute a percent of earnable compensation which varies by Plan as follows:

Regular AC & AN	6.5%
Regular BC	3.0%
Special 1C & 1N	6.5%
Special 2C & 2N	6.5%
Special 3C & 3N	8.0% for first 25 years, 6.5% after
Special 4C & 4N	7.5% for first 25 years, 6.5% after

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

2. Average Final Compensation:

For purposes of determining benefits payable under the Plan, average final compensation is the average annual rate of earnable compensation for the 3 years of creditable service (not necessarily consecutive) which produce the highest such average.

3. Creditable Service:

Creditable service includes service while a member, certain service prior to the establishment of the Plan, purchased service credit of which there are several types, and service while receiving disability benefits under the Plan.

4. Service Retirement Benefits:

Regular Plan AC

Normal Retirement Age: 60

Eligibility for Member in Active Service and Inactive Members: 25 years of creditable service.

Eligibility Alternative for Members in Active Service: At least one year of creditable service immediately before retirement and at least normal retirement age.

Eligibility for Members not in Active Service at Retirement, and not in Active Service on or after October 1, 1999: At least ten years of creditable service and at least normal retirement age.

Eligibility for Members not in Active Service at Retirement, but in Active Service on or After October 1, 1999: At least five years of creditable service and at least normal retirement age.

Benefit: 1/50 of average final compensation multiplied by years of membership service under Consolidated Plan A reduced by approximately 2¼% for each year that a member is younger than age 60 at retirement.

Form of Payment: Life annuity ("full benefit"), unless an optional method of payment is selected.

Cost-of-Living Adjustment: See item 10.

Regular Plan AN

This benefit plan is the same as Regular Benefit Plan AC, except that there is no provision for cost-of-living adjustments.

Regular Plan BC

Normal Retirement Age: 60

Eligibility for Member in Active Service and Inactive Members: 25 years of creditable service.

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

Eligibility Alternative for Members in Active Service: At least one year of creditable service immediately before retirement and at least normal retirement age.

Eligibility for Members not in Active Service at Retirement, and not in Active Service on or After October 1, 1999: At least 10 years of creditable service and at least normal retirement age.

Eligibility for Members not in Active Service at Retirement, but in Active Service on or After October 1, 1999: At least five years of creditable service and at least normal retirement age.

Benefit: 1/100 of average final compensation multiplied by years of membership service under Consolidated Plan B reduced by approximately 2¼% for each year that a member is younger than age 60 at retirement.

Form of Payment: Life annuity ("full benefit"), unless an optional method of payment is selected.

Cost-of-Living Adjustment: See item 10.

Regular Plan Notes

1. Under certain circumstances, Regular Plan service can count, on a pro rata basis, toward meeting Special Plan benefit eligibility requirements.

2. The actual benefit for service earned prior to coverage under the Consolidated Plan may be based on a variable percentage of average final compensation multiplied by years of service under any previous plan(s) (the percentage depends on the previous plan(s)).

Special Plan 1C

Eligibility: 20 years of creditable service in named positions.

Benefit: One-half of average final compensation plus 2% for each year of service in excess of 20.

Form of Payment: Life annuity ("full benefit"), unless an optional method of payment is selected.

Cost-of-Living Adjustment: See item 10.

Special Plan 1N

This benefit plan is identical to Special Benefit Plan 1C, except that there is no provision for cost-of-living adjustments.

Special Plan 2C

Eligibility: 25 years of creditable service in named positions.

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

Benefit: One-half average final compensation plus 2% for each year of service in excess of 25.

Form of Payment: Life annuity ("full benefit"), unless an optional method of payment is selected.

Cost-of-Living Adjustment: See item 10.

Special Plan 2N

This benefit plan is identical to Special Benefit Plan 2C, except that there is no provision for cost-of-living adjustments.

Special Plan 3C

Eligibility: 25 years of creditable service in named positions.

Benefit: Two thirds of average final compensation plus 2% for each year of service in excess of 25.

Form of Payment: Life annuity ("full benefit"), unless an optional method of payment is selected.

Cost-of-Living Adjustment: See item 10.

Special Plan 3N

This benefit is identical to Regular Benefit Plan 3C, except that there is no provision for cost-of-living adjustments.

Special Plan 4C

Eligibility: Age 55 with 25 years of creditable service in named positions.

Benefit: 1/50 of average final compensation multiplied by years of membership service under Consolidated Plan 4 reduced by approximately 2¼% for each year that a member is younger than age 55 at retirement.

Form of Payment: Life annuity ("full benefit"), unless an optional method of payment is selected.

Cost-of-Living Adjustment: See item 10.

Special Plan 4N

This benefit plan is identical to Special Benefit Plan 4C, except that there is no provision for cost-of-living adjustments.

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

Special Plan Notes

1. If a Special Plan member fails to meet the Special Plan eligibility criteria, their service retirement benefit is that provided by the applicable underlying Regular Plan; Special Plan service credits are used toward Regular Plan eligibility requirements.

2. Service in all Special Plans counts, on a percentage basis, toward meeting the benefit eligibility requirements of any Special Plan.

3. The actual benefit for service earned prior to coverage under the Consolidated Plan may be based on a variable percentage of average final compensation multiplied by years of service under any previous plan(s) (the percentage depends on the previous plan(s)).

5. Pre-Retirement Accidental Death Benefits:

Eligibility: Death while active or disabled resulting from injury received in the line of duty.

Benefit:

- If the member leaves no dependent children, two-thirds of the member's average final compensation to the surviving spouse until death.

- If the member is survived by a spouse who has the care of dependent child(ren) of the member, the surviving spouse shall receive an annual sum equal to the member's average final compensation. When there is no longer any dependent child(ren), the surviving spouse shall receive two-thirds of member's average final compensation until death.

- If the member is survived by a spouse who does not have the care of the member's dependent child(ren), the surviving spouse and dependent child(ren) shall share equally an annual sumequal to the member's average final compensation. When there is no longer any dependent child(ren), the surviving spouse shall receive two-thirds of member's average final compensation until death.

- If the member leaves no spouse, the dependent child(ren) shall be paid an annual amount equal to the member's average final compensation. Benefits will cease when the last dependent child no longer meets the definition of "dependent child".

6. Pre-Retirement Ordinary Death Benefits:

Eligibility: Death while active, inactive, eligible to retire, or disabled.

Benefit: Designated beneficiary, spouse, child(ren), or parents entitled to benefit calculated as if deceased member had retired under Option 2 (see item 12); however, beneficiary may elect survivor benefits payable to a surviving spouse, dependent child(ren), parents, or other designated beneficiaries in monthly amounts varying by status of beneficiary and number of eligible survivors. Otherwise, accumulated contributions with interest are payable to designated beneficiary, spouse, child(ren), older parent or estate.

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

7. Disability Benefits Other Than No Age Benefits:

Eligibility: Disabled as defined in the MSRS statutes, prior to normal retirement age; unable to perform duties of own position; employed prior to October 16, 1992 and did not elect No Age Disability Option.

Benefit: 66 2/3% of average final compensation, reduced by employment earnings over the specified statutory limit, and to the extent that the benefit, in combination with Workers' Compensation and Social Security, exceeds 80% of average final compensation.

Form of Payment: Payment begins on termination of service and ceases on cessation of disability or after five years, unless the member is unable to engage in any substantially gainful activity; in which case payments cease on the earlier of ten years following normal retirement age or date the service retirement benefit equals or exceeds the disability benefit.

Conversion to Service Retirement: During the period of disability, service is credited and average final compensation may be increased with cost-of-living adjustments (see item 10). On the date when service benefits reach a level of 66 2/3% of average final compensation or ten years after the normal retirement date, if earlier, the disability converts to a service retirement benefit based on service and average final compensation at that point.

8. No-Age Disability Benefits:

Eligibility: Disabled as defined in the MSRS statutes; employed on or after October 16, 1992 or employed prior to October 16, 1992 and elected the provisions of No Age Disability.

Benefit: 59% of average final compensation, reduced by employment earnings over the specified statutory limit, and to the extent that the benefit, in combination with Workers' Compensation and Social Security, exceeds 80% of average final compensation.

Form of Payment: Payment begins on termination of service and ceases on cessation of disability or after five years, unless the member is unable to engage in any substantially gainful activity; in which case payments cease on the date the service retirement benefit equals or exceeds the disability benefit.

Conversion to Service Retirement: During the period of disability, service is credited and average final compensation may be increased with cost-of-living adjustments (see item 10). On the date when service benefits reach a level of 59% of average final compensation, the disability benefit converts to a service retirement benefit based on service and average final compensation at that point.

9. Refund of Contributions:

Eligibility: Termination of service other than by retirement or death.

Benefit: Member’s accumulated contributions with interest.

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

10. Cost-of-Living Adjustments:

All service and disability retirement (and survivor) benefits payable to (or in relation to) benefit recipients who were employed by a PLD that elected a plan which provides for a COLA are adjusted each year that there is a percentage change in the Consumer Price Index, based on the Index. Cost-of-living adjustments are effective September 1 and are applied to all benefits which have been in payment for six months. The maximum annual increase or decrease is 4%.

11. Methods of Payment of Service Retirement Benefits:

At retirement, a member must choose one of the following methods of payment.

