



# Comprehensive Annual Financial Report

For the Fiscal Year Ended  
June 30, 2007

2007  
A Component Unit of the State of Maine

# MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

A Component Unit of the State of Maine

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46 State House Station  
Augusta, Maine 04333

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED  
JUNE 30, 2007

Prepared by:  
MainePERS Department of Administration



Public Pension Coordinating Council  
**Public Pension Standards**  
***2007 Award***

Presented to

**Maine Public Employees 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)

A handwritten signature in cursive script that reads "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, 2006

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.



*Ronald J. Sloan*  
President

*Jeffrey L. Esser*  
Executive Director

**MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the fiscal year ended June 30, 2007

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

**BOARD OF TRUSTEES**  
 Peter M. Leslie, *Chair*  
 Catherine R. Sullivan, *Vice Chair*  
 George A. Burgoyne  
 David G. Lemoine, *State Treasurer, ex-officio*  
 Richard T. Metivier  
 Carol L. Mitchell  
 Benedetto Viola  
 Kenneth L. Williams

## LETTER OF TRANSMITTAL

December 3, 2007

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 Public Employees Retirement System (“MainePERS” or the “System”) for the fiscal year ended June 30, 2007. Please note that the name of the System was changed by statute from the Maine State Retirement System to the Maine Public Employees Retirement System in 2007. This CAFR, taken as a whole, provides details on all aspects of the System. It is written so as to conform to the requirements of the Governmental Accounting Standards Board (GASB). Management of the System takes full responsibility for the accuracy, completeness and fairness of the representations made in this report.

### FUNDING OF 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 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. 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 actuarial 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 of those years. The actuarial funded ratio of those plans at June 30, 2007 was 73.9 percent compared to 71.1 percent in 2006.

The Judicial program was slightly overfunded last year and remains so this year. The greater than 100 percent funded status of the Consolidated Plan for Participating Local Districts (PLDs) continues and reflects the circumstances and structure of the plan 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 System also operates a program of defined contribution retirement plans under sections 401(a), 403(b) and 457(b) of the Internal Revenue Code, collectively referred to as MaineSTART. At the conclusion of fiscal year 2007, there were 26 participating employers in MaineSTART, with 319 participants. While MaineSTART constitutes a small part of the System's retirement programs, we believe that it provides an important supplement for our defined benefit participants, and a valuable alternative for our other members. MaineSTART offers a family of funds by Vanguard designed to be very low cost and enticingly easy to manage. We expect to expand these plans soon beyond our Participating Local District members and offer them to all System participants.

The Group Life Insurance Plan is funded by premiums paid by its participants and the employers of those participants, and investment returns on reserves. The investment strategy for these reserves is the same strategy employed for the defined benefit plan assets. As a result of the System's extensive premium study and valuation of the Group Life Insurance Program, the funding structure of the plan and premium rates were revised and are being implemented in FY 2007 and FY 2008.

## 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 investment policy is the mix of investment types in which assets are reinvested and the allocation of assets among asset classes. Under its investment policy, the System invests in domestic equities, international equities, Treasury Inflation Protected Securities (TIPS), and real estate. The System's Board of Trustees is responsible for establishing the policy that is the framework for investment of the plan assets. An Investment Advisory Committee of the Board of Trustees, which includes independent investment experts in addition to Trustees, advises the Board on investment matters, including policy. The Board's choice of asset classes reflects its 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 defined benefit and group life insurance portfolio experienced a fifth consecutive year of positive returns, with an overall return of 16.2%. Total value of the portfolio increased to \$11.0 billion from \$9.6 billion at June 30, 2006. The increase in investment income is primarily attributable to excellent equity returns.

The 122nd Legislature passed a law requiring the System to divest of non-commingled investments in companies doing business in the Republic of Sudan when it could be done in accordance with sound investment criteria and the Board's fiduciary responsibilities. The Board reported to the Legislature in January and June 2007 about its progress in this regard, and by fiscal year-end, had divested \$19 million of securities of firms determined to be in violation of the mandate. Staff of the System actively researches allegations of portfolio companies' involvement in Sudan, and regularly updates the list of prohibited investments, as well as lists of other companies whose alleged involvement requires ongoing attention.

The 123<sup>rd</sup> Legislature created an Investment Trust for the purpose of investing funds set aside by the State of Maine to cover OPEB liabilities for retiree health insurance benefits for state employees and teachers. The Trustees of MainePERS were named Trustees for this Trust with the responsibility of investing these funds. MainePERS expects to receive the first funds in fall, 2007.



## HIGHLIGHTS OF THE PAST YEAR

In 2007 and into Fiscal Year 2008, the System continued to expand the population of members receiving annual statements, including statements to members of the PLD, Legislative, and Judicial plans in calendar 2007. At the same time, data has continued to be cleansed and verified, enabling the identification and disposition of orphaned balances of long-inactive members.

A number of faces changed at the System this year. In addition to the election of Peter M. Leslie and Catherine R. Sullivan to Chair and Vice-Chair, as mentioned in last year's CAFR, we were joined by new Trustees Richard T. Metivier and Carol L. Mitchell, and rejoined by former Trustee George A. Burgoyne. The Investment Advisory Committee was reconfigured to provide supplemental professional and academic expertise, enhancing its ability to provide valuable counsel to the Board. We were also pleased to welcome to the System both a new Chief Investment Officer, Andrew H. Sawyer, and a new Director of Finance, Sherry Tripp Vandrell.

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. Vitech Systems Group was the vendor selected to deliver, configure, customize, and implement the line-of-business automated system. Now, the System is preparing to test a shift of its critical benefits payroll functions from an obsolete legacy system to the new Vitech program, and other portions of the new technology are in various stages of design and development. Changes this year in our approach to the project mean that some functions will not be available until well into 2009; we made these changes in our current project priorities to provide the best assurance that mission critical functions will perform reliably and accurately throughout the transition and into the future.

## RECENT DEVELOPMENTS

Effective September 20, 2007, by virtue of Chapter 58 of the Public Laws of 2007, the *Maine State Retirement System* became the *Maine Public Employees Retirement System*, or *MainePERS*. In proposing the change to a nomenclature that is more common across the country, the System wanted its name to be more representative and inclusive of all its constituencies, the common denominator being the term "public employees."

## ACKNOWLEDGEMENTS

Once again, we are pleased to inform you that for the third 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 2007 CAFR will also be submitted to the GFOA.

For the second consecutive year, the System was also awarded the Public Pension Coordinating Council's Public Pension Standards Award. To receive this award, retirement programs must meet requirements in six areas: comprehensive benefits, funding adequacy, actuarial valuation, audit, communications and investment policies and standards. We are proud that the System meets the high standards set by the PPCC as represented by the award.

The System, through its management staff, is responsible for establishing and maintaining an internal control structure that is designed to provide reasonable assurance that assets are protected from theft, fraud, or misuse and that financial recordkeeping is complete and accurate. Management believes the existing internal accounting controls accomplish these objectives. An internal auditor works with both staff and the Board to ensure appropriate internal control procedures. 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 preparation of this report has been a collaborative effort of senior management, the Accounting and Finance Department, the Investment 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  
Executive Director

I am joined in transmitting this Comprehensive Annual Financial Report to all of our constituencies by the System's Director of Finance.



Sherry Tripp Vandrell  
Director of Finance

## Appendix A to Letter of Transmittal

### OVERVIEW OF THE SYSTEM

The Maine Public Employees 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 269 municipalities and other public entities, called "participating local districts" (PLDs) that have chosen to provide retirement plans through MainePERS. 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 MainePERS administers only the Group Life Insurance Plan.

#### Board of Trustees

Responsibility for the operation of the Maine Public Employees Retirement System is held by the System's Board of Trustees, which comprises eight members. State law specifies the Board's composition. 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 a MainePERS 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 2006 and 2007 was the firm of Cheiron, Inc.

The Board's management of MainePERS 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 + 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, investments, accounting and financial functions, 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 Chief Investment Officer and staff, 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, MaineSTART

\* Effective September 20, 2007, following the fiscal year that is the subject of this report, the Maine State Retirement System was renamed the Maine Public Employees Retirement System, or MainePERS.

defined contribution plans, employer programs, survivor benefit and group life insurance programs, and payrolls administration. 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 Communications, Facilities, Human Resources, and Information Technology units.

The System's primary responsibility is the administration of defined benefit retirement plans. Retirement and related benefits provided by MainePERS include:

- ◆ service retirement benefits, which provide retirement income to qualified members;
- ◆ disability retirement benefits, which provide income to a member who becomes disabled under MainePERS 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 the MaineSTART defined contribution retirement plans that are established under sections 401(a), 403(b), 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 Public Employees Retirement System's State employee and teacher plan. State employees are required by law to become members of MainePERS when hired. There is an exception to this rule for elected and appointed officials, for whom membership is optional. Public school teachers, other than substitute teachers, must also become members of MainePERS when hired.

PLD employees become members of MainePERS when they are hired if their employer participates as a PLD in MainePERS 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 MainePERS, 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 MainePERS, 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 2007 is 21 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**

Beginning in FY 2008, the System will be drawing the funds formerly provided by the State of Maine to support its operating expenses directly from the trust funds. In the past, the State, as employer, contributed a certain percentage for administrative costs. 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 level of budgetary control (the level at which expenses or expenditures cannot legally exceed the allocated amount) is established by the Legislature for the System as a whole, divided between Personal Services and All Other. Operational expenditures or expenses may not legally exceed the budget at the System level for all funds for which budgets are adopted annually.

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, 2007**

**BOARD OF TRUSTEES**

Peter M. Leslie, Chair	Public Member, Governor's direct appointee
Catherine R. Sullivan, Vice Chair	Retired Teacher member, elected by the Maine Retired Teachers Association and appointed by the Governor
Carol L. Mitchell	Public member, Governor's direct appointee
Richard T. Metivier	MainePERS Participating Local District member, appointed by the Maine Municipal Association and the Governor
George A. Burgoyne	Retired MainePERS recipient member, nominated by retired State employees and Participating Local District retirees, appointed by the Governor
Benedetto Viola	State Employee member, elected by the Maine State Employees Association
Kenneth L. Williams	Teacher member, elected by the Maine Education Association
David G. Lemoine	State Treasurer, <i>Ex-officio</i> 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
Gary E. Emery	Senior Manager of Investments
Rebecca A. Grant	Manager, Retirement Services
Marlene McMullen-Pelsor	Manager, Employer and Ancillary Services
Kathy J. Morin	Manager, Actuarial and Legislative Affairs
Andrew H. Sawyer	Chief Investment Officer
Sherry T. Vandrell	Director of Finance

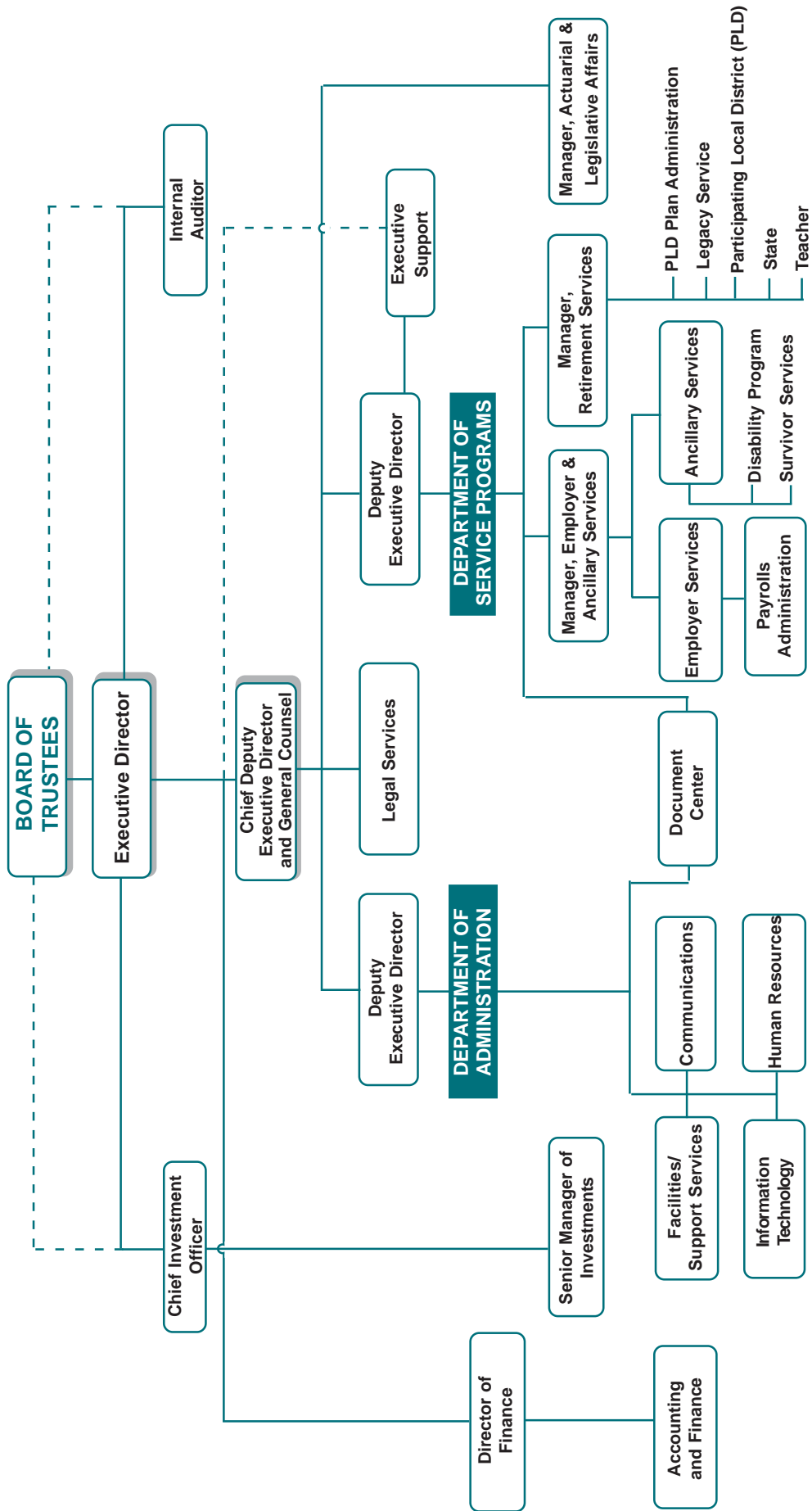
**PRINCIPAL PROFESSIONAL CONSULTANTS**

<b>Actuary</b>	<b>Investment Consultant</b>	<b>Auditors</b>	<b>Internal Auditor</b>
Cheiron	Ennis Knupp & Associates	Baker Newman & Noyes	John F. Fleming

*See page 70 for a list of professional investment management firms.*

Maine Public Employees Retirement System

Organizational Chart by Function





## 2007 Legislative Update

### SUMMARY of ENACTED LEGISLATION 123<sup>rd</sup> FIRST REGULAR SESSION

#### **PL 17 (LD 154) - An Act To Provide Reinstatement of Group Life Insurance for Public Employees Returning from Unpaid Military Leave**

This bill permits a member who did not continue group life insurance coverage while on an unpaid leave of absence in order to serve in the military to reinstate that coverage upon returning to work without filing evidence of insurability provided that specific timeframes are met. Under current law, a member on a leave of absence to serve in the military must either pay premiums during the leave to keep the insurance in effect or must file evidence of insurability in order to reinstate the insurance.

#### **PL 47 (LD 712) - An Act To Continue To Allow Public Retiree Organizations Access to the Maine State Retirement System's List of All State Retirees**

This bill removes the sunset provision which would have changed the manner in which home contact information in the possession of the System is made available to retiree organizations. With the passage of this bill, the retiree organizations will continue to be able to receive home contact information about members and benefit recipients unless the member or benefit recipient elects to have that information held confidential.

#### **PL 58 (LD 512) - An Act To Change the Name of the Maine State Retirement System**

This bill changes the name of the retirement system from the Maine State Retirement System (MSRS) to the Maine Public Employees Retirement System (MainePERS) to better reflect the groups for which the System administers retirement plans.

#### **PL 137 (LD 871) - An Act to Amend the Laws Relating to the Treatment of Maine State Retirement System Contributions for Terminated Members**

This bill permits the System to issue an automatic refund of member contributions to a non-vested member who has been inactive for a period of at least three years. If a member does not wish to receive the refund, it may be returned within thirty days of its issuance and will be restored to the member's credit. This bill also permits the System to transfer balances of \$100 or less of member contributions in non-vested member accounts that have been inactive for at least ten years to the retirement allowance fund.

#### **PL 240 (LD 499) – An Act Making Unified Appropriations and Allocations for the Expenditures of State Government... for the Fiscal Years Ending June 30, 2007, June 30, 2008 and June 30, 2009**

This bill includes several items that pertain to the System. Those items are as follows:

- Funding is provided for group life insurance premiums for retired teachers.
- Funding is provided for the payment of benefits to retired governors and their widows and for retired pre-1984 judges and their widows for fiscal years ending 2008 and 2009.
- A voluntary employee incentive program is established in which state employees may participate prior to July 1, 2009. As with past similar programs, group life insurance coverage remains based upon hours worked by the employee prior to participation in the incentive program.
- Prepayment of FY 2009 teachers' retirement costs is required on or before July 15, 2008 unless an insufficient cash flow exists at the State, in which case, an alternative payment arrangement plan will be developed.
- Beginning July 1, 2007, System administrative costs and expenses attributable to the state employee/teacher, legislative and judicial plans will be charged against the assets of the applicable plans.
- The Retiree Health Insurance Post-employment Benefits Investment Trust Fund is established. The System trustees are also the trustees of this new fund.

## 2007 Legislative Update

### SUMMARY of ENACTED LEGISLATION 123<sup>rd</sup> FIRST REGULAR SESSION (continued)

#### PL 249 (LD 1738) – An Act to Amend the Laws Relating to the Maine State Retirement System

This is the omnibus bill submitted by the System. In addition to correcting cross-referencing errors and providing clarifying language to specific provisions of retirement law, it makes two changes that affect System operations. First, this bill provides that the laws governing the unauthorized practice of law do not apply to a person who is not an attorney who is representing a party in a proceeding before the System. Second, this bill removes the requirement that individuals who are duly designated as members of the Participating Local District Advisory Committee by respective constituent groups also be appointed by the Governor.

#### PL 303 (LD 827) - An Act To Allow Certain Special Education Teachers to Acquire Time from the Maine State Retirement System

This bill permits the purchase of up to one year of service for time prior to July 1, 1976 during which work was performed in other than a public school system as an educator or teacher of a child with a disability. The purchase of service under this provision is at the full actuarial cost.

#### PL 305 (LD 323) - An Act Permitting Substitute Teachers to Opt Out of the Maine State Retirement System

This bill makes Maine State Retirement System membership optional for substitute teachers. Individuals who exercise the option under this provision are permitted two rejoin opportunities after which time, membership is no longer permitted while employed as a substitute teacher.

#### PL 449 (LD 1630) – An Act to Address an Inequity in the Judicial Retirement System

This bill changes the definition of earnable compensation for sitting judges as of June 30, 2005 to include the salary that would have been paid had cost-of-living adjustments in fiscal years 2004 and 2005 been funded.

#### P&S 9 (LD 776) – An Act to Establish the Operating Budget for the Maine State Retirement System for the Fiscal Year Ending June 30, 2008

This bill establishes the operating budget for the MSRS.

#### P&S 17 (LD 1373) - An Act to Authorize the Board of Trustees of the Maine State Retirement System to Provide a Cost-of-Living Adjustment to Retired Employees of Participating Local Districts

This bill authorizes the Board to provide eligible participating local district consolidated plan retirees with an additional .3% cost-of-living adjustment effective September 1, 2006. The System anticipates that this additional adjustment will be reflected in retirement benefits paid in September 2007. The bill also permits stand-alone districts to elect to provide this increase to eligible retirees.



BAKER | NEWMAN | NOYES LLC

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Maine Public Employees Retirement System

We have audited the accompanying statement of fiduciary net assets of Maine Public Employees Retirement System (the System) (A Component Unit of the State of Maine) as of June 30, 2007 and the related statement 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 2006 financial statements and, in our report dated September 22, 2006, 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, 2007 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 November 8, 2007 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 28 and the historical pension information on pages 51 through 56 are not required parts of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. The other supplementary information on page 57 is not 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 and other 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.

Portland, Maine  
November 8, 2007

*Baker Newman & Noyes*  
Limited Liability Company

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### June 30, 2007 Financial Report

#### Introduction

This Management Discussion and Analysis (MD&A) is prepared by the management staff of the Maine Public Employees Retirement System (MainePERS or the System) for the purpose of providing an overview of the System's financial statements. You will note that the System's name, formerly Maine State Retirement System, was changed by the Legislature to Maine Public Employees Retirement System in 2007.

#### 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 Plans (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 reports 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 MainePERS defined benefit plans and compares them to actual employer contributions, over a period of six years. It also provides 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.

The System has adopted GASB 43 in relation to certain disclosures required for the Group Life Insurance Plan effective with this report.



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007 Financial Report**  
*(continued)*

**Financial Highlights and Analysis**

The Net Assets of the System in 2007 increased by \$1,450 million (15%) from the prior year's Net Asset balance. This increase was due primarily to \$1,546 million of Net Investment and Other Income during fiscal year 2007 offset by increased benefits paid and other deductions. By comparison, Net Investment and Other Income during fiscal year 2006 was \$665 million. As of June 30, 2007, approximately 48% of the System's assets were invested in domestic common stocks, 20% in foreign common stocks, 27% in Treasury Inflation Protected Securities (TIPS), and 5% in real estate, either with direct holdings or through investment in common/collective trusts. Investment returns were significantly higher in 2007 than they were in 2006, resulting in a doubling of the increase in net assets in 2007 as compared to 2006.

The Net Assets of the System in 2006 had 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 paid 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.