Full Benefit: Unadjusted benefit paid for the life of the member only.

Option 1: Cash refund equal to the remaining employee contribution balance, if any, at the date of death (the employee contribution balance having been reduced each month by the portion of the monthly benefit deemed to be provided by employee contributions).

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Joint and survivor annuity at any percentage other than those available under Option 2 and Option 3.

Option 5: Designated percentage of the benefit (not less than 51%) payable to the member, with the remaining percentage (the two to equal 100%) payable to a beneficiary (may only be a sole beneficiary) while both are alive. At the death of either, the higher of the two percentages is paid to the survivor for the survivor's life, and the lower-percentage benefit ceases to be paid.

Option 6: 100% joint and survivor annuity with pop-up*.

Option 7: 50% joint and survivor annuity with pop-up*.

Option 8: Option 4 with pop-up*.

* *The "pop-up" feature attached to a given Option means that in the case of a beneficiary predeceasing the member, the member's benefit will be revised prospectively to the amount that the benefit would have been had the member selected Full Benefit payment upon retirement.*

JUDICIAL RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

JUDICIAL RETIREMENT SYSTEM

A. ACTUARIAL ASSUMPTIONS

1. **Annual Rate of Investment Return** 8%

2. **Annual Rate of Salary Increase** 4%

3. **Annual Cost-of-Living Increase** 4%

4. **Normal Retirement Age** Age 60 for members with at least ten years of creditable service on July 1, 1993.

   Age 62 for members with less than ten years of creditable service on July 1, 1993.

5. **Probabilities of Employment Termination at Selected Ages Due to:**

			Death	
Age	Disability	Termination	Male	Female
25	.0006	.07	.0007	.0003
30	.0006	.06	.0009	.0004
35	.0007	.05	.0009	.0005
40	.0011	.04	.0012	.0008
45	.0022	.03	.0017	.0010
50	.0042	.02	.0028	.0015
55	.0072	.01	.0048	.0025

6. **Rate of Healthy Life Mortality at Selected Ages:**

	Currently Active Employees and Currently Retired Employees Who Retired on or After 7/1/1998		Currently Retired Employees Who Retired Prior to 7/1/1998	
Age	Male	Female	Male	Female
25	.0007	.0003	.0006	.0003
30	.0009	.0004	.0008	.0005
35	.0009	.0005	.0011	.0007
40	.0012	.0008	.0016	.0009
45	.0017	.0010	.0029	.0014
50	.0028	.0015	.0053	.0022
55	.0048	.0025	.0085	.0033

JUDICIAL RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

7. Rates of Disabled Life Mortality at Selected Ages

	Currently Active Employees and Currently Retired Employees Who Retired on or After 7/1/1998		Currently Retired Employees Who Retired Prior to 7/1/1998	
Age	**Male**	**Female**	**Male**	**Female**
25	.0092	.0072	.0391	.0528
30	.0112	.0089	.0315	.0467
35	.0134	.0109	.0321	.0326
40	.0160	.0126	.0332	.0215
45	.0193	.0144	.0349	.0191
50	.0236	.0165	.0376	.0207
55	.0295	.0191	.0420	.0240

8. Date of Last Actuarial Experience Study:

The last actuarial experience study was performed in 1997 and covered the Plan's experience for the period July 1, 1993 through June 30, 1996. The actuarial assumptions displayed in this section were adopted in 1998 as a result of the findings of that experience study.

9. Change of Actuary:

The June 30, 2005 valuation was prepared by a different actuarial firm than used in prior years. In making the transition, the new firm was able to replicate the 2004 actuarial valuation results to within industry tolerances.

JUDICIAL RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

B. ACTUARIAL METHODS

1. Funding Method

The Entry Age Normal actuarial funding method is used to determine costs. Under this funding method, the total employer contribution rate consists of two elements, the normal cost rate and the unfunded actuarial liability (UAL) rate.

The normal cost rate is developed for a typical new entrant. This rate is determined by taking the value, as of entry age to the plan, of the member's projected future benefits, reducing it by the value of future member contributions, and dividing it by the value, also as of the member's entry age, of the member's expected future salary.

In addition to contributions required to meet the plan's normal cost, contributions will be required to fund the plan's unfunded actuarial liability. The actuarial liability is defined as the present value of future benefits, less the present value of future normal costs and future member contributions. The unfunded actuarial liability is the total actuarial liability less the actuarial value of plan assets.

The unfunded liability is amortized by annual payments over a 12-year period from June 30, 2005. The payments are determined so that they will be a level percentage of pay, assuming total pay increases 4% per year.

2. Asset Valuation Method

The actuarial valuation employs a technique for determining the actuarial value of assets which dampens the swings in market value. The specific technique adopted in this valuation recognizes in a given year one-third of the investment return that is different from the 8.00% actuarial assumption for investment return.

C. PLAN PROVISIONS

1. Membership

Membership is a condition of employment for all judges serving on or after December 1, 1984.

Membership ceases on the earlier of withdrawal of contributions, retirement, or death.

Judges who retired prior to December 1, 1984 are covered under a different System.

2. Member Contributions

Members are required to contribute 7.65% of earnable compensation.

3. Average Final Compensation

For purposes of determining benefits payable under the System, average final compensation is the average annual rate of earnable compensation for the three years of creditable service (not necessarily consecutive) which produce the highest such average.

JUDICIAL RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

4. Creditable Service

Creditable service includes the following:

a. all judicial service as a member after November 30, 1984;

b. all judicial service before December 1, 1984;

c. service credited while receiving disability benefits under the System; and

d. all service creditable under the Maine State Retirement System provided the member elects to have is own and the employer's contributions on behalf of the service transferred to the Judicial System.

5. Service Retirement Benefits

Eligibility

a. Eligibility for Members With at Least Ten Years of Creditable Service on July 1, 1993

i. Eligibility for members in active service and inactive members:

25 years of creditable service.

ii. Eligibility alternative for members in active service:

Attainment of age 70 with at least one year of service immediately before retirement.

iii. Eligibility for members not in active service at retirement, and not in active service on or after October 1, 1999:

Attainment of age 60 and ten years of creditable service.

iv. Eligibility for members not in active service at retirement, but in active service on or after October 1, 1999:

Attainment of age 60 and five years of creditable service.

b. Eligibility for Members With Less Than Ten Years of Creditable Service on July 1, 1993

i. Eligibility for members in active service and inactive members:

25 years of creditable service.

ii. Eligibility alternative for members in active service:

Attainment of age 70 with at least one year of service immediately before retirement.

iii. Eligibility for members not in active service at retirement, and not in active service on or after October 1, 1999:

JUDICIAL RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

Attainment of age 62 with ten years of creditable service.

iv. Eligibility for Members not in Active Service at Retirement, but in Active Service on or after October 1, 1999:

Attainment of age 62 and five years of creditable service.

Benefit

Sum of:

(1) for service after November 30, 1984 and before July 1, 1998 and creditable service allowed under Section 1302(3), 2% of average final compensation multiplied by years of service;

(2) for service on or after July 1, 1998, 3% of average final compensation multiplied by years of service; and

(3) for judicial service prior to December 1, 1984, 75% of November 30, 1984 salary for the position held at retirement, pro-rated for prior service less than ten years.

The benefit is reduced for retirement before age 60 at the rate of approximately 2¼% for each year retirement age is less than 60, for members with at least ten years creditable service on July 1, 1993; reduced for retirement before age 62 by 6% for each year the member's age is less than age 62, if less than ten years creditable service on July 1, 1993.

Maximum Benefit

Total benefit cannot exceed 70% of average final compensation except as provided under the minimum benefit provision.

Minimum Benefit

For a judge in service and age 50 or older on December 1, 1984, 75% of salary on 6/30/84 for the position held at retirement, increased by 6% per year from 6/30/84 to 6/30/89 or retirement date if earlier, and increased beyond 6/30/89 by the cost-of-living increase granted the previous September.

Form of Payment

Life annuity; except, for a judge in service and age 50 before December 1, 1984, 50% joint and survivor annuity to surviving spouse.

6. Disability Retirement Benefits Other Than No Age Benefits

Conditions

Disabled as defined in the Judicial Retirement System statutes, prior to normal retirement age; employed as a judge prior to October 16, 1992 and did not elect No Age Disability Option.

JUDICIAL RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

Benefit

66 2/3% of average final compensation, reduced by employment earnings over the specified statutory limit, and to the extent that the benefit, in combination with worker's compensation and Social Security, exceeds 80% of average final compensation.

Form of Payment

Payment begins on termination of service and ceases on cessation of disability or after two years, unless the member is unable to engage in any substantially gainful activity; in which case pay ments cease on the earlier of age 70 and the date the service retirement benefit exceeds the disability benefit.

Conversion to Service Retirement

During the period of disability, average final compensation is increased with cost-of-living adjustments and service is credited. On the date when service benefits reach a level of 66 2/3% of average final compensation, or at age 70, if earlier, the disability benefit converts to a service retirement benefit based on service and pay at that point.

7. No Age Disability Retirement Benefits

Conditions

Disabled as defined in the Judicial Retirement statutes; employed as a judge on or after October 16, 1992 or employed as a judge prior to October 16, 1992 and elected the provisions of No Age Disability.