The following are the Condensed Comparative Statements of Fiduciary Net Assets and Condensed Comparative Statements of Changes in Fiduciary Net Assets for the System for the fiscal years ended June 30, 2007, 2006, and 2005:

**Condensed Comparative Statements of Changes in Fiduciary Net Assets**

*(Dollar Values Expressed in Millions)*

	June 30, 2007	June 30, 2006	June 30, 2005
<b>ADDITIONS:</b>			
Member Contributions	\$ 163.9	\$ 153.0	\$ 147.1
Employer Contributions	323.7	322.1	291.8
Net Investment and Other Income	1,545.8	665.2	943.4
<b>Total Additions</b>	<b>\$ 2,033.4</b>	<b>\$ 1,140.3</b>	<b>\$ 1,382.3</b>
<b>DEDUCTIONS:</b>			
Benefits	\$ 549.4	\$ 510.6	\$ 477.4
Other	33.7	29.2	26.1
<b>Total Deductions</b>	<b>\$ 583.1</b>	<b>\$ 539.8</b>	<b>\$ 503.5</b>
<b>Net Increase (Decrease)</b>	<b>\$ 1,450.2</b>	<b>\$ 600.5</b>	<b>\$ 878.8</b>
<b>Net Assets, Beginning of Year</b>	<b>\$ 9,572.8</b>	<b>\$ 8,972.3</b>	<b>\$ 8,093.5</b>
<b>Net Assets, End of Year</b>	<b>\$ 11,023.0</b>	<b>\$ 9,572.8</b>	<b>\$ 8,972.3</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007 Financial Report**  
*(continued)*

<b>Condensed Comparative Statements of Fiduciary Net Assets</b>			
<i>(Dollar Values Expressed in Millions)</i>			
	<b>June 30, 2007</b>	<b>June 30, 2006</b>	<b>June 30, 2005</b>
Cash and Receivables	\$ 387.5	\$ 240.4	\$ 547.8
Investments at Fair Value	10,739.3	9,382.4	8,574.8
Securities Lending Collateral	3,031.7	2,673.9	2,636.5
Other Assets	4.2	3.7	1.4
<b>Total Assets</b>	<b>\$ 14,162.7</b>	<b>\$ 12,300.4</b>	<b>\$ 11,760.5</b>
Investment Purchases	\$ 71.5	\$ 24.8	\$ 125.4
Securities Lending Payable	3,031.7	2,673.9	2,636.5
Investment Management Fees Payable	7.3	6.6	4.8
Other Liabilities	29.2	22.4	21.5
<b>Total Liabilities</b>	<b>\$ 3,139.7</b>	<b>\$ 2,727.6</b>	<b>\$ 2,788.2</b>
<b>Net Assets Held in Trust for Benefits</b>	<b>\$ 11,023.0</b>	<b>\$ 9,572.8</b>	<b>\$ 8,972.3</b>

### Assets

Total assets increased \$1,862 million (15.1%) during 2007. This increase is primarily attributable to increases in equity investments. The \$1,357 million (14.5%) increase in Investments at Fair Value is attributable primarily to favorable equity markets. 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, 2007 was approximately \$113 million more than at June 30, 2006, due to the timing of investment purchases by the System's investment managers.

Total assets had increased \$540 million (4.6%) during 2006. This increase was 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 was 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 consisted of a \$262 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.

Refer to the [Investment Section](#) for more information on the System's investments.

### 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, 2007 were approximately \$47 million more than at June 30, 2006, due to the timing of investment purchases by the System's investment



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### June 30, 2007 Financial Report

(continued)

managers. The System records as an asset and corresponding liability, the cash collateral it holds due to its securities lending activity. On June 30, 2007, the amount of loans outstanding in the securities lending program was \$358 million more than at June 30, 2006.

Outstanding trades at June 30, 2006 had been approximately \$101 million less than at June 30, 2005. On June 30, 2006, the amount of loans outstanding in the securities lending program was \$37 million more than at June 30, 2005.

#### Additions to Fiduciary Net Assets

Additions to fiduciary net assets during fiscal year 2007 totaled \$2,033 million, an increase of 78.3% over the additions to fiduciary net assets in fiscal year 2006 which were \$1,140 million. This was largely due to the fact that investment income, net of fees and other deductions, grew by 132.4% (\$881 million). The increase in investment income is primarily attributable to excellent equity returns. US equities rose more than 20%, while international equities rose nearly 30%. These two asset classes alone account for approximately 65% of the MainePERS fund.

During fiscal year 2006, additions to fiduciary net assets 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, net of fees and other deductions, grew less in 2006 than in 2005 by 29.5% (\$278 million). Investment results were less positive primarily due to the fact that the TIPS portfolio had a negative return of (6.0)%. Additionally, returns in the stock market in 2006 were less dramatic than returns in 2005.

#### Pension Contributions

The State's contributions on behalf of State employees totaled \$93.3 million, \$89.5 million, and \$86.4 million for fiscal years 2007, 2006, and 2005, respectively. The State's contributions on behalf of teachers totaled \$184.1 million, \$174.2 million, and \$165.5 million, for fiscal years 2007, 2006, and 2005, respectively.

An additional employer contribution is mandated by statute to be made when General Fund Surplus (GFS) monies designated for the purpose of funding the unfunded actuarial liability of the State Employee/Teacher Retirement Program exist at fiscal year end. There were no GFS monies available for this purpose at June 30, 2007, but because GFS monies had been identified by the State at June 30, 2006 and 2005, contributions of \$17 million and \$13 million, respectively, were accrued by the System as an estimate of what the System would receive. These additional contributions were allocated, according to System policy, in equal parts to the unfunded liabilities of the State employee and teacher plan.

The State's fiscal 2007 contribution on behalf of judges was \$1.0 million; in fiscal year 2006 this contribution was also \$1.0 million. Based on the funding methodology used and considering the funded status of the Maine Legislative Retirement Plan, no employer contribution was required in fiscal years 2007 or 2006. For Participating Local Districts (PLDs) in the Consolidated Plan, the range of employer contributions as a percent of earnable compensation in fiscal year 2007 and in fiscal year 2006 was 1.5% to 6.5%. The Consolidated Plan's funded status and established funding approach results in employers of the Consolidated Plan currently paying less than what the true normal cost would otherwise require. The amount paid is never less than a base level that is appropriate given 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 2007 was 3.6% to 16.8% across regular and special plans.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007 Financial Report**  
*(continued)*

Member and employer data, contribution and benefit data for the 27 non-consolidated PLDs are specific to each PLD and are obtainable from the System. Contribution amounts for each of these membership groups are available at the System.

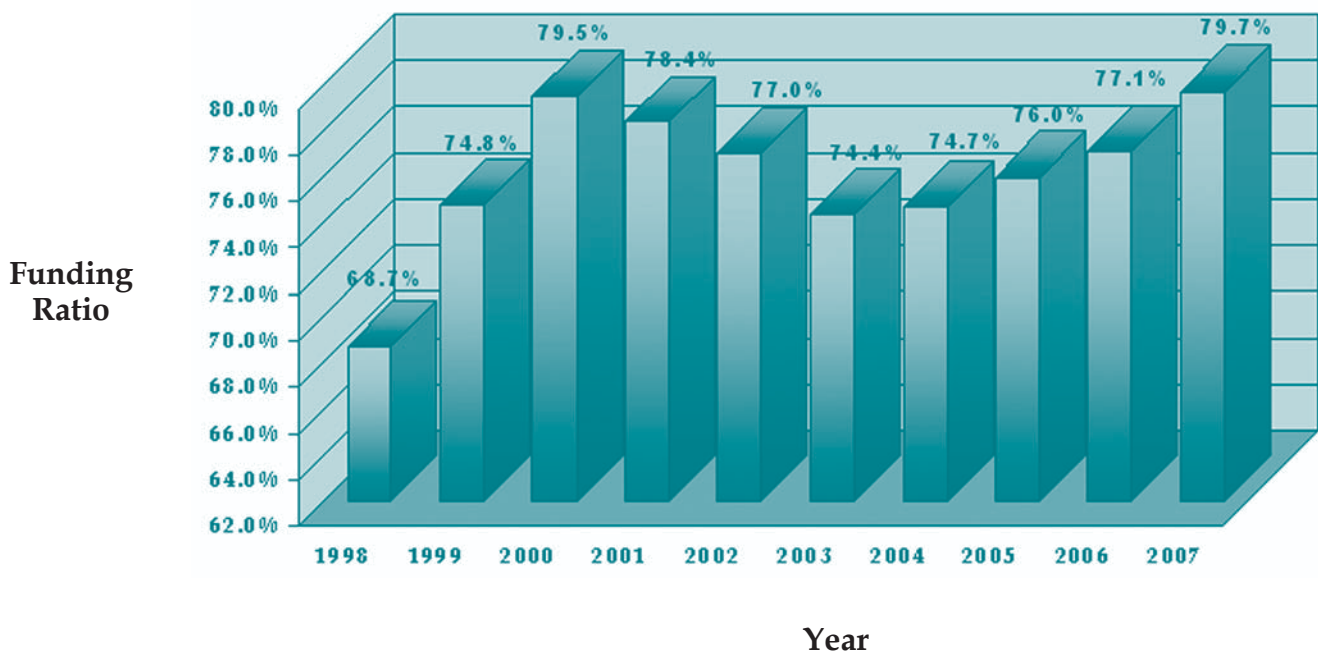
**Deductions from Fiduciary Net Assets**

Total deductions from fiduciary net assets during fiscal year 2007 increased by 8% (\$43.3 million). The fiscal year 2007 increase was due to the increased cost of benefits paid and refunds and withdrawals of contributions. The increase in benefits paid is the result of the annual application of a cost-of-living adjustment of 4.0% for State Employee/Teacher, Judicial and Legislative retirement programs and 4.3% for Participating Local Districts, and a 2.0% increase in the number of retirees and beneficiaries receiving benefits. Benefit payments in 2007 exceeded contributions by \$62 million. Contributions totaled \$488 million, and benefit payments totaled \$549 million.

Total deductions from fiduciary net assets during fiscal year 2006 had increased by 7.2% (\$36 million). The fiscal year 2006 increase was due to the increased cost of benefits paid and refunds and withdrawals of contributions. The increase in benefits paid was the result of the annual 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.

**System Funding Status**

**FUNDING PROGRESS**



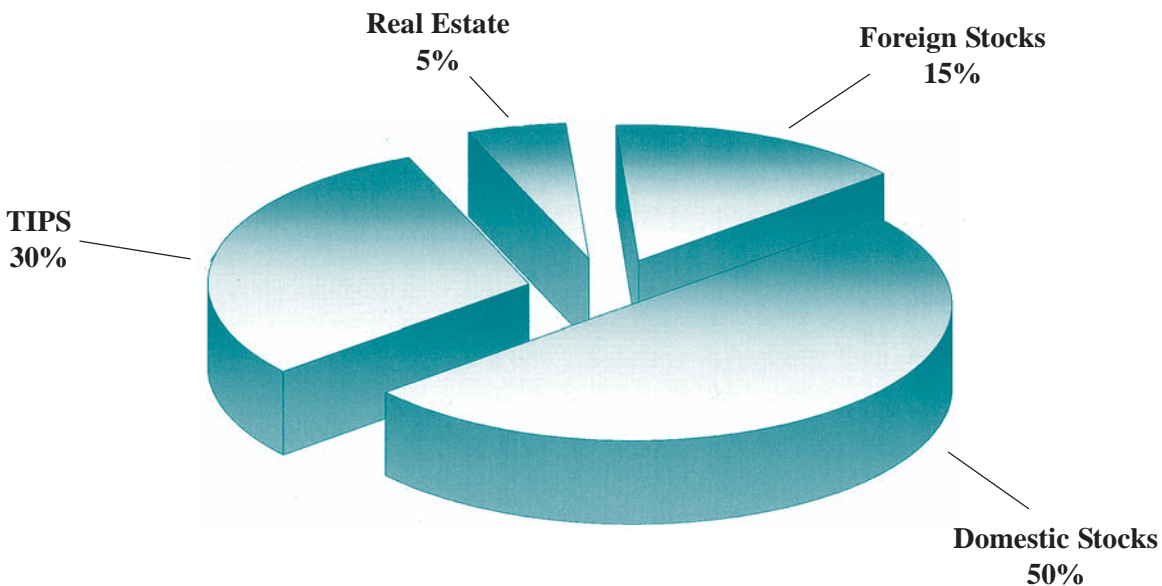
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007 Financial Report**  
*(continued)*

At June 30, 2007, the State/Teacher and PLD defined benefit plans were actuarially funded at 79.7% which is an increase from their actuarial funding level of 77.1% at June 30, 2006. As illustrated in the chart, the actuarial funded ratio of the System increased significantly from 1998 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. The decline was due primarily to the investment markets. It remained steady in 2004, then was followed by smaller incremental increases in 2005, 2006, and in 2007. The increase in funding level for 2007 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. This year marks the highest actuarial funded ratio in the System's history.

### Investments

The assets of all the defined benefit retirement plans that the System administers and those of the Group Life Insurance plan are commingled for investment purposes.

#### TARGET ASSET ALLOCATION



Essentially all of the assets administered by the System in its investment portfolio are invested in five asset classes: publicly traded domestic stocks, publicly traded foreign stocks, cash and cash-like securities, Treasury Inflation Protected Securities (TIPS), and real estate. Publicly traded derivative securities are used in some portfolios to emulate one or more of the five asset classes. The investment policy established by the System's Board of Trustees assigns strategic target allocations for each of the five asset classes. At June 30, 2007, the targets are 50% for domestic stocks, 15% for foreign stocks, 30% for TIPS, and 5% for real estate. Only minor variations resulting from market activity and controlled by a 2004 rebalancing methodology established by the Board are permitted between actual allocations and the strategic targets.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007 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 Board's investment policy and their separate contractual arrangements. At June 30, 2007, total assets in these portfolios (together with the amounts otherwise managed) were \$11.0 billion. The total assets as of June 30, 2006 were \$9.6 billion. The investment return for the fiscal year ending June 30, 2007 was positive 16.2%. The investment return for the fiscal year ending June 30, 2006 was positive 7.5%. Investment returns in fiscal year 2007 were greater than in 2006 primarily because approximately 65% of the System's portfolio was invested in equity markets, which returned greater than 20%. In 2007 the System's TIPS investments returned 3.4%, compared to (6.0)% in 2006. Over the ten year period ended June 30, 2007, the average annual investment return was positive 7.7%.

### System Membership

The following membership counts derive from actuarial valuation data:

	June 30		Percentage change
	2007	2006	
Current participants:			
Vested and nonvested	52,060	52,282	-0.4%
Terminated participants			
Vested	7,852	7,141	10.0%
Retirees and beneficiaries receiving benefits	33,586	32,918	2.0%
<b>Total Membership</b>	<b>93,498</b>	<b>92,341</b>	<b>1.3%</b>

The number of State employees at June 30, 2007 in the Regular and Special plans was 14,472, a decrease of 66 from June 30, 2006. The number of Teachers at June 30, 2007 was 27,712, a decrease of 393 from June 30, 2006. Membership for judges was 60, an increase of 4 from the previous year. Membership for Legislators was 170, a decrease of 4 from June 30, 2006. The Consolidated Plan for Participating Local Districts (PLDs) offers 11 retirement plans. Each PLD participating in the Consolidated Plan chooses the plan or plans under which its employees will be covered. Membership in the Consolidated Plan at June 30, 2007 was 9,646, an increase of 237 over June 30, 2006.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2007 Financial Report**  
*(continued)*

**Group Life Insurance Plan**

**Financial Highlights and Analysis**

<b>Group Life Insurance Plan Actuarial Data</b>			
<i>(Dollar Values Expressed in Millions)</i>			
	<b>June 30</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Actuarial Value of Assets	\$50.6	\$43.5	\$41.8
Actuarial Liability	\$135.5	\$129.8	\$127.0
<b>Unfunded Actuarial Liability</b>	<b>\$84.9</b>	<b>\$86.3</b>	<b>\$85.2</b>

The actuarially determined liabilities of the Group Life Insurance Plan at June 30, 2007 totaled \$135.5 million, compared to \$129.8 million at June 30, 2006, and \$127.0 million at June 30, 2005.

**Currently Known Facts, Decisions, or Conditions**

MainePERS is in the process of implementing the changes in Group Life Insurance premium rates that were adopted by the Board after its extensive premium study and valuation of the Group Life Insurance Program in 2006. The changes in the funding structure and premium rates become effective in fiscal 2008.

The 123rd Legislature created an Investment Trust for the purpose of investing funds set aside by the State of Maine to cover Other Post Employment Benefits (OPEB) liabilities for retiree health insurance benefits for State employees and teachers. The Trustees of MainePERS were named Trustees for this Trust with the responsibility of investing these funds. MainePERS expects to receive the first funds for investment in the fall of 2007.

Beginning in FY08, the System will be drawing the funds formerly provided by the State of Maine to support its operating expenses directly from the trust funds. In the past the State as employer contributed a certain percentage for administrative costs. This is consistent with the practice for participating local district employers. The System plans to introduce an entirely new cost accounting system to handle the proper allocation of administrative funds in FY08.

The law requiring divestiture of companies doing business in Sudan has resulted in the divestiture of \$21.1 million. Investment managers are presently prohibited from holding equities in a total of 129 corporations.

**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 Public Employees Retirement System, Sherry Tripp Vandrell, Director of Finance, 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, 2007**  
**With Summarized Information as of June 30, 2006**

	<u>Pension</u>	<u>Group Life Insurance</u>	<u>2007 Total</u>	<u>2006 Summarized</u>
<b>Assets:</b>				
Cash and cash equivalents (note 3)	\$ 214,136,943	\$ 2,134,931	\$ 216,271,874	\$ 171,671,366
Investments at fair value (notes 3 and 4):				
Debt securities:				
U.S. Government and government agencies	3,230,780,111	15,173,044	3,245,953,155	2,961,207,431
Corporate	466,823,780	2,190,292	469,014,072	397,273,421
Foreign government bonds	14,521,162	68,888	14,590,050	-
Common equity securities	2,902,790,309	13,645,630	2,916,435,939	2,432,432,918
Preferred equity securities	18,618,404	87,183	18,705,587	14,514,931
Common/collective trusts	4,049,824,661	19,002,432	4,068,827,093	3,570,958,457
Real estate/mortgages	<u>5,781,489</u>	<u>7,168</u>	<u>5,788,657</u>	<u>6,036,504</u>
Total investments	10,689,139,916	50,174,637	10,739,314,553	9,382,423,662
<b>Receivables:</b>				
State and local agency contributions and premiums (note 6)	11,005,380	336,757	11,342,137	28,716,216
Accrued interest and dividends	35,865,174	104,636	35,969,810	28,757,994
Due from brokers for securities sold	<u>123,714,135</u>	<u>198,297</u>	<u>123,912,432</u>	<u>11,265,249</u>
Total receivables	170,584,689	639,690	171,224,379	68,739,459
Collateral on loaned securities (note 5)	3,017,658,666	14,078,267	3,031,736,933	2,673,920,559
Fixed assets, net of accumulated depreciation	<u>4,044,206</u>	<u>132,228</u>	<u>4,176,434</u>	<u>3,644,386</u>
Total assets	14,095,564,420	67,159,753	14,162,724,173	12,300,399,432
<b>Liabilities:</b>				
Accounts payable	1,995,720	20,660	2,016,380	1,096,343
Due to brokers for securities purchased	71,268,150	219,548	71,487,698	24,752,030
Other liabilities	24,940,040	2,201,872	27,141,912	21,291,676
Accrued investment management fees	7,286,355	33,993	7,320,348	6,555,680
Obligations under securities lending activities (note 5)	<u>3,017,658,666</u>	<u>14,078,267</u>	<u>3,031,736,933</u>	<u>2,673,920,559</u>
Total liabilities	<u>3,123,148,931</u>	<u>16,554,340</u>	<u>3,139,703,271</u>	<u>2,727,616,288</u>
Net assets held in trust for pension benefits and group life insurance post-employment benefits (information on funding progress is shown on pages 51- 52)	<u>\$ 10,972,415,489</u>	<u>\$ 50,605,413</u>	<u>\$ 11,023,020,902</u>	<u>\$ 9,572,783,144</u>

See accompanying notes.



**STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS**  
**Year Ended June 30, 2007**  
**With Summarized Information for the Year Ended June 30, 2006**

	<u>Pension</u>	<u>Group Life Insurance</u>	<u>2007 Total</u>	<u>2006 Summarized</u>
Additions:				
Investment income:				
From investing activities:				
Net appreciation in the fair value of plan investments	\$ 1,360,000,586	\$ 6,141,243	\$ 1,366,141,829	\$ 515,444,052
Interest	143,101,689	667,439	143,769,128	119,535,831
Dividends	55,712,282	259,914	55,972,196	47,297,811
Less:				
Investment expenses	<u>(23,732,330)</u>	<u>(107,952)</u>	<u>(23,840,282)</u>	<u>(20,191,638)</u>
Net income from investing activities	1,535,082,227	6,960,644	1,542,042,871	662,086,056
From securities lending activities:				
Securities lending income	162,868,847	759,831	163,628,678	107,235,695
Securities lending expenses:				
Borrower rebates	(158,417,046)	(739,062)	(159,156,108)	(103,228,952)
Management fees	<u>(667,580)</u>	<u>(3,114)</u>	<u>(670,694)</u>	<u>(908,820)</u>
Total securities lending expenses	<u>(159,084,626)</u>	<u>(742,176)</u>	<u>(159,826,802)</u>	<u>(104,137,772)</u>
Net income from securities lending activities	<u>3,784,221</u>	<u>17,655</u>	<u>3,801,876</u>	<u>3,097,923</u>
Total net investment income	1,538,866,448	6,978,299	1,545,844,747	665,183,979
Contributions and premiums (note 6):				
Members	155,061,294	8,837,809	163,899,103	153,030,881
State and local agencies	<u>323,376,847</u>	<u>243,115</u>	<u>323,619,962</u>	<u>322,117,123</u>
Total contributions	<u>478,438,141</u>	<u>9,080,924</u>	<u>487,519,065</u>	<u>475,148,004</u>
Total additions	2,017,304,589	16,059,223	2,033,363,812	1,140,331,983
Deductions:				
Benefits paid, net	541,387,999	8,020,342	549,408,341	510,599,828
Refunds and withdrawals	21,938,751	30,157	21,968,908	18,939,580
Claims processing expenses (note 7)	-	613,321	613,321	596,730
Administrative expenses	<u>10,892,369</u>	<u>243,115</u>	<u>11,135,484</u>	<u>9,675,435</u>
Total deductions	<u>574,219,119</u>	<u>8,906,935</u>	<u>583,126,054</u>	<u>539,811,573</u>
Net increase	1,443,085,470	7,152,288	1,450,237,758	600,520,410
Net assets held in trust for pension and group life insurance benefits:				
Beginning of year	<u>9,529,330,019</u>	<u>43,453,125</u>	<u>9,572,783,144</u>	<u>8,972,262,734</u>
End of year	<u>\$ 10,972,415,489</u>	<u>\$ 50,605,413</u>	<u>\$ 11,023,020,902</u>	<u>\$ 9,572,783,144</u>

See accompanying notes.



## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

*(continued)***1. Overview of the Maine Public Employees Retirement System Benefit Plans***Background*

The Maine Public Employees 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 was formerly named the Maine State Retirement System. 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 269 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.

*Defined Benefit Plan*

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:

	<u>2007</u>	<u>2006</u>
Current participants:		
Vested and nonvested	52,060	52,282
Terminated participants:		
Vested	7,852	7,141
Retirees and beneficiaries receiving benefits	<u>33,586</u>	<u>32,918</u>
	<u>93,498</u>	<u>92,341</u>

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

(continued)

Group Life Insurance Plan

The Group Life Insurance Plan was established by the State Legislature to provide group life insurance benefits, during active service as well as post-employment, to 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 Public Employees Retirement System (MainePERS). Group Life Insurance benefits are also provided to the employees of PLDs that elect to participate in the Group Life Insurance Plan. Employees are eligible for coverage under the plan, subject to their membership in one or more of the aforementioned eligible employment classes and any other conditions of eligibility that the Board of Trustees of the System may prescribe by rule or decision. The System offers the Group Life Insurance Plan under a policy that is administered by a third party insurance company.

Group Life Insurance funds managed by the System are held in trust for the payment of benefits to participants and/or their beneficiaries. 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 of the employment classes and a single actuarial valuation for the plan is performed that provides separate data for each of the five classes.