Benefit

59% of average final compensation, reduced by the amount by which employment earnings plus the disability allowance exceeds the current salary of the position held at disability, and to the extent that the benefit, in combination with Workers' Compensation exceeds 80% of average final compensation. A member in service on 11/30/84 may elect benefits applicable for retirement before December 1, 1984.

Form of Payment

Payment begins on termination of service and ceases on cessation of disability or after two years, unless the member is unable to engage in any substantially gainful activity; in which case payments cease on the date the service retirement benefit exceeds the disability benefit.

Conversion to Service Retirement

During the period of disability, average final compensation is increased with cost-of-living adjustments and service is credited. On the date when service benefits reach a level of 59% of average final compensation the disability benefit converts to a service retirement benefit based on service and pay at that point.

JUDICIAL RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

8. Pre-Retirement Ordinary Death Benefits

Eligibility

Death while active, inactive eligible to retire or disabled.

Benefit

Designated beneficiary, spouse, child(ren), or parents entitled to benefit calculated as if deceased member had retired under Option 2 (see item 12); however, beneficiary may elect survivor benefits payable to a surviving spouse, dependent child(ren), parents, or other designated beneficiaries in monthly amounts varying by status of beneficiary and number of eligible survivors. Otherwise, accumulated contributions with interest are payable to designated beneficiary, spouse, child(ren), older parent or estate.

Minimum Benefit

For a judge in service prior to December 1, 1984, one-half of the judge's retirement benefit determined on date of death, payable to the spouse and/or dependent children.

9. Pre-Retirement Accidental Death Benefits

Eligibility

Death while active or disabled resulting from injury received in the line of duty.

Benefit

If the member leaves no dependent children, two-thirds of the member's average final compensation to the surviving spouse until death.

- If the member is survived by a spouse who has the care of dependent child(ren) of the member, the surviving spouse shall receive an annual sum equal to the member's average final compensation. When there is no longer any dependent child, the surviving spouse shall receive two-thirds of member's average final compensation until death.
- If the member is survived by a spouse who does not have the care of the member's dependent child(ren), the surviving spouse and dependent child(ren) shall share equally an annual sum equal to the member's average final compensation. When there is no longer any dependent child, the surviving spouse shall receive two-thirds of member's average final compensation until death.
- If the member leaves no spouse, the dependent child(ren) shall be paid an annual amount equal to the member's average final compensation. Benefits will cease when the last dependent child no longer meets the definition of "dependent child".

JUDICIAL RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

10. Refund of Contributions

Eligibility

Termination of service without retirement or death.

Benefit

Member's accumulated contributions with interest.

11. Cost-of-Living Adjustments

Except as described below, all service and disability retirement and survivor benefits are adjusted each year there is a percentage change in the Consumer Price Index, based on the Index.

Cost-of-living adjustments are effective September 1 and are applied to all benefits which have been in payment for 12 months. The maximum increase or decrease is 4%. Average final compensation used in determining disability benefits for disabled members is similarly adjusted for purposes of determining the recipient's service retirement benefit if and when the recipient moves to service retirement.

Members on service retirement who did not have at least ten years creditable service on July 1, 1993 are not eligible to receive a cost-of-living adjustment until 12 months after the member reaches normal retirement age.

Minimum benefits are increased 6% per year from July, 1985 through June, 1989, and as described above thereafter.

12. Methods of Payment of Service Retirement Benefits

At retirement, a member must choose from the following methods of payment:

Full Benefit	Unadjusted benefit is paid for the life of the member only.
Option 1	Cash refund equal to the remaining employee contribution balance at the date of death (where the employee contribution balance has been reduced each month by the portion of the monthly benefit deemed to be provided by employee contributions).
Option 2	100% joint and survivor annuity.
Option 3	50% joint and survivor annuity.
Option 4	Joint and survivor annuity at any percentage other than those available under Option 2 and Option 3.

JUDICIAL RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

Option 5 — Designated percentage of the benefit (not less than 51%) payable to the member, with the remaining percentage (the two to equal 100%) payable to a beneficiary (may only be a sole beneficiary) while both are alive. At the death of either, the higher of the two percentages is paid to the survivor for the survivor's life, and the lower-percentage benefit ceases to be paid.

Option 6 — 100% joint and survivor annuity with pop-up*.

Option 7 — 50% joint and survivor annuity with pop-up*.

Option 8 — Option 4 with pop-up*.

* *The "pop-up" feature attached to a given Option means that in the case of a beneficiary predeceasing the member, the member's benefit will be revised prospectively to the amount that the benefit would have been had the member selected Full Benefit payment upon retirement.*

LEGISLATIVE RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

LEGISLATIVE RETIREMENT SYSTEM

A. ACTUARIAL ASSUMPTIONS

1. **Annual Rate of Investment Return** 8%

2. **Annual Rate of Salary Increase** 5%

3. **Annual Cost-of-Living Increase** 4%

4. **Normal Retirement Age** Age 60 for members with at least ten years of creditable service on July 1, 1993.

   Age 62 for members with less than ten years of creditable service on July 1, 1993.

5. **Probabilities of Employment Termination at Selected Ages Due to:**

			Death	
Age	Disability	Termination	Male	Female
25	.0006	.07	.0007	.0003
30	.0006	.06	.0009	.0004
35	.0007	.05	.0009	.0005
40	.0011	.04	.0012	.0008
45	.0022	.03	.0017	.0010
50	.0042	.02	.0028	.0015
55	.0072	.01	.0048	.0025

6. **Rate of Healthy Life Mortality at Selected Ages:**

	Currently Active Employees and Currently Retired Employees Who Retired on or After 7/1/1998		Currently Retired Employees Who Retired Prior to 7/1/1998	
Age	Male	Female	Male	Female
25	.0007	.0003	.0006	.0003
30	.0009	.0004	.0008	.0005
35	.0009	.0005	.0011	.0007
40	.0012	.0008	.0016	.0009
45	.0017	.0010	.0029	.0014
50	.0028	.0015	.0053	.0022
55	.0048	.0025	.0085	.0033

LEGISLATIVE RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

7. Rates of Disabled Life Mortality at Selected Ages

	Currently Active Employees and Currently Retired Employees Who Retired on or After 7/1/1998		Currently Retired Employees Who Retired Prior to 7/1/1998	
Age	**Male**	**Female**	**Male**	**Female**
25	.0092	.0072	.0391	.0528
30	.0112	.0089	.0315	.0467
35	.0134	.0109	.0321	.0326
40	.0160	.0126	.0332	.0215
45	.0193	.0144	.0349	.0191
50	.0236	.0165	.0376	.0207
55	.0295	.0191	.0420	.0240

8. Date of Last Actuarial Experience Study:

The last actuarial experience study was performed in 1997 and covered the Plan's experience for the period July 1, 1993 through June 30, 1996. The actuarial assumptions displayed in this section were adopted in 1998 as a result of the findings of that experience study.

9. Change of Actuary:

The June 30, 2005 valuation was prepared by a different actuarial firm than used in prior years. In making the transition, the new firm was able to replicate the 2004 actuarial valuation results to within industry tolerances.

LEGISLATIVE RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

B. ACTUARIAL METHODS

1. Funding Method

The Aggregate actuarial funding method is used to determine costs. Under this funding method,the total employer contribution rate consists of only one element, the normal cost rate. The normal cost rate is developed by taking the difference between the present value of future benefits, less future member contributions, and less the actuarial value of plan assets and dividing this difference by the present value of future payroll.

Under the Aggregate actuarial funding method there is no unfunded actuarial liability since the Actuarial Accrued Liability is set exactly equal to the actuarial value of assets.

2. Asset Valuation Method

The actuarial valuation employs a technique for determining the actuarial value of assets which dampens the swings in market value. The specific technique adopted in this valuation recognizes in given year one-third of the investment return that is different from the 8.00% actuarial assumption for investment return.

C. PLAN PROVISIONS

1. Membership

Except as provided by statute, membership is mandatory for legislators entering on or after December 3, 1986, and optional for those who were members of the Maine State Retirement System on December 2, 1986.

Membership ceases on the earlier of withdrawal of contributions, retirement, or death.

2. Member Contributions

Members are required to contribute 7.65% of earnable compensation.

3. Average Final Compensation

For purposes of determining benefits payable under the System, average final compensation is the average annual rate of earnable compensation for the three years of creditable service (not necessarily consecutive) as a legislator which produce the highest such average.

4. Creditable Service

Creditable service includes the following:

a. all legislative service as a member after December 2, 1986;

LEGISLATIVE RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

b. all legislative service before December 3, 1986, for which contributions are made at the rate applicable to the Maine State Retirement System, including appropriate interest;

c. service credited while receiving disability benefits under the System; and

d. all service creditable under the Maine State Retirement System as a State Employee, provided the member elects to have the member's own and the employer's contributions on behalf of such service transferred to the Legislative System.