At June 30, the Group Life Insurance participant levels for each employment class are as follows:

Group Life Insurance Participants

	<u>State</u>	<u>Teachers</u>	<u>Judges</u>	<u>Legislators</u>	<u>PLD</u>	<u>Totals</u>
Actives	15,033	15,256	62	43	8,934	39,328
Retirees	<u>8,201</u>	<u>5,228</u>	<u>28</u>	<u>8</u>	<u>2,281</u>	<u>15,746</u>
	<u>23,234</u>	<u>20,484</u>	<u>90</u>	<u>51</u>	<u>11,215</u>	<u>55,074</u>

**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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**  
*(continued)*

income, less investment expenses, which include investment management and custodial fees and all other significant investment related costs. Investment income and expenses are recorded on the accrual basis.

*Benefits and Refunds*

Pension and group life insurance benefits and contributions and premium refunds to the System's members and beneficiaries are recognized as deductions when due and payable in accordance with the terms of the Statutes. 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 group life insurance death 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.

*Due to/from Brokers*

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

*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.

*Administrative Expenses*

The cost of administering the Plans is financed through employer contributions.

*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.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

*(continued)*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 investment policy specifically prohibits investment managers from using derivative financial instruments to introduce leverage. The policy further provides that any investment strategy that involves the use of leverage be specifically approved by the Board. 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 by 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). It is the policy of MainePERS to mitigate custodial credit risk through explicit contractual requirements with both KeyBank and Northern Trust Company. 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 trust 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 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:

	<u>2007</u>	<u>2006</u>
Exposed to Custodial Credit Risk (uninsured and uncollateralized)	\$ 5,691,149	\$ 10,563,659
Not Exposed to Custodial Credit Risk	<u>10,949,895,278</u>	<u>9,543,531,369</u>
Total Market Value	<u>\$ 10,955,586,427</u>	<u>\$ 9,554,095,028</u>

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

(continued)

Amounts not exposed to custodial credit risk (a) because the underlying investments are registered in the name of the System and held by the System's custodian or (b) 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:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 216,271,874	\$ 171,671,366
Investments	<u>10,739,314,553</u>	<u>9,382,423,662</u>
Total Market Value	<u>\$ 10,955,586,427</u>	<u>\$ 9,554,095,028</u>

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 years ended June 30, 2007 and 2006:

<u>Quality Rating</u>	<u>2007</u>	<u>2006</u>
AAA	\$ 440,523,160	\$ 513,212,652
AA+	40,727,175	-
AA	20,709,023	5,300,848
AA-	33,518,474	33,113,917
A+	50,007,365	12,598,010
A	12,185,515	27,701,622
A-	2,080,148	12,600,882
BBB+	10,663,301	-
BBB	2,600,000	1,503,791
BBB-	14,313,772	6,025,151
BB+	14,416,812	1,374,474
BB	15,236,191	7,294,158
BB-	10,085,582	2,640,274
B+	1,952,250	5,221,375
B	<u>8,613,898</u>	<u>-</u>
Total credit risk debt	677,632,666	628,587,154
U.S. Government & Agencies <sup>(1)</sup>	<u>3,051,924,611</u>	<u>2,729,893,698</u>
	<u>\$ 3,729,557,277</u>	<u>\$ 3,358,480,852</u>

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

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

(continued)

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 that is compatible with the specified tracking error. In addition, the contractual guidelines generally specify credit quality limits that 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, 2007 and 2006, 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.

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 that 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 tables detail the System's interest rate risk for its investments at June 30, using the segmented time distribution method.

<b>June 30, 2007</b>					
<u>Investment Type</u>	<u>Market Value</u>	<u>Less than 1 Year</u>	<u>1 to 6 Years</u>	<u>6 to 10 Years</u>	<u>10+ Years</u>
Asset-Backed Securities	\$ 22,086,877	\$ 379,161	\$ –	\$ –	\$ 21,707,716
Commercial Paper	27,424,885	27,424,885	–	–	–
Corporate Bonds	223,676,230	20,581,480	173,012,945	5,598,222	24,483,583
Government Bonds	17,997,428	–	–	–	17,997,428
Government Mortgage-Backed Securities	217,447,047	97,532	7,568,980	23,767,587	186,012,948
Treasury Inflation Protected Securities	3,025,098,730	4,222,678	53,496,381	–	2,967,379,671
Nongovernment-Backed Collateralized Mortgage Obligations	185,422,109	–	–	–	185,422,109
Other Fixed Income	<u>10,403,971</u>	<u>6,001,230</u>	<u>4,402,741</u>	<u>–</u>	<u>–</u>
<b>Total</b>	<b><u>\$ 3,729,557,277</u></b>	<b><u>\$ 58,706,966</u></b>	<b><u>\$ 238,481,047</u></b>	<b><u>\$ 29,365,809</u></b>	<b><u>\$ 3,403,003,455</u></b>

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

(continued)

<u>Investment Type</u>	<u>June 30, 2006</u>				
	<u>Market Value</u>	<u>Less than 1 Year</u>	<u>1 to 6 Years</u>	<u>6 to 10 Years</u>	<u>10+ Years</u>
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	<u>3,894,462</u>	<u>–</u>	<u>3,894,462</u>	<u>–</u>	<u>–</u>
Total	<u>\$ 3,358,480,852</u>	<u>\$ 9,983,774</u>	<u>\$ 122,739,846</u>	<u>\$ 3,755,075</u>	<u>\$ 3,222,002,157</u>

Fixed income corporate and government foreign investments at June 30, 2007 mature as follows:

Date

November 30, 2007	\$ 2,856,292
January 15, 2010	1,930,331
May 1, 2022	4,045,791
October 1, 2028	1,875,389
April 25, 2055	10,784,330
September 15, 2066	<u>3,220,415</u>
	<u>\$ 24,712,548</u>

Foreign currency risk is the risk 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



## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

(continued)

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:

<u>June 30, 2007</u>				
<u>Currency</u>	<u>Cash</u>	<u>Equity</u>	<u>Fixed Income</u>	<u>Total</u>
Australian Dollar	\$ 29,981	\$ 20,610,127	\$ –	\$ 20,640,108
Brazilian Real	3,110,850	8,189,748	3,805,720	15,106,318
Canadian Dollar	–	48,947,101	–	48,947,101
Swiss Franc	–	66,403,510	–	66,403,510
Chilean Peso	1,038,561	–	–	1,038,561
Danish Krone	–	6,838,016	–	6,838,016
Euro	(21,499,582)	315,130,928	16,861,037	310,492,383
British Pound Sterling	8,559,340	150,521,267	–	159,080,607
Hong Kong Dollar	–	41,937,253	–	41,937,253
Indonesian Rupiah	(87,872)	1,690,935	–	1,603,063
Japanese Yen	(9,148,101)	147,158,991	4,045,791	142,056,681
South Korean Won	2,220,286	11,573,796	–	13,794,082
Mexican Peso	2,016,278	1,773,247	–	3,789,525
Malaysian Ringgit	–	2,867,606	–	2,867,606
Norwegian Krone	–	13,472,465	–	13,472,465
New Zealand Dollar	(391,226)	–	–	(391,226)
Swedish Krona	–	19,278,419	–	19,278,419
Singapore Dollar	–	10,460,819	–	10,460,819
Thai Baht	–	1,029,231	–	1,029,231
Turkish Lira	–	1,572,113	–	1,572,113
New Taiwan Dollar	691,664	20,002,087	–	20,693,751
South African Rand	169,398	11,914,338	–	12,083,736
Total	<u>\$(13,290,423)</u>	<u>\$ 901,371,997</u>	<u>\$ 24,712,548</u>	<u>\$ 912,794,122</u>

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**  
*(continued)*

**June 30, 2006**

<b><u>Currency</u></b>	<b><u>Cash</u></b>	<b><u>Equity</u></b>	<b><u>Total</u></b>
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	<u>168,985</u>	<u>15,701,751</u>	<u>15,870,736</u>
Total	<u>\$ 20,504,694</u>	<u>\$ 738,023,675</u>	<u>\$758,528,369</u>

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

*(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 are monitored by the Chief Investment Officer, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with these 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, 2007 and 2006, the fair value of forward currency contracts held by the System was \$(39,003,863) and \$17,666,494, respectively.

The System's fixed income managers invest in CMOs and Asset-Backed Securities to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2007 and 2006, the carrying value of the System's CMO and Asset-Backed Securities holdings totaled \$207,508,986 and \$270,505,987, 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

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**  
*(continued)*

increase exposure. Total return swaps are a means to gain exposure to an index. As of June 30, 2007 and 2006, the System carried swaps with fair market values of \$22,098,052 and \$5,545,878 and notional values of \$1,408,707,388 and \$905,012,518, respectively.

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 \$1,769,201 and \$(1,809,234) and notional value of \$2,160,692,206 and \$1,182,038,801 were held for investment purposes at June 30, 2007 and 2006, 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. Securities Lending**

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 198 days and 232 days as of June 30, 2007 and 2006, respectively.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

*(continued)*

Cash open collateral is invested in a short-term investment pool, the Global Core Collateral Section, which had an interest sensitivity of 29 and 39 days as of June 30, 2007 and 2006, 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.

During fiscal years 2007 and 2006, 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, 2007 and 2006, 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:**

	<u>2007</u>	<u>2006</u>
Domestic equity	\$ 195,417,547	\$ 164,211,206
Foreign equity	256,526,576	243,443,014
Domestic fixed income	29,107,533	15,876,934
Foreign fixed income	6,750,394	-
U.S. Government and government agencies	<u>3,015,015,448</u>	<u>2,634,717,010</u>
Total securities on loan	<u>\$ 3,502,817,498</u>	<u>\$ 3,058,248,164</u>

**Securities lending collateral:**

	<u>2007</u>	<u>2006</u>
Short-term investment collateral pool	\$ 3,031,736,933	\$ 2,673,920,559
Noncash collateral (debt and equity securities, at fair value)	<u>547,895,606</u>	<u>441,347,998</u>
Total collateral	<u>\$ 3,579,632,539</u>	<u>\$ 3,115,268,557</u>

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**  
*(continued)*

**6. Contributions**

*Defined Benefit Plan 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 \$278.3 million and \$264.6 million for the years ended June 30, 2007 and 2006, respectively. There were no contributions due from the State of Maine on behalf of legislators in 2007 or 2006.

Apart from the amount of required contributions, 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 year 2007, there was no additional contribution to the System due to the lack of sufficient General Fund Surplus dollars. For fiscal year 2006 this additional contribution was approximately \$17,000,000. This amount was included as contributions receivable at June 30, 2006.

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.



**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**

*(continued)*

The rates in effect in 2007 and 2006 are as follows:

<b>Contribution Rates</b>	<b><u>2007</u></b>	<b><u>2006</u></b>
(effective July 1 through June 30 of each fiscal year)		
State:		
Employees <sup>(1)</sup>	7.65 – 8.65%	7.65 – 8.65%
Employer <sup>(1)</sup>	15.01 – 47.07%	15.09 – 45.94%
Teachers:		
Employees	7.65%	7.65%
Employer	17.23%	17.23%
Participating local districts:		
Employees <sup>(1)</sup>	3.0 – 8.0%	3.0 – 8.0%
Employers <sup>(1)</sup>	1.5 – 6.5%	1.5 – 6.5%
Employer other <sup>(2)</sup>	5.1 – 10.3%	5.1 – 10.3%

- (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.

### 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.

The Statutes require the MainePERS Board of Trustees to establish on a regular basis the premium rates for participants in the Group Life Insurance Plan. The premium rates are determined to be actuarially sufficient to pay anticipated claims and cover administrative costs. The State remits premiums at a single rate that supports basic coverage for active and retired state employees (including Judicial and Legislative employees), and retired teachers. This rate is \$.30 per month for every \$1,000 of coverage. As per individual collective bargaining agreements between employers and employees, individual school districts or teachers themselves pay premiums at the rate of \$.22 per month for every \$1,000 of coverage while active and employees of Participating Local Districts or the district itself pay premiums of \$.46 per month for every \$1,000 in coverage for employees while active and retired. Employees' contributions are usually deducted from employees' compensation and remitted to the Retirement System.