5. Service Retirement Benefits

<u>Eligibility</u>

a. Eligibility for Members with at Least Ten Years of Creditable Service on July 1, 1993

i. Eligibility for members in active service and inactive members:

25 years of creditable service.

ii. Eligibility alternative for members in active service:

Attainment of age 60.

iii. Eligibility for members not in active service at retirement, and not in active service on or after October 1, 1999:

Attainment of age 60 and ten years of creditable service.

iv. Eligibility for members not in active service at retirement, but in active service on or after October 1, 1999:

Attainment of age 60 and five years of creditable service.

b. Eligibility for Members with Less Than Ten Years of Creditable Service on July 1, 1993

i. Eligibility for members in active service and inactive members:

25 years of creditable service.

ii. Eligibility alternative for members in active service:

Attainment of age 62.

iii. Eligibility for members not in active service at retirement, and not in active service on or after October 1, 1999:

Attainment of age 62 with ten years of creditable service.

LEGISLATIVE RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

iv. Eligibility for members not in active service at retirement, but in active service on or after October 1, 1999:

Attainment of age 62 and five years of creditable service.

For eligibility, creditable service includes service under the Maine State Retirement System.

Benefit

1/50 of average final compensation multiplied by years of creditable service, reduced for retirement before age 60 at the rate of approximately 2 ¼% for each year retirement age is less than age 60, for members with at least ten years creditable service on July 1, 1993; reduced for retirement before age 62 at the rate of 6% for each year retirement age is less than age 62, for members with less than ten years creditable service on July 1, 1993; minimum benefit $100 per month if at least ten years of creditable service.

Form of Payment

Life annuity.

6. Disability Retirement Benefits Other Than No Age Benefits

Eligibility

Disabled as defined in the MSRS statutes, prior to normal retirement age; employed prior to October 16, 1992 and did not elect No Age Disability Option.

Benefit

66 2/3% of average final compensation, reduced by employment earnings over the specified statutory limit, and to the extent that the benefit, in combination with Workers' Compensation and Social Security, exceeds 80% of average final compensation.

Form of Payment

Payment begins on termination of service and ceases on cessation of disability or after five years, unless the member is unable to engage in any substantially gainful activity; in which case payments cease on the earlier of ten years following normal retirement age or date the service retirement benefit equals or exceeds the disability benefit.

Conversion to Service Retirement

During the period of disability, average final compensation is increased with cost-of-living adjustments and service is credited. On the date when service benefits reach a level of 66 2/3% of average final compensation or ten years after the normal retirement date, if earlier, the disability benefit converts to a service retirement benefit based on service and average final compensation at that point.

LEGISLATIVE RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

7. No Age Disability Retirement Benefits

Eligibility

Disabled as defined in the MSRS statutes; employed on or after October 16, 1992 or employed prior to October 16, 1992 and elected the provisions of No Age Disability.

Benefit

59% of average final compensation, reduced by employment earnings over the specified statutory limit, and to the extent that the benefit, in combination with Workers' Compensation and Social Security, exceeds 80% of average final compensation.

Form of Payment

Payment begins on termination of service and ceases on cessation of disability or after five years, unless the member is unable to engage in any substantially gainful activity; in which case payments cease on the date the service retirement benefit equals or exceeds the disability benefit.

Conversion to Service Retirement

During the period of disability, average final compensation is increased with cost-of-living adjustments and service is credited. On the date when service benefits reach a level of 59% of average final compensation, the disability benefit converts to a service retirement benefit based on service and average final compensation at that point.

8. Pre-Retirement Ordinary Death Benefits

Eligibility

Death while active, inactive eligible to retire or disabled.

Benefit

Designated beneficiary, spouse, child(ren), or parents entitled to benefit calculated as if deceased member had retired under Option 2 (see item 12); however, beneficiary may elect survivor benefits payable to a surviving spouse, dependent child(ren), parents, or other designated beneficiaries in monthly amounts varying by status of beneficiary and number of eligible survivors. Otherwise, accumulated contributions with interest are payable to designated beneficiary, spouse, child(ren), older parent or estate.

9. Pre-Retirement Accidental Death Benefits

Eligibility

Death while active or disabled resulting from injury received in the line of duty.

LEGISLATIVE RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

Benefit

If the member leaves no dependent children, two-thirds of the member's average final compensation to the surviving spouse until death.

- If the member is survived by a spouse who has the care of dependent child(ren) of the member, the surviving spouse shall receive an annual sum equal to the member's average final compensation. When there is no longer any dependent child, the surviving spouse shall receive two-thirds of member's average final compensation until death.

- If the member is survived by a spouse who does not have the care of the member's dependent child(ren), the surviving spouse and dependent child(ren) shall share equally an annual sum equal to the member's average final compensation. When there is no longer any dependent child, the surviving spouse shall receive two-thirds of member's average final compensation until death.

- If the member leaves no spouse, the dependent child(ren) shall be paid an annual amount equal to the member's average final compensation. Benefits will cease when the last dependent child no longer meets the definition of "dependent child".

10. Refund of Contributions

Eligibility

Termination of service without retirement or death.

Benefit

Member's accumulated contributions with interest.

11. Cost-of-Living Adjustments

All service and disability retirement and survivor benefits are adjusted each year there is a percentage change in the Consumer Price Index, based on the Index.

Cost-of-living adjustments are effective September 1 and are applied to all benefits which have been in payment for 12 months. The maximum increase or decrease is 4%. Average final compensation used in determining disability benefits for disabled members is similarly adjusted for purposes of determining the recipient's service retirement benefit if and when the recipient moves to service retirement.

Members on service retirement who did not have at least ten years creditable service on July 1, 1993 are not eligible to receive a cost-of-living adjustment until 12 months after their normal retirement age.

LEGISLATIVE RETIREMENT SYSTEM
SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

(continued)

12. Methods of Payment of Service Retirement Benefits

At retirement, a member who retires with a benefit must choose from the following methods of payment:

Full Benefit	Unadjusted benefit is paid for the life of the member only.
Option 1	Cash refund equal to the remaining employee contribution balance, if any, at the date of death (where the employee contribution balance has been reduced each month by the portion of the monthly benefit deemed to be provided by employee contributions).
Option 2	100% joint and survivor annuity.
Option 3	50% joint and survivor annuity.
Option 4	Joint and survivor annuity at any percentage other than those available under Option 2 and Option 3.
Option 5	Designated percentage of the benefit (not less than 51%) payable to the member, with the remaining percentage (the two to equal 100%) payable to a beneficiary (may only be a sole beneficiary) while both are alive. At the death of either, the higher of the two percentages is paid to the survivor for the survivor's life, and the lower-percentage benefit ceases to be paid.
Option 6	100% joint and survivor annuity with pop-up*.
Option 7	50% joint and survivor annuity with pop-up*.
Option 8	Option 4 with pop-up*.

** The "pop-up" feature attached to a given Option means that in the case of a beneficiary predeceasing the member, the member's benefit will be revised prospectively to the amount tha the benefit would have been had the member selected Full Benefit payment upon retirement.*

[This page intentionally left blank.]

STATISTICAL SECTION

MAINE STATE RETIREMENT SYSTEM
STATISTICAL SECTION
(unaudited)

This section of the Maine State Retirement System's Comprehensive Annual Financial Report presents detailed information as a context for understanding this year's financial statements, note disclosures, and supplementary information. This information has not been audited by the independent auditor.

Contents: **Page**

FINANCIAL TRENDS

These tables contain trend information that may assist the reader in assessing the System's current financial performance by placing it in historical perspective.

OPERATING INFORMATION

These tables contain service and infrastructure indicators that can enhance one's understanding of how the information in the System's financial statements relates to the services the System provides and the activities it performs.

Source:

Unless otherwise noted, the information in these tables is derived from the annual financial reports for the relevant year.

DEFINED BENEFIT PLAN
CHANGES IN NET ASSETS

LAST TEN FISCAL YEARS

Fiscal Year

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Additions										
Member contributions	$ 144,397,946	$ 138,622,166	$ 132,254,628	$ 128,911,129	$ 122,613,972	$ 116,032,261	$ 110,766,917	$ 105,706,888	$ 101,837,708	$ 99,265,242
Employer contributions	321,901,020	291,615,599	299,900,485	295,154,266	423,674,078	272,419,817	258,050,705	299,525,280	274,620,753	267,693,837
Investment Income (net of expenses)	663,893,160	942,303,248	1,143,956,814	349,190,234	(532,832,471)	(594,457,402)	676,730,505	690,910,031	920,600,383	815,524,704
Total additions to plan net assets	1,130,192,126	1,372,541,013	1,576,111,927	773,255,629	13,455,579	(206,005,324)	1,045,548,127	1,096,142,199	1,297,058,844	1,182,483,783
Deductions										
Benefit payments	503,027,886	470,218,358	433,798,828	409,400,944	387,400,584	362,068,648	335,589,992	317,875,786	301,668,166	284,565,771
Refunds	18,907,578	15,975,376	15,677,722	13,816,968	15,807,418	17,453,576	17,675,072	19,156,890	17,730,242	15,701,840
Administrative expenses	9,459,332	9,323,141	9,328,218	9,508,254	8,122,795	7,847,406	7,772,582	7,446,433	7,023,988	6,632,101
Other expenses*	-	-	-	-	-	-	-	601,825	2,050,734	-
Total deductions from plan net assets	531,394,796	495,516,875	458,804,768	432,726,166	411,330,797	387,369,630	361,037,646	345,080,934	328,473,130	306,899,712
Change in net assets	$ 598,797,330	$ 877,024,138	$1,117,307,159	$ 340,529,463	($397,875,218)	($593,374,954)	$ 684,510,481	$ 751,061,265	$968,585,714	$ 875,584,070

* *Other Expenses include immaterial adjustments related to corrections to accumulated depreciation on fixed assets and accounts receivables.*

GROUP LIFE INSURANCE PLAN
CHANGES IN NET ASSETS

LAST TEN FISCAL YEARS

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000*	1999*	1998*	1997*
Additions										
Member contributions	$ 8,632,935	$8,456,619	$8,345,241	$8,059,713	$7,648,870	$7,216,169	$7,193,257	$7,005,931	$6,689,829	$6,114,033
Employer contributions	216,103	211,576	211,691	215,777	184,336	178,086	176,388	168,987	166,807	159,821
Investment Income (net of expenses)	1,290,819	1,122,921	391,887	2,150,357	2,762,100	3,219,707	1,481,132	1,206,160	1,774,078	1,744,792
Total additions to plan net assets	10,139,857	9,791,116	8,948,819	10,425,847	10,595,306	10,613,962	8,850,777	8,381,078	8,630,714	8,018,646
Deductions										
Benefit payments	7,571,942	7,215,051	7,104,121	7,100,216	8,447,953	6,221,450	7,306,079	7,687,006	6,304,364	5,645,163
Refunds	32,002	17,279	19,535	17,195	14,724	14,688	15,000	25,834	6,532	14,987
Administrative expenses	812,833	841,750	854,891	895,521	734,383	703,686	650,303	595,419	493,217	570,283
Other expenses	-	-	-	-	-	-	-	-	-	-
Total deductions from plan net assets	8,416,777	$8,074,080	7,978,547	8,012,932	9,197,060	6,939,824	7,971,382	8,308,259	6,804,113	6,230,433
Change in net assets	$ 1,723,080	$1,717,036	$ 970,272	$2,412,915	$1,398,246	$3,674,138	$ 879,396	$ 72,819	$1,826,601	$1,788,214

* *Member Contributions in 2000 and 1999 originally included contribution refunds of $14,999 and $25,834 respectively, that have now been reclassified as deductions.*

* *Refunds in the amounts of $14,999 for 2000, $25,834 for 1999, $6,532 for 1998, and $14,987 for 1997 were originally reported in Member contributions in the respective years' CAFRs. This table reflects the reclassified from additions to deductions from plan net assets. Also, in 1999 $426,432 was originally reported as Benefits Paid and has been reclassified to Administrative Expenses.*

DEFINED BENEFIT AND GROUP LIFE INSURANCE PLANS COMBINED CHANGES IN NET ASSETS

LAST TEN FISCAL YEARS

Fiscal Year

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Additions										
Member contributions	$ 153,030,881	$ 147,078,785	$ 140,599,869	$ 136,970,842	$ 130,262,842	$ 123,248,430	$ 117,883,047	$ 112,686,985	$ 108,527,537	$ 105,379,275
Employer contributions	322,117,123	291,827,175	300,112,176	295,370,043	423,858,414	272,597,903	258,261,090	299,694,267	274,787,560	267,853,658
Investment Income (net of expenses)	665,183,979	943,426,169	1,144,348,701	351,340,591	(530,070,371)	(591,237,695)	678,239,769	692,116,191	922,374,461	817,269,496
Total additions to plan net assets	1,140,331,983	1,382,332,129	1,585,060,746	783,681,476	24,050,885	(195,391,362)	1,054,383,906	1,104,497,443	1,305,689,558	1,190,502,429
Deductions										
Benefit payments	510,599,828	477,433,409	440,902,949	417,180,904	396,398,584	368,816,383	343,316,238	325,989,225	307,972,530	290,210,934
Refunds	18,939,580	15,992,655	15,697,257	13,834,163	15,822,142	17,468,264	17,728,820	19,156,890	17,736,774	15,716,827
Administrative expenses	10,272,165	10,164,891	10,183,109	9,724,031	8,307,131	8,025,492	7,948,970	7,615,420	7,517,205	7,202,384
Other expenses	-	-	-	-	-		-	601,825	2,050,734	-
Total deductions from plan net assets	539,811,573	503,590,955	466,783,315	440,739,098	420,527,857	394,310,139	368,994,028	353,363,360	335,277,243	313,130,145
Change in net assets	$ 600,520,410	$ 878,741,174	$1,118,277,431	$ 342,942,378	$(396,476,972)	$(589,701,501)	$ 685,389,878	$ 751,134,083	$ 970,412,315	$ 877,372,284

DEFINED BENEFIT PLAN
BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS
BY TYPE

LAST TEN FISCAL YEARS

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Type of Benefit										
Service retirement benefits	$448,493,907	$419,704,172	$387,324,422	$364,951,896	$345,606,266	$323,423,424	$300,816,207	$285,256,849	$271,144,317	$258,844,895
Disability benefits	48,853,164	44,900,918	41,176,546	39,350,574	36,748,652	33,686,219	29,951,365	27,850,502	25,916,345	21,250,464
Pre-Retirement death benefits	5,680,814	5,613,268	5,297,859	5,098,475	5,045,666	4,959,005	4,822,420	4,768,434	4,607,504	4,470,411
Total benefits	$503,027,886	$470,218,358	$433,798,828	$409,400,944	$387,400,584	$362,068,648	$335,589,992	$317,875,786	$301,668,166	$284,565,771
Type of Refund										
Death	$ 2,002,560	$ 1,917,019	$ 2,209,683	$ 2,481,807	$ 1,690,232	$ 1,359,147	$ 1,080,789	$ 1,751,010	$ 1,508,487	$ 1,472,124
Separation	15,494,157	12,704,938	11,686,892	10,115,976	11,060,713	13,453,867	15,107,647	16,279,816	14,950,069	12,934,220
Other	1,410,862	1,353,419	1,781,147	1,219,184	3,056,473	2,640,562	1,486,637	1,126,064	1,271,686	1,295,496
Total refunds	$ 18,907,578	$ 15,975,376	$ 15,677,722	$ 13,816,968	$ 15,807,418	$ 17,453,576	$ 17,675,072	$ 19,156,890	$ 17,730,242	$ 15,701,840

GROUP LIFE INSURANCE PLAN
BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS
BY TYPE

LAST TEN FISCAL YEARS

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Type of Benefit										
Basic active claims	$ 1,553,776	$ 1,680,927	$ 1,451,264	$ 1,684,414	$ 1,559,284	$ 1,227,841	$ 1,421,541	$ 2,016,006	$ 1,121,668	$ 1,588,790
Supplemental claims	1,280,000	846,410	1,612,705	731,000	1,943,000	1,030,982	1,302,693	1,506,039	1,083,624	1,310,204
Dependent claims	218,988	250,344	211,500	314,224	240,086	296,440	318,386	329,488	308,966	182,759
Accidental Death & Dismemberment claims	147,042	233,000	143,027	-	169,042	-	451,601	341,851	121,302	552
Basic retiree claims	4,169,092	4,111,284	3,649,726	4,302,678	4,412,198	3,579,737	3,765,336	3,340,554	3,347,591	2,511,799
	7,368,899	7,121,965	7,068,222	7,032,316	8,323,610	6,135,000	7,259,557	7,533,937	5,983,152	5,594,103
Conversion expense	203,044	93,086	35,900	67,900	124,343	86,450	46,522	153,069	321,212	51,060
Total benefits	$ 7,571,942	$ 7,215,051	$ 7,104,122	$ 7,100,216	$ 8,447,953	$ 6,221,450	$ 7,306,079	$ 7,687,006	$ 6,304,364	$ 5,645,163
Type of Refund										
Group Life Insurance premiums	32,002	17,279	19,535	17,195	14,724	14,688	15,000	25,834	6,532	14,987
Total refunds	$ 32,002	$ 17,279	$ 19,535	$ 17,195	$ 14,724	$ 14,688	$ 15,000	$ 25,834	$ 6,532	$ 14,987

DEFINED BENEFIT PLAN
RETIRED MEMBERS BY TYPE OF BENEFIT

Fiscal Year Ended June 30:	Service Retirees	Service Retiree Beneficiary Recipients	Disability Benefit Recipients	Pre-Retirement Death Benefits Recipients	Total Pension Benefit Recipients
2006	25,801	3,403	2,628	1,001	32,833
2005	21,973	6,615	2,528	1,134	32,250
2004	22,067	5,874	2,403	1,116	31,460
2003	21,675	5,735	2,292	1,072	30,774
2002	21,226	5,689	2,218	989	30,122
2001	20,887	5,575	2,096	1,008	29,566
2000	20,673	5,297	1,967	1,007	28,944
1999	19,681	5,906	1,672	1,113	28,372