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**  
*(continued)*

MainePERS is in the process of implementing new premium rates in Group Life Insurance that were adopted by the Board after an extensive premium study and valuation of the Group Life Insurance Program in 2006. This study resulted in changes in both the funding structure and premium rates that become effective in fiscal 2008.

Included in the Members 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 \$3.8 million and \$3.7 million for the years ended June 30, 2007 and 2006, 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%.

The funded status of the defined benefit plan, stated in millions of dollars, as of June 30, 2007 was as follows:

Actuarial accrued liability (AAL)	\$ 13,089.4
Actuarial value of plan assets	<u>10,437.1</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,652.3</u>
Funded ratio (actuarial value of plan assets/AAL)	79.7%
Covered payroll (active plan members)	\$ 1,940.2
UAAL as a percentage of covered payroll	136.7%

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**  
*(continued)*

The Schedules of Funding Progress, presented as Required Supplementary Information immediately following the Notes to Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Costs are developed using the entry age normal cost method (based on a level percentage of covered payroll). Assets are valued for funding purposes using a three-year moving average.

The unfunded actuarial accrued liability of the state employee and teacher program is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements (note 9 to the Financial Statements). The unfunded actuarial accrued liability credit of the judicial plan is amortized over a period of which 10 years remained at June 30, 2007.

The Initial Unpooled Unfunded Actuarial Liabilities (IUUALs) of PLDs are amortized over periods established for each PLD separately. During fiscal 2007, various PLDs contributed in total approximately \$186,741 to reduce or pay in full their IUUALs. The Consolidated Plan has no Pooled Unfunded Actuarial Liability.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2007 are as follows:

Investment Return - 7.75% per annum, compounded annually.

Salary Increases - State employee and teacher plan, 4.75% to 10.0% per year; Judicial plan, 4% per year; Legislative plan, 4.75% per year; 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 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; 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.

*Group Life Insurance Plan*

The Statutes establish the benefits to be provided under the 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 all participant groups except employees of Participating Local Districts, upon service retirement, Basic life insurance only in an amount equal to the retiree's average final compensation will continue at

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**  
*(continued)*

no cost to the participant as long as the retiree participated in the group life insurance plan prior to retirement for a minimum of 10 years. Refer to note 8 for additional information concerning retiree benefits under the Group Life Insurance Plan.

The rates for the Group Life Insurance Plan are established to cover current benefit payments plus accumulate assets for retirees' coverage. Accordingly, the net assets held in trust for group life insurance benefits will in large part be used to pay insurance claims of retirees.

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 \$613,321 and \$596,730 for the years ended June 30, 2007 and 2006, respectively, and are listed as claims processing expenses in the basic financial statements.

## **8. Group Life Insurance Plan (OPEB Coverage Provisions)**

### *Plan Description*

The Group Life Insurance Plan provides Basic group life insurance benefits, during retirement, to retirees who participated in the group life insurance plan prior to retirement for a minimum of 10 years (the 10-year participation requirement does not apply to recipients of disability retirement benefits). The level of coverage in retirement is initially set to an amount equal to the retiree's average final compensation. The initial amount of Basic life is then subsequently reduced at the rate of 15% per year to the greater of 40% of the initial amount or \$2,500. Eligible employment classes include retirees who were State employees, Teachers, and members of the Judiciary and the Legislature. Group Life Insurance benefits are also provided to the retired employees of PLDs in the Retirement Program and those that elect to participate only in the Group Life Insurance Plan. Additional information concerning exceptions for members of the judiciary who retired prior to September 14, 1979 may be obtained from the System. At June 30, 2007, the employees of State of Maine, the Judiciary, the Legislature, as well as 257 school districts, and 167 PLDs were participating in the Group Life Insurance Plan

### *Funding Policy*

Premium rates are those determined by the MainePERS Board of Trustees to be actuarially sufficient to pay anticipated claims. For all but the PLD employment classes, the premiums for retiree life insurance coverage are factored into the premiums paid for Basic coverage while participants are active members. Employers of retired PLD employees or the retirees of participating Group Life Plan PLDs are required to remit a premium of \$0.46 per \$1,000 of coverage per month during the post-employment retired period.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

*(continued)*Annual OPEB Required Contribution

For 2007, the annual OPEB contribution for all employment classes of \$8.8 million was higher than the \$6.0 million actuarially required contribution. The percentage of annual OPEB cost contributed in 2007 was as follows:

<b>Group Life Insurance Plan</b>			
<u>Year Ended</u>	<u>Annual OPEB Required Contribution</u>	<u>Annual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>
2007	\$6,000,000	\$8,837,809	147.3%

Funded Status and Funding Progress

The funded status of the plan, stated in millions of dollars, as of June 30, 2007 was as follows:

Actuarial accrued liability (AAL)	\$ 135.5
Actuarial value of plan assets	<u>50.6</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 84.9</u>
Funded ratio (actuarial value of plan assets/AAL)	37.3%
Covered payroll (active plan members)	\$ 1,250.0
UAAL as a percentage of covered payroll	6.8%

Actuarial valuations of ongoing plans involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Assumptions in an actuarial valuation typically include projections concerning future employment, mortality, and inflation. Actuarially determined contribution requirements are subject to continual periodic revision as actual results are compared to past expectations and new estimates are made concerning the future. The Schedules of Funding Progress, presented as Required Supplementary Information immediately following the Notes to Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the provisions of the plan in effect at the time of each valuation and the historical pattern of sharing of premium costs between the employer and plan members. Actuarial methods and assumptions include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the funding methodologies.

## NOTES TO FINANCIAL STATEMENTS

### June 30, 2007 and 2006

*(continued)*

In the June 30, 2007 actuarial valuation, the individual entry age normal actuarial method was used. The actuarial assumptions included a 7.75% investment rate of return and salary rate increase of 4.75% to 10.0% per year for the State and Teacher classes, 4% per year for the Judicial class, and 4.5% to 9% per year for PLDs. The unfunded actuarial accrued liability is being amortized as a level percentage of pay over a 30-year period on an open basis.

#### 9. 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 years 2004 and 2005 and enacted a "sunset" provision that would have the effect of 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.

#### 10. 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 Public Employees 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 the contribution rate established by the Board of Trustees under the actuarial valuation of the Consolidated Plan. The contribution rate was 2.8% of annual covered payroll for 2007, 2006 and 2005, respectively, and the employer contribution on behalf of its employees, equal to the required contribution, was \$153,427, \$154,076 and \$152,086 for 2007, 2006 and 2005, respectively. The actuarial assumptions used in the Consolidated Plan valuation are described in the actuarial assumptions and methods footnote to the required supplementary information.



## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

*(continued)*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 Public Employees 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 2007, 2006, and 2005 fiscal years. The total premiums the System paid on behalf of its active employees were \$27,410, \$27,441, and \$27,221 for 2007, 2006, and 2005, 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 \$3,565, \$2,793, and \$2,531, for 2007, 2006, and 2005, respectively.

## REQUIRED SUPPLEMENTAL SCHEDULE

SCHEDULE OF HISTORICAL PENSION INFORMATION  
DEFINED BENEFIT PLANJune 30, 2007  
(UNAUDITED)**SCHEDULE OF FUNDING PROGRESS***Dollars in Millions*

<u>Actuarial Valuation Date</u>	(a) <u>Actuarial Value of Assets</u>	(b) <u>Actuarial Accrued Liability (AAL) Entry Age</u>	(b-a) <u>Unfunded AAL (UAAL)</u>	(a/b) <u>Funded Ratio</u>	(c) <u>Annual Covered Payroll</u>	((b-a)/c) <u>UAAL as a Percentage of Covered Payroll</u>
June 30, 2007	\$10,437.1	\$13,089.4	\$2,652.3	79.7%	\$1,940.2	136.7%
June 30, 2006	9,530.6	12,357.4	2,826.8	77.1	1,872.6	151.0
June 30, 2005	8,888.2	11,689.7	2,801.6	76.0	1,821.4	153.8
June 30, 2004	8,273.6	11,068.6	2,795.0	74.7	1,764.8	158.4
June 30, 2003	7,787.2	10,470.6	2,683.4	74.4	1,719.3	156.1
June 30, 2002	7,612.5	9,889.5	2,277.0	77.0	1,681.4	135.4

**SCHEDULE OF EMPLOYERS' CONTRIBUTIONS***Dollars in Millions*

<u>Year Ended:</u>	<u>Annual Required Contribution</u>	<u>Annual Contribution</u>	<u>Percentage Contributed</u>
2007	\$ 312.0	\$ 312.3	100.1%
2006	300.4	317.5	105.7
2005	269.3	282.3	104.8
2004	259.2	290.6	112.1
2003	261.2	285.7	109.4
2002	252.5	415.6	164.6

*See notes to historical pension information.**See accompanying independent auditors' report.*

## REQUIRED SUPPLEMENTAL SCHEDULE

SCHEDULE OF HISTORICAL PENSION INFORMATION  
GROUP LIFE INSURANCE PLANJune 30, 2007  
(UNAUDITED)**SCHEDULE OF FUNDING PROGRESS***Dollars in Millions*

<u>Actuarial Valuation Date</u>	(a) <u>Actuarial Value of Assets</u>	(b) <u>Actuarial Liability</u>	(b-a) <u>Unfunded Actuarial Liability</u>	(a/b) <u>Funded Ratio</u>	(c) <u>Annual Covered Payroll<sup>(1)</sup></u>	((b-a)/c) <u>UAAL as a Percentage of Covered Payroll<sup>(1)</sup></u>
June 30, 2007	\$ 50.6	\$ 135.5	\$ 84.9	37.3%	\$ 1,250.0	6.8%
June 30, 2006	43.5	129.8	86.3	33.5	—	0.0
June 30, 2005	41.8	127.0	85.2	32.9	—	0.0
June 30, 2004	40.1	91.7	51.6	43.7	—	0.0
June 30, 2003	39.0	87.3	48.3	44.7	—	0.0
June 30, 2002	36.6	83.2	46.6	44.0	—	0.0

<sup>(1)</sup> The System currently has this information available for the valuation date indicated. This required information will be updated annually until the requisite six years is obtained.

**SCHEDULE OF EMPLOYERS' CONTRIBUTIONS** <sup>(1)</sup>

<u>Year Ended:</u>	<u>Annual Required Contribution</u>	<u>Annual Contribution</u>	<u>Percentage Contributed</u>
2007	\$ 6,000,000	\$ 8,837,809	147.3%

<sup>(1)</sup> The System currently has this information available for the valuation date indicated. This required information will be updated annually until the requisite six years is obtained.

*See notes to historical pension information.*

*See accompanying independent auditors' report.*

## NOTES TO HISTORICAL PENSION INFORMATION

### June 30, 2007 - 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, 2007, is as follows:

##### Actuarial Cost Method

Costs are developed using the entry age normal cost method (based on a level percentage of covered payroll). 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 program is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements (note 9 to the Financial Statements). The unfunded actuarial accrued liability credit of the judicial plan is amortized over a period of which 10 years remained at June 30, 2007.

The Initial Unpooled Unfunded Actuarial Liabilities (IUUALs) of PLDs are amortized over periods established for each PLD separately. During fiscal years 2007 and 2006, various PLDs contributed in total approximately \$186,741 and \$128,881, 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, 2007 - UNAUDITED**  
*(continued)*

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2007 are as follows:

Investment Return - 7.75% per annum, compounded annually.

Salary Increases - State employee and teacher plan, 4.75% to 10.0% per year; judicial plan, 4% per year; 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.

### **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, 2007, is as follows:

#### *Actuarial Cost Method*

For purposes of the schedule of funding progress disclosure only, in which all plans are combined, costs are developed using the entry age normal cost method (based on a level percentage of covered payroll) at the valuation date of June 30, 2007. The entry age normal method is described in detail in Note 2 of the Notes to Historical Pension Information.