DEFINED BENEFIT PLAN
AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates	Years of Creditable Service					
July 1, 2000 to June 30, 2006	5-10	10-15	15-20	20-25	25-30	30+
Period 7/1/2000 to 6/30/2001						
Average Monthly Benefit	289	439	740	1,233	1,424	2,028
Average Final Salary	17,347	16,093	19,593	24,288	28,405	30,555
Number of Active Retirants	1,029	2,986	2,400	3,428	5,038	4,895
Period 7/1/2001 to 6/30/2002						
Average Monthly Benefit	300	456	768	1,279	1,479	2,109
Average Final Salary	17,828	16,542	20,259	24,904	29,146	31,792
Number of Active Retirants	1,001	2,989	2,401	3,450	5,191	5,111
Period 7/1/2002 to 6/30/2003						
Average Monthly Benefit	305	468	791	1,312	1,515	2,170
Average Final Salary	18,881	17,361	21,472	26,137	30,469	33,731
Number of Active Retirants	970	2,935	2,397	3,473	5,417	5,366
Period 7/1/2003 to 6/30/2004						
Average Monthly Benefit	320	487	818	1,347	1,566	2,247
Average Final Salary	19,874	18,134	22,389	26,958	31,602	35,366
Number of Active Retirants	950	2,868	2,420	3,526	5,631	5,610
Period 7/1/2004 to 6/30/2005						
Average Monthly Benefit	329	511	855	1,408	1,634	2,343
Average Final Salary	20,660	18,974	23,337	28,063	32,716	36,905
Number of Active Retirants	958	2,827	2,442	3,607	5,843	5,925
Period 7/1/2005 to 6/30/2006						
Average Monthly Benefit	339	534	884	1,449	1,688	2,429
Average Final Salary	21,354	19,934	24,207	28,918	33,712	38,236
Number of Active Retirants	973	2,801	2,472	3,644	6,033	6,205

DEFINED BENEFIT PLAN
RETIRED MEMBERS BY TYPE OF BENEFIT AND OPTION
As of June 30, 2006

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement				Option Selected									
		1	2	3	4	0	1	2	3	4	5	6	7	8	Other
0 - 250	5,853	2,937	129	1,732	1,055	949	163	220	65	1	1,241	15	3	1	3,195
251 - 500	4,644	3,873	108	657	6	1,194	242	287	95	2	1,620	33	9	8	1,154
501 - 750	3,322	3,037	83	197	5	1,132	198	257	112	5	870	35	14	18	681
751 - 1000	2,711	2,574	64	65	8	1,042	203	200	155	4	538	32	17	22	498
1001 - 1250	2,698	2,614	68	15	1	1,035	232	219	175	6	585	38	19	32	357
1251 - 1500	2,773	2,718	50	4	1	1,145	240	256	233	4	545	51	23	33	243
1501 - 1750	2,564	2,523	40	1	0	1,125	235	200	169	10	523	41	29	42	190
1751 - 2000	2,246	2,214	32	0	0	1,041	209	146	165	13	427	39	40	29	137
2001 -	6,096	6,060	36	0	0	3,055	500	508	459	65	886	104	117	151	251
Totals	32,907	28,550	610	2,671	1,076	11,718	2,222	2,293	1,628	110	7,235	388	271	336	6,706

EMPLOYEE CONTRIBUTION RATES

LAST TEN FISCAL YEARS

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Judicial Plan Employees	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Legislative Plan Employees	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
School Teacher Employees	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
State of Maine Employees										
Employee Class:										
General	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Police	n/a	n/a	n/a	n/a	n/a	n/a	8.65%	8.65%	8.65%	8.65%
Police - Grandfathered	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%
Marine Wardens - Grandfathered	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%
Game Wardens - Grandfathered	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%
Prison Wardens	n/a	n/a	n/a	n/a	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%
Prison Wardens - Grandfathered	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%
Liquor Inspectors - Grandfathered	n/a	n/a	n/a	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Forest Rangers - Grandfathered	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%
1998 Special Groups	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	n/a	n/a
HazMat/DEP 24030	8.65%	8.65%	8.65%	8.65%	8.65%	n/a	n/a	n/a	n/a	n/a
Participating Local District Employees										
Employee Class:										
AC - General COLA	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
BC - General COLA	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
1C - Special COLA	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
2C - Special COLA	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
3C - Special COLA	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
4C - Special COLA	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
AN - General No COLA	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
1N - Special No COLA	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
2N - Special No COLA	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
3N - Special No COLA	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
4N - Special No COLA	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%

EMPLOYER CONTRIBUTION RATES

LAST TEN FISCAL YEARS

	Fiscal Year									
Employer Contributions With Respect to	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
Judicial Plan Employees	15.09%	18.08%	18.10%	14.93%	14.45%	24.30%	24.12%	33.92%	26.18%	28.72%
Legislative Plan Employees	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.47%	0.47%	9.10%
School Teacher Employees	17.23%	16.02%	16.05%	17.71%	17.71%	18.34%	18.34%	19.30%	19.30%	20.06%
State of Maine Employees										
Employee Class:										
General	15.52%	13.74%	13.39%	12.43%	12.19%	14.81%	14.47%	16.68%	16.40%	16.95%
Police	n/a	n/a	n/a	n/a	n/a	n/a	16.48%	20.10%	20.10%	19.45%
Police - Grandfathered	43.02%	35.00%	34.32%	36.37%	35.65%	43.90%	42.89%	67.85%	66.16%	65.11%
Marine Wardens - Grandfathered	44.55%	38.27%	37.43%	35.36%	35.15%	43.61%	42.62%	59.15%	57.69%	57.01%
Game Wardens - Grandfathered	45.94%	39.03%	38.13%	37.12%	36.35%	40.23%	39.32%	84.82%	82.52%	81.71%
Prison Wardens	n/a	n/a	n/a	n/a	13.88%	16.87%	16.48%	9.20%	9.20%	9.58%
Prison Wardens - Grandfathered	23.70%	17.79%	17.44%	18.76%	18.39%	22.28%	21.76%	27.14%	26.50%	25.27%
Liquor Inspectors - Grandfathered	n/a	n/a	n/a	16.43%	16.02%	20.26%	19.87%	31.02%	30.24%	25.34%
Forest Rangers - Grandfathered	17.79%	15.78%	15.47%	14.93%	14.65%	17.65%	17.27%	26.90%	26.25%	26.67%
1998 Special Groups	17.68%	15.55%	15.21%	14.16%	13.88%	16.87%	16.48%	17.95%	n/a	n/a
HazMat/DEP	17.68%	15.55%	15.21%	14.96%	14.68%	n/a	n/a	n/a	n/a	n/a
Participating Local District Employees										
Employee Class:										
AC - General COLA	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.30%	5.90%	8.00%	8.00%
BC - General COLA	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	2.00%	3.70%	5.00%	5.00%
1C - Special COLA	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	7.70%	14.70%	19.00%	19.00%
2C - Special COLA	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.70%	9.00%	11.70%	11.70%
3C - Special COLA	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%	6.30%	11.90%	15.40%	15.40%
4C - Special COLA	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	4.10%	6.50%	8.40%	8.40%
AN - General No COLA	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.80%	3.50%	4.70%	4.70%
1N - Special No COLA	3.60%	3.60%	3.60%	3.60%	3.60%	3.60%	4.30%	9.00%	11.70%	11.70%
2N - Special No COLA	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%	2.50%	5.00%	6.50%	6.50%
3N - Special No COLA	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	3.40%	6.70%	8.70%	8.70%
4N - Special No COLA	1.90%	1.90%	1.90%	1.90%	1.90%	1.90%	2.20%	3.60%	4.70%	4.70%

* *1997 for State includes UAL Adjustment of 1.98%*

PRINCIPAL PARTICIPATING EMPLOYERS

CURRENT YEAR AND NINE YEARS AGO

2006

Participating Entity	Covered Employees	Rank	Percentage of Total System
State of Maine	16,314	1	23.99%
Portland School Department	1,333	2	1.96%
Portland, City Of	844	3	1.24%
Lewiston School Department	782	4	1.15%
Bangor School Department	734	5	1.08%
MSAD #75 Topsham	696	6	1.02%
Sanford School Department	618	7	0.91%
Auburn School Department	607	8	0.89%
MSAD #6 Bar Mills	601	9	0.89%
MSAD #54 Skowhegan	598	10	0.88%
All Others *	44,874	11	65.99%
Total (561 Participating Entities)	**68,001**		**100.00%**

1998

Participating Entity	Covered Employees	Rank	Percentage of Total System
State of Maine	15,996	1	25.71%
Portland, City Of	2,029	2	3.26%
Portland School Department	1,282	3	2.06%
Bangor School Department	793	4	1.27%
Bangor, City Of	699	5	1.12%
Lewiston School Department	683	6	1.10%
Auburn School Department	649	7	1.04%
MSAD #75 Topsham	622	8	1.00%
Augusta School Department	596	9	0.96%
MSAD #9 Farmington	571	10	0.92%
All Others	38,306	11	61.56%
Total (561 Participating Entities)	**62,226**		**100.00%**

* All Others includes employees covered under two or more employer types.

In 2006, "All Others" consisted of:

Employer Type	Number of Employers	Covered Employees
Judicial Retirement System	1	56
Legislative Retirement System	1	181
School Districts	256	34,554
Participating Local Districts	293	10,083
	551	**44,874**

Note: Covered employees of these employers are eligible to participate in the Defined Benefit Plans administered by the MSRS, which provide normal and disability retirement benefits and certain survivor benefits, as well as benefits under the Group Life Insurance Plan.

EMPLOYERS FOR WHOM THE MAINE STATE RETIREMENT SYSTEM ADMINISTERS RETIREMENT PLANS

PLAN: STATE EMPLOYEE
Employer: State of Maine
Reporting Entity: State of Maine

PLAN: STATE EMPLOYEE
Employer: Various
Reporting Entity: (as follows)

Central Maine Community College
Eastern Maine Community College
Governor Baxter School
Kennebec Valley Community College
Maine Career Advantage - MCC
Maine Dairy & Nutrition Council
Maine Developmental Disabilities Council
Maine Potato Board
Maine Community College System - Administration
Northern Maine Community College
Northern New England Passenger Rail Authority
Southern Maine Community College
University of Maine
Washington County Community College
Wild Blueberry Commission of Maine
York County Community College

PLAN: TEACHER
Employer: State of Maine; School Adminis trative Units for Grant-funded Teachers
Reporting Entity: (as follows)

Acton School Department
Arundel School Department
Auburn School Department
Augusta School Department
Bangor School Department
Bath School Department
Biddeford School Department
Brewer School Department
Bridgewater School Department
Brunswick School Department
Bucksport School Department
CSD #3 Boothbay Harbor
CSD #4 Flanders Bay
CSD #7 Mt. Desert
CSD #8 Airline CSD
CSD #9 South Aroostook
CSD #10 Maranacook
CSD #11 Schoodic
CSD #12 East Range
CSD #13 Deer Isle - Stonington
CSD #14 Great Salt Bay - Damariscotta
CSD #15 Oak Hill
CSD #17 Moosabec
CSD #18 Wells-Ogunquit
CSD #19 Five Town CSD
Cape Elizabeth School Department
Caribou School Department
Caswell School Department
Cutler School Department
Dedham School Department
Dresden School Department
East Machias School Department
Easton School Department
Ellsworth School Department
Erskine Academy
Falmouth School Department
Fayette School Department
Foxcroft Academy
Freeport School Department
Fryeburg Academy
George Stevens Academy
Glenburn School Department
Gorham School Department
Gould Academy
Harmony School Department
Hermon School Department
Indian Island
Indian Township
Isle Au Haut School Department
Islesboro School Department
Jay School Department
Kittery School Department
Lee Academy
Lewiston School Department
Limestone School Department
Lincoln Academy
Lincolnville School Department
Long Island School Department
MSAD #1 Presque Isle
MSAD #3 Unity
MSAD #4 Guilford
MSAD #5 Rockland
MSAD #6 Bar Mills
MSAD #7 North Haven
MSAD #8 Vinalhaven
MSAD #9 Farmington
MSAD #10 Allagash
MSAD #11 Gardiner
MSAD #12 Jackman
MSAD #13 Bingham
MSAD #14 Danforth
MSAD #15 Gray
MSAD #16 Hallowell
MSAD #17 South Paris
MSAD #18 Bucksport
MSAD #19 Lubec
MSAD #20 Fort Fairfield

EMPLOYERS FOR WHOM THE MAINE STATE RETIREMENT SYSTEM ADMINISTERS RETIREMENT PLANS *(continued)*

TEACHER *(continued)*

MSAD #21 Dixfield
MSAD #22 Hampden
MSAD #23 Carmel
MSAD #24 Van Buren
MSAD #25 Sherman Station
MSAD #26 Ellsworth
MSAD #27 Fort Kent
MSAD #28 Camden
MSAD #29 Houlton
MSAD #30 Lee
MSAD #31 Howland
MSAD #32 Ashland
MSAD #33 St. Agatha
MSAD #34 Belfast
MSAD #35 Eliot
MSAD #36 Livermore Falls
MSAD #37 Harrington
MSAD #38 Etna
MSAD #39 Buckfield
MSAD #40 Waldoboro
MSAD #41 Milo
MSAD #42 Mars Hill
MSAD #43 Mexico
MSAD #44 Bethel
MSAD #45 Washburn
MSAD #46 Dexter
MSAD #47 Oakland
MSAD #48 Newport
MSAD #49 Fairfield
MSAD #50 Thomaston
MSAD #51 Cumberland Center
MSAD #52 Turner
MSAD #53 Pittsfield
MSAD #54 Skowhegan
MSAD #55 Cornish
MSAD #56 Searsport
MSAD #57 Waterboro
MSAD #58 Kingfield
MSAD #59 Madison
MSAD #60 North Berwick
MSAD #61 Bridgton
MSAD #62 Pownal
MSAD #63 East Holden
MSAD #64 East Corinth
MSAD #65 Matinicus
MSAD #67 Lincoln
MSAD #68 Dover-Foxcroft
MSAD #70 Hodgdon
MSAD #71 Kennebunk
MSAD #72 Fryeburg
MSAD #74 North Anson
MSAD #75 Topsham
MSAD #76 Swans Island
MSAD #77 Machias
Machiasport School Department
Madawaska School Department
Maine Central Institute
Maine Education Association
Maine Indian Education
Maine School of Science & Mathematics
Millinocket School Department
Monhegan Plantation School Department
Monmouth School Department
Old Orchard Beach School Department
Old Town School Department
Peninsula Community School District
Pleasant Point School
Portland School Department
Raymond School Department
Region 2 Southern Aroostook County
Region 3 Northern Penobscot County
Region 4 Southern Penobscot County
Region 7 Waldo County Technical Center
Region 8 Knox County Vocational School
Region 9 School of Applied Technology
Region 10 Cumberland-Sagadahoc County
Region 11 Oxford Hill Technical School
Richmond School Department
Sanford School Department
Scarborough School Department
School Union 52 Winslow
School Union 132 Central Office
School Union 133 Central Office
South Portland School Department
Thornton Academy
Union 7 Dayton
Union 7 Saco
Union 29 Mechanic Falls
Union 29 Minot
Union 29 Poland
Union 30 Durham
Union 30 Lisbon
Union 37 Lincoln Plantation
Union 37 Rangeley
Union 42 Manchester
Union 42 Mount Vernon
Union 42 Readfield
Union 42 Wayne
Union 44 Litchfield
Union 44 Sabattus
Union 44 Wales
Union 47 Administration
Union 47 Georgetown
Union 47 Phippsburg
Union 47 West Bath
Union 47 Woolwich
Union 49 Edgecomb
Union 49 Southport

EMPLOYERS FOR WHOM THE MAINE STATE RETIREMENT SYSTEM ADMINISTERS RETIREMENT PLANS *(continued)*

TEACHER *(continued)*

Union 52 China
Union 52 Vassalboro
Union 60 Greenville
Union 60 Shirley
Union 69 Appleton
Union 69 Hope
Union 74 Bristol
Union 74 Damariscotta
Union 74 Nobleboro
Union 74 South Bristol
Union 76 Brooklin
Union 76 Sedgewick
Union 87 Orono
Union 87 Veazie
Union 90 Alton
Union 90 Bradley
Union 90 Greenbush
Union 90 Greenfield
Union 90 Milford
Union 91 Orland
Union 91 Orrington
Union 92 Hancock
Union 92 Lamoine
Union 92 Otis
Union 92 Surry
Union 92 Trenton
Union 93 Blue Hill
Union 93 Brooksville
Union 93 Castine
Union 93 Penobscot
Union 96 Steuben
Union 98 Administration
Union 98 Bar Harbor
Union 98 Cranberry Isle
Union 98 Frenchboro
Union 98 Mount Desert
Union 98 Southwest Harbor
Union 98 Tremont
Union 102 Jonesboro
Union 102 Machias
Union 102 Marshfield
Union 102, Northfield
Union 102, Roque Bluffs
Union 102, Wesley
Union 102, Whitneyville
Union 103 Beals
Union 103 Jonesport
Union 104 Charlotte
Union 104 Eastport
Union 104 Pembroke
Union 104 Perry
Union 106 Alexander
Union 106 Calais
Union 106 Robbinston
Union 107 Baileyville
Union 107 Princeton
Union 108 Vanceboro
Union 110 Reed Plantation
Union 113 East Millinocket
Union 113 Medway
Union 122 New Sweden
Union 122 Stockholm
Union 122 Westmanland
Union 122 Woodland
Union 132 Chelsea
Union 132 Jefferson
Union 132 Whitefield
Union 133 Palermo
Union 133 Somerville
Union 133 Windsor
Washington Academy
Waterville School Department
Westbrook School Department
Whiting School Department
Windham School Department
Winthrop School Department
Wiscasset School Department
Yarmouth School Department
York School Department

PLAN: **LEGISLATIVE**
Employer: **State of Maine**
Reporting Entity: **Office of the Executive Director of the Maine Legislature**

PLAN: **JUDICIAL**
Employer: **State of Maine**
Reporting Entity: **Administrative Office of the Courts**

PLAN: **CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS**
Employer: **Participating Local Districts (Active and Withdrawn)**
Reporting Entity: **(as follows)**

Aroostook County
Auburn Housing Authority
Auburn Lewiston Airport
Auburn Public Library
Auburn Water And Sewer District
Auburn, City of
Auburn School Support
Augusta Sanitary District
Augusta Water District
Augusta, City of
Augusta School Support
Baileyville, Town of
Baileyville School Support