For purposes of funding, 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 1/3 of the investment return that is different from the 7.75% actuarial assumption for investment return.

**NOTES TO HISTORICAL PENSION INFORMATION**  
**June 30, 2007 - UNAUDITED**  
*(continued)*

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2007 are as follows:

Investment Return - 7.75% per annum, compounded annually.

Salary Increases - 4.75% per year.

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.

#### **4. Actuarial Methods and Assumptions - Group Life Insurance Plan**

Many of the assumptions used to determine the actuarial liability in this plan 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, 2007, is as follows:

##### Actuarial Cost Method

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.

##### Asset Valuation Method

Asset amounts are taken as reported to the actuaries by MainePERS without audit or change. MainePERS' financial statements are prepared using the accrual basis of accounting and as such:

- Group life insurance premiums are recognized as additions in the period when they become due
- Investment income is recognized when earned. Investments are reported at fair value
- Group life insurance benefits and premiums refunds are recognized as deductions when due and payable
- Group life insurance death benefits incurred but not reported (IBNR) are estimated and recognized as other liabilities at year end.



**NOTES TO HISTORICAL PENSION INFORMATION**  
**June 30, 2007 - UNAUDITED**  
*(continued)*

In addition, any significant estimates and assumptions made by management to comply with GAAP affect the reported amounts of net assets held in trust for 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.

Amortization

The unfunded actuarial accrued liability is being amortized as a level percentage of pay over a 30-year period on an open basis.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2007 are as follows:

Investment Return - 7.75% per annum, compounded annually.

Salary Increases - State employee and teacher plan, 4.75% to 10.0% per year; judicial plan, 4% per year; legislative plan, 4.75% per year; 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.

**OTHER SUPPLEMENTAL INFORMATION**  
**June 30, 2007 - UNAUDITED**

**SCHEDULE OF PROFESSIONAL FEES**

For the Year Ended June 30, 2007

(UNAUDITED)

	<b>Total</b>
Professional Services:	
Audit	\$ 87,000
Actuarial services	240,696
Legal services	184,625
Medical consulting	146,199
Other services	62,329
Total professional services	\$ 720,849

**SCHEDULE OF ADMINISTRATIVE EXPENSES**

For the Year Ended June 30, 2007

(UNAUDITED)

	<b>Defined Benefit Pension Plan</b>	<b>Group Life Insurance Plan</b>	<b>Total</b>
Personal Services	\$ 7,391,821	\$ 153,922	\$ 7,545,743
Professional Services	719,523	1,326	720,849
Communications	353,351	11,553	364,904
Computer Support and System Development	1,122,475	36,700	1,159,175
Office Rent	446,922	14,612	461,534
Miscellaneous:			
Computer maintenance and supplies	\$ 255,436	\$ 7,038	\$ 262,474
Vital statistics data	2,109	-	2,109
Depreciation	372,385	12,175	384,560
Office equipment and supplies	79,816	2,610	82,426
Professional development	63,928	2,090	66,018
Insurance	6,723	220	6,943
Maintenance and repair - vehicle	750	25	775
Maintenance and repair - facilities	4,469	146	4,615
Medical records and exams	32,119	-	32,119
Miscellaneous operating expenses	40,542	698	41,240
Total miscellaneous	858,277	25,002	883,279
Total administrative expenses	\$ 10,892,369	\$ 243,115	\$ 11,135,484

Detailed schedules of investment expenses appear in the [Investment Section](#) on pages 70-71.

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## ENNISKNUPP

November 15, 2007

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

As independent investment advisor to the Board of Trustees of the Maine Public Employees Retirement System ("MainePERS"), we comment on the reporting of MainePERS investment results, MainePERS 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, consistent with the CFA Institute guidelines. MainePERS investment results, as presented in this report, fairly represent, in our opinion, the investment performance of MainePERS assets.

**Investment Policy.** MainePERS assets are managed under well-articulated policies, which, in our opinion, are appropriate to the circumstances of MainePERS. 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 MainePERS investments.

Very truly yours,



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, 2007. During this period, assets more than doubled from \$5.1 billion to \$11.0 billion. Substantially all of this increase is attributable to net investment gains. Contributions in excess of benefit payments over the period was a very small portion of the gain. In the year ended June 30, 2007 benefit payments 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. 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.

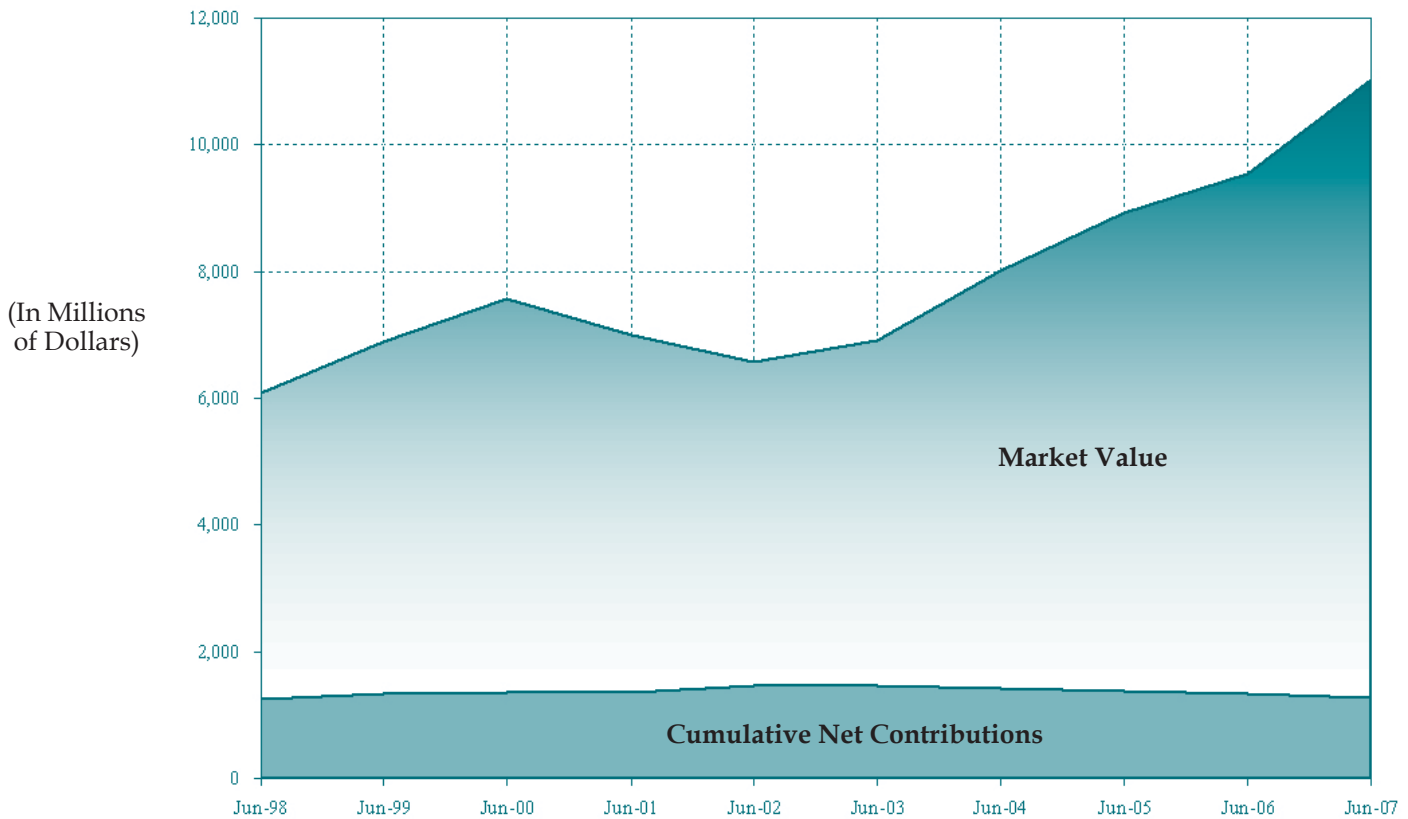
Prior to November 30, 2005, assets of the Group Life Insurance Plan were invested separately from the consolidated assets of the defined benefit plans. The Board of Trustees terminated this practice when they determined that the asset mix of the consolidated plans was a more appropriate investment strategy 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.

## SUMMARY OF INVESTMENT ACTIVITY

<u>FY Ended June 30</u>	<u>Opening Market Value</u>	<u>Closing Market Value</u>	<u>Rate of Return</u>
	(In Millions)		
2007	\$9,559	\$11,031	16.2%
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%
	Annualized 10-year period		7.7%
	Cumulative 10-year period		209.9%



SUMMARY OF INVESTMENT ACTIVITY *(continued)*



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 MainePERS has adopted to optimize the financial health of the plans is reviewed.

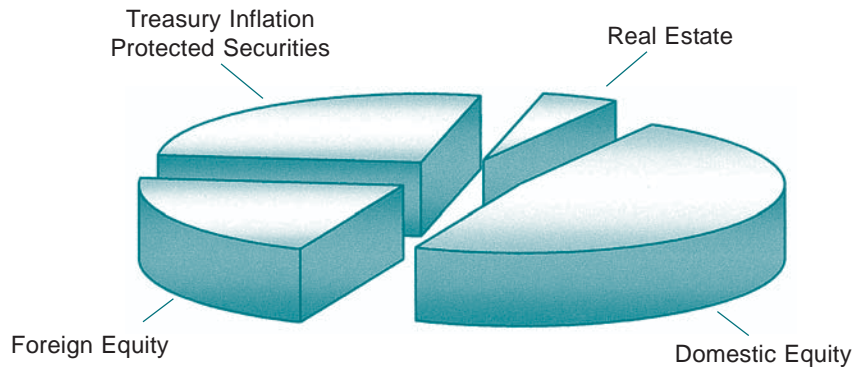
The System invests essentially all of the plan assets in five major asset classes: publicly traded domestic stocks, publicly traded foreign stocks, publicly traded bonds, open-ended real estate funds, and Treasury Inflation Protected Securities (TIPS). MainePERS also uses derivatives positions to emulate 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, 2007 and 2006. MainePERS 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, 5% 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 60% 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.

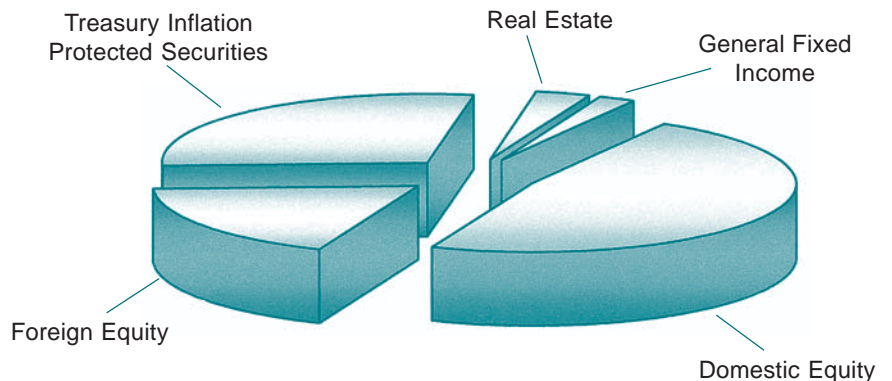
STRATEGIC ASSET ALLOCATION

<u>Actual Allocations as of:</u>	<u>Domestic Equity</u>	<u>Foreign Equity</u>	<u>Treasury Inflation Protected Securities</u>	<u>Real Estate</u>	<u>General Fixed Income</u>
June 30, 2007	48%	20%	27%	5%	0%
June 30, 2006	48%	18%	29%	3%	2%

STRATEGIC ASSET ALLOCATION  
At June 30, 2007



STRATEGIC ASSET ALLOCATION  
At June 30, 2006



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 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 is suitable to pay these liabilities. In 2005, the Board of Trustees decided to initiate a 5% allocation to real estate and eliminated the allocation to General Fixed Income. The actual allocation to real estate as of June 30, 2007 was close to the 5% target allocation and General Fixed Income was eliminated.