EMPLOYERS FOR WHOM THE MAINE STATE RETIREMENT SYSTEM ADMINISTERS RETIREMENT PLANS *(continued)*

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS *(continued)*

Bangor Housing Authority
Bangor Public Library
Bangor Water District
Bangor, City of
Bangor School Support
Bar Harbor School Support
Bar Harbor, Town of
Bar Harbor School Lunch
Bath Water District
Bath, City of
Bath School Support
Belfast Water District
Belfast, City of
Berwick Sewer District
Berwick, Town of
Bethel, Town of
Biddeford School Department
Biddeford, City of
Boothbay Harbor, Town of
Boothbay Region Water District
Brewer Housing Authority
Brewer, City of
Brewer School Support
Bridgton Water District
Brunswick Fire And Police
Brunswick Public Library Association
Brunswick Sewer District
Brunswick, Town of
Brunswick School Support
Bucksport, Town of
Bucksport School Food Service
Bucksport School Support
Calais, City of
Calais School Support
Camden, Town of
Caribou Fire & Police
Carrabassett Valley, Town of
Chesterville, Town of
Cheverus High School
China, Town of
Coastal Counties Workforce Incorporated
Community School District #912
Community School District #915
Community School District #918
Corinna Sewer District
Corinna, Town of
Cumberland County
Cumberland, Town of
Dexter, Town of
Dover-Foxcroft Water District
Dover-Foxcroft, Town of
Durham, Town of
Durham School Support
East Millinocket School Support
Eagle Lake Water & Sewer District
East Millinocket
Easton, Town of
Easton School Support
Eliot, Town of
Ellsworth, City of
Ellsworth School Support
Erskine Academy
Fairfield, Town of
Falmouth Memorial Library
Falmouth, Town of
Falmouth School Support
Farmington Village Corporation
Farmington, Town of
Fayette, Town of
Fort Fairfield Housing Authority
Fort Fairfield Utilities District
Fort Fairfield, Town of
Freeport, Town of
Frenchville, Town of
Fryeburg, Town of
Gardiner Water District
Gardiner, City of
Glenburn, Town of
Glenburn School Lunch
Glenburn School Support
Gorham, Town of
Gorham School Support
Gould Academy
Greenville, Town of
Greenville School Support
Hallowell, City of
Hampden Water District
Hampden, Town of
Hancock County
Harpswell, Town of
Harrison, Town of
Hermon School Support
Hermon, Town of
Hodgdon, Town of
Houlton Water Company
Houlton, Town of
Indian Township Tribal Government
Jackman Utility District
Jay, Town of
Jay School Support
Kennebec County
Kennebec Sanitary Treatment District
Kennebec Water District
Kennebunk Kennebunkport Wells Water District
Kennebunk Light & Power District
Kennebunk Sewer District
Kennebunk, Town of

EMPLOYERS FOR WHOM THE MAINE STATE RETIREMENT SYSTEM ADMINISTERS RETIREMENT PLANS *(continued)*

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS *(continued)*

Kennebunkport, Town of
Kittery School Support
Kittery Water District
Kittery, Town of
Lebanon, Town of
Lewiston Auburn 911
Lewiston Housing Authority
Lewiston, City of
Lewiston-Auburn Water Pollution Control
Lewiston School Support
Lincoln & Sagadahoc Multi-Cty Jail Authority
Lincoln Academy
Lincoln County
Lincoln County Sheriffs
Lincoln Sanitary District
Lincoln Water District
Lincoln, Town of
Linneus, Town of
Lisbon Water Department
Lisbon, Town of
Lisbon School Support
Livermore Falls Water District
Livermore Falls, Town of
Lovell, Town of
Lubec Water & Electric District
Lubec, Town of
M.A.D.S.E.C.
Madawaska Water District
Madawaska, Town of
Madawaska School Support
Maine County Commissioners Association
Maine International Trade Center
Maine Maritime Academy
Maine Municipal Bond Bank
Maine Principals' Association
Maine School Management Association
Maine State Housing Authority
Maine State Retirement System
Maine Turnpike Authority
Maine Veterans Home - Augusta
Maine Veterans Home - Bangor
Maine Veterans Home - Caribou
Maine Veterans Home - Central office
Maine Veterans Home - Machias
Maine Veterans Home - Scarborough
Maine Veterans Home - South Paris
Mapleton-Castle Hill-Chapman, Town of
Mars Hill Utility District
Mars Hill, Town of
Mechanic Falls Sanitary District
Mechanic Falls School Support
Mechanic Falls, Town of
Medway School Support
Medway, Town of
Mexico, Town of
Milford, Town of
Millinocket, Town of
Millinocket School Support
Milo Water District
Monson, Town of
Mount Desert Island Regional School District
Mount Desert Water District
MSAD #9 Farmington
MSAD #13 Bingham
MSAD #16 Hallowell
MSAD #21 Dixfield
MSAD #29 Houlton
MSAD #31 Howland
MSAD #41 Milo
MSAD #49 Fairfield
MSAD #51 Cumberland
MSAD #53 Pittsfield
MSAD #54 Skowhegan
MSAD #60 Berwick
MSAD #67 Lincoln
MSAD #71 Kennebunk
Mt. Desert School Support
Mt. Desert, Town of
Naples, Town of
New Gloucester, Town of
North Berwick, Town of
Norway Water District
Norway, Town of
Old Orchard Beach, Town of
Old Orchard Beach School Support
Old Town Housing Authority
Old Town Water District
Old Town, City of
Old Town School Support
Orland, Town of
Orland School Food Service
Orland School Support
Orono, Town of
Orono School Support
Orrington, Town of
Orrington School Support
Otisfield, Town of
Oxford County
Oxford, Town of
Paris Utility District
Paris, Town of
Penobscot County
Penquis C.A.P.
Phippsburg, Town of
Phippsburg School Food Service
Phippsburg School Support
Piscataquis County

EMPLOYERS FOR WHOM THE MAINE STATE RETIREMENT SYSTEM ADMINISTERS RETIREMENT PLANS *(continued)*

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS *(continued)*

Pittsfield, Town of
Pl Pt Passamaquoddy Resv Housing Authority
Portland Housing Authority
Portland Public Library
Portland, City of
Portland School Support
Princeton, Town of
Princeton School Support
Region 4 South Penobscot
Richmond Utility District
Rockland, City of
Rockport, Town of
Rumford Fire & Police
Rumford Mexico Sewerage District
Rumford Water District
Rumford, Town of
Rumford School Support
Sabattus, Town of
Sabattus School Support
Saco, City of
Saco School Support
Sagadahoc County
Sanford Housing Authority
Sanford Sewerage District
Sanford Water District
Sanford, Town of
Sanford School Support
Scarborough, Town of
Scarborough School Food Service
Scarborough School Support
Searsport Water District
Searsport, Town of
Skowhegan, Town of
Somerset County
South Berwick Sewer District
South Berwick Water District
South Berwick, Town of
South Portland Housing Authority
South Portland, City of
South Portland School Support
St. Agatha, Town of
Topsham Sewer District
Topsham, Town of
Town of Ogunquit
Tri-Community Sanitary Landfill
Van Buren Housing Authority
Van Buren, Town of
Vassalboro, Town of
Veazie Fire & Police
Waldo County Technical Center
Waldoboro, Town of
Washburn, Town of
Washington County
Waterville Fire & Police
Waterville Sewer District
Wells, Town of
Westbrook Housing Authority
Winslow, Town of
Winslow School Support
Winter Harbor Utility District
Winterport Water & Sewer Districts
Winthrop, Town of
Winthrop School Support
Yarmouth Water District
Yarmouth, Town of
Yarmouth School Support
York County
York Sewer District
York Water District
York, Town of
York School Support

EMPLOYERS FOR WHOM THE MAINE STATE RETIREMENT SYSTEM ADMINISTERS RETIREMENT PLANS *(continued)*

PLAN: **WITHDRAWN (NON-CONSOLIDATED) PARTICIPATING LOCAL DISTRICTS**
Employer: **Participating Local Districts**
Reporting Entity: **(as follows)**

Bingham Water District
Bradford, Town of
Bridgton, Town of
Brownville, Town of
Cape Elizabeth, Town of
Cape Elizabeth School Support
Castle Hill
Chapman
Cranberry Isles
CSD #3 Boothbay/Boothbay Harbor
Damariscotta, Town of
Dixfield, Town of
Exeter, Town of
Fort Kent, Town of
Franklin County
Garland, Town of
Georgetown School Support
Georgetown, Town of
Greater Portland Council of Government
Howland, Town of
Knox County
Limestone Water & Sewer District
Limestone, Town of
Limestone-School Support
Maine Development Foundation
Maine Municipal Association
Mid-Maine Waste Action Corporation
Milo, Town of
MSAD #34 Belfast
MSAD #56 Searsport
New Canada Plantation
Norway-Paris Solid Waste Incorporated
Presque Isle, City of
Readfield, Town of
Richmond, Town of
Richmond School Support
Sabattus Sanitary District
Thomaston, Town of
Waldo County
Wallagrass Plantation
Westbrook Fire & Police
Westbrook, City of
Westbrook School Support
Western Maine Community Action Council
Wilton, Town of

This report has been produced as required by 5 M.R.S.A. §17102 (10), which states that the Maine State Retirement System must publish an annual report showing "the fiscal transactions of the retirement system for the fiscal year and 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 financial condition of the retirement system for the fiscal year."

MAINE STATE RETIREMENT SYSTEM
46 State House Station
Augusta, ME 04333-0046

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

www.msrs.org

Costs for producing this report were paid from the operating budget of the Maine State Retirement System.

This report is printed on recycled paper that can be recycled again.