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 70% 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 68 and 69). 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 MainePERS and the investment managers.

Approximately 49% of assets were invested in passively managed index funds and separate accounts at June 30, 2007. 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. At June 30, 2006, approximately 52% of assets were invested in passively managed index funds. The decrease to 49% that occurred during FY 2007 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 was eliminated in order to fund the real estate allocation as described previously. Historically, the System's proportion of passively managed assets is between 45% 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 06/30/2007		at 06/30/2006	
	millions of dollars	% of assets	millions of dollars	% of assets
Active Equity				
Jacobs Levy Equity Management	919	8%	775	8%
Wellington Management Company	648	6%	537	6%
Pacific Investment Management (PIMCO)	943	9%	780	8%
Legg Mason	338	3%	286	3%
Capital Guardian	716	6%	583	6%
Grantham, Mayo, Van Oterloo (GMO)	529	5%	457	5%
Templeton Investment Counsel	377	3%	289	3%
Barclays Global Investors	<u>768</u>	<u>7%</u>	<u>591</u>	<u>6%</u>
	5,237	47%	4,297	45%
Passive Equity				
Barclays Global Investors (Domestic)	2,347	21%	2,012	21%
Barclays Global Investors (Foreign)	<u>128</u>	<u>1%</u>	<u>163</u>	<u>2%</u>
	2,474	22%	2,175	23%
Passive General Fixed Income				
Barclays Global Investors	0	0%	157	2%
Other	<u>2</u>	<u>0%</u>	<u>2</u>	<u>0%</u>
	2	0%	159	2%
Passive Treasury Inflation Protected Securities				
Barclays Global Investors	<u>2,803</u>	<u>25%</u>	<u>2,612</u>	<u>27%</u>
Real Estate				
Barclays Global Investors (Index REIT)	95	1%	76	1%
Principal	76	1%	67	1%
BlackRock	71	1%	46	0%
JP Morgan	145	1%	35	0%
Prudential	<u>115</u>	<u>1%</u>	<u>88</u>	<u>1%</u>
	502	5%	311	3%
Other				
Liquidity Account	<u>12</u>	<u>0%</u>	<u>4</u>	<u>0%</u>
Total Assets	11,031	100%	9,559	100%

## LARGEST HOLDINGS

At June 30, 2007

**Top 10 Direct Common Stock Holdings**

	<b><u>\$ Millions</u></b>	<b><u>% of Assets</u></b>
Citigroup	39	0.4%
Exxon Mobil	36	0.3%
Microsoft	35	0.3%
Unitedhealth Group	34	0.3%
Bank of America	34	0.3%
Google	32	0.3%
AIG	32	0.3%
Hewlett Packard	28	0.3%
JP Morgan Chase	28	0.3%
Amazon	27	0.2%

**Top 10 Direct Bond Holdings**

	<b><u>\$ Millions</u></b>	<b><u>% of Assets</u></b>
TIPS 2.375% 01-15-2025	765	6.9%
TIPS 3.875% 04-15-2029	737	6.7%
TIPS 3.625% 04-15-2028	607	5.5%
TIPS 2.000% 01-15-2026	463	4.2%
TIPS 2.375% 01-15-2027	235	2.1%
TIPS 3.375% 04-15-2032	187	1.7%
TIPS 4.761% 01-15-2009	54	0.5%
FNMA POOL #877000 ADJ RT 06-01-2035	35	0.3%
FNMA POOL #841068 ADJ RT 11-01-2034	25	0.2%
FHLMC GOLD SINGLE FAMILY 5.5% 30 YEARS SETTLES JUL	22	0.2%

On June 30, 2007 the System held large positions in six 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.

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

## SECURITIES LENDING

MainePERS 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 MainePERS, 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 three, five, and ten-year periods ended June 30, 2007. 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 annualized rate of return on the System's assets was 7.7%. MainePERS 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 7.7%, the ten-year return is very close to the 7.75% 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, 2007, the return on the System's actual total portfolio approximated the return on its total performance benchmark. Positive performance in five of the ten years was offset by negative performance in five 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 on pages 68 and 69 are net of all expenses that can be directly attributed to the investment program (see [Expenses](#), page 70). The table reports time weighted rates of return and all figures for periods greater than one year are annualized.



PERFORMANCE: ACTUAL RETURNS VS. BENCHMARK RETURNS

Fiscal Year Ended June 30	TOTAL FUND			DOMESTIC EQUITY			FOREIGN EQUITY			GLOBAL EQUITY <sup>(2)</sup>		
	Actual Return	Benchmark <sup>(7)</sup> Return	Excess Return Return <sup>(1)</sup>	Actual Return	Benchmark <sup>(8)</sup> Return	Excess Return <sup>(1)</sup>	Actual Return	Benchmark <sup>(9)</sup> Return	Excess Return <sup>(1)</sup>	Actual Return	Benchmark <sup>(10)</sup> Return	Excess Return <sup>(1)</sup>
2007	16.2%	16.3%	-0.1%	19.9%	20.5%	-0.6%	29.8%	30.2%	-0.4%	23.5%	25.2%	-1.7%
2006	7.5%	7.3%	0.2%	9.4%	9.9%	-0.6%	28.0%	27.9%	0.1%	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%	21.3%	21.2%	0.1%	30.5%	32.0%	-1.5%			
2003	5.3%	4.3%	1.0%	0.9%	1.3%	-0.4%	-4.5%	-4.6%	0.1%			
2002	-7.5%	-6.8%	-0.7%	-17.4%	-16.6%	-0.9%	-9.5%	-8.4%	-1.1%			
2001	-7.9%	-7.8%	-0.1%	-14.8%	-15.3%	0.6%	-24.0%	-24.1%	0.1%			
2000	9.7%	9.1%	0.6%	10.0%	9.5%	0.5%	19.0%	17.8%	1.1%			
1999	11.1%	12.7%	-1.6%	18.2%	19.6%	-1.3%	4.6%	9.2%	-4.7%			
1998	17.9%	18.7%	-0.8%	26.6%	28.9%	-2.2%	4.5%	2.2%	2.3%			
3 years ended 2007	11.8%	11.8%	0.0%	12.3%	12.7%	-0.5%	24.4%	25.0%	-0.7%			
5 years ended 2007	11.4%	11.1%	0.3%	11.6%	12.0%	-0.4%	19.1%	19.9%	-0.8%			
10 years ended 2007	7.7%	7.8%	-0.1%	7.2%	7.7%	-0.5%	7.9%	8.6%	-0.7%			

Notes:

1. Excess Return is Actual Return minus Benchmark Return
2. The inception date for Global Equity was 12/08/04.
3. The inception date for Global Balanced was 12/06/04.
4. The Real Estate Return for the year ending 06/30/05 is attributable to REIT's only.
5. The asset class of General Fixed Income was closed in the first quarter of 2007.
6. The inception date for TIPS was 07/31/04

TABLE CONTINUED ON NEXT PAGE

PERFORMANCE: ACTUAL RETURNS VS. BENCHMARK RETURNS

GLOBAL BALANCED <sup>(3)</sup>			REAL ESTATE <sup>(4)</sup>			GENERAL FIXED INCOME <sup>(5)</sup>			TREASURY INFLATION PROTECTED SECURITIES <sup>(6)</sup>		
Actual Return	Benchmark <sup>(11)</sup> Return	Excess Return <sup>(1)</sup>	Actual Return	Benchmark <sup>(12)</sup> Return	Excess Return <sup>(1)</sup>	Actual Return	Benchmark <sup>(13)</sup> Return	Excess Return <sup>(1)</sup>	Actual Return	Benchmark <sup>(14)</sup> Return	Excess Return <sup>(1)</sup>
15.7%	16.6%	-0.9%	16.5%	17.2%	-0.7%				3.4%	3.4%	0.0%
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%
						3.1%	1.0%	2.1%			
						13.1%	11.0%	2.1%			
						7.3%	8.6%	-1.4%			
						9.6%	11.2%	-1.6%			
						5.2%	4.6%	0.6%			
						3.3%	3.1%	0.2%			
						10.5%	10.5%	-0.1%			
									4.1%	4.3%	-0.2%

**Benchmarks:**

- 7. Total Fund Benchmark: A combination of the benchmarks for the five major asset classes using the target asset class weights.
- 8. Domestic Equity Benchmark: Dow Jones Wilshire 5000
- 9. Foreign Equity Benchmark: Morgan Stanley Capital International All Country World Ex-U.S. Free, since Jan. 1, 1998
- 10. Global Equity Benchmark: Morgan Stanley Capital International All Country World Index since December 31, 2004
- 11. Global Balanced Benchmark: A combination of the benchmarks for Domestic Equity, Foreign Equity, and TIPS benchmarks, approximating the Total Fund benchmark
- 12. Real Estate Benchmark: A combination of DJ Wilshire Real Estate Securities Index and National Council of Real Estate Investment Fiduciaries Property Index since July 1, 2005
- 13. General Fixed Income Benchmark: Lehman Brothers Aggregate Bond Index, since Dec. 31, 2003
- 14. Treasury Inflation Protected Securities (TIPS) Benchmark: 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 \$2.71 million of management fees in 2007 was 0.38% of the average assets managed by Jacobs Levy.

Expenses as a percentage of assets have been less than 0.25% annually throughout the ten-year period ended June 30, 2007. This compares favorably to, for example, investment expenses of 1.00% or more annually for typical mutual funds.

INVESTMENT MANAGEMENT EXPENSES

<u>Detail for year ended 6/30/2007</u>	<u>Dollar Expense</u>	<u>% of Assets</u>
Investment management fees	19,665,320	0.19%
Active Equity		
Jacobs Levy Equity Management	2,713,363	0.38%
Wellington Management Company	2,570,958	0.44%
Pacific Investment Management (PIMCO)	2,794,829	0.28%
Legg Mason	1,262,080	0.41%
Capital Guardian	1,972,993	0.46%
Grantham, Mayo, Van Oterloo (GMO)	2,114,407	0.42%
Templeton Investment Counsel	1,409,753	0.43%
Barclays Global Investors	1,542,651	0.34%
Passive Equity		
Barclays Global Investors (Domestic)	172,870	0.01%
Barclays Global Investors (Foreign)	39,755	0.03%
Passive Treasury Inflation Protected Securities		
Barclays Global Investors	202,282	0.01%
Real Estate		
Barclays Global Investors (Index REIT)	57,993	0.09%
Principal	674,104	0.98%
BlackRock	225,302	1.04%
JP Morgan	120,693	1.00%
Prudential	554,653	0.59%
Other Investment Expenses	1,236,635	

<u>Total for FY ended June 30</u>	<u>\$ Millions</u>	<u>% of Total Assets</u>
2007	\$19.7	0.19%
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%

## BROKERAGE COMMISSIONS

Year Ended June 30, 2007

<u>Broker</u>	<u>Commissions \$ millions</u>	<u>Amount traded \$ millions</u>	<u>Commissions % of amount traded</u>	<u>Shares traded \$ millions</u>	<u>Commissions cents per share</u>
Investment Technology	0.25	1,636.4	0.02%	49.4	0.51
Morgan Stanley	0.17	207.0	0.08%	9.6	1.73
Liquidnet	0.16	285.0	0.06%	8.1	1.96
Credit Suisse First Boston	0.15	132.9	0.11%	10.4	1.41
Merrill Lynch	0.11	95.4	0.11%	5.4	1.98
UBS	0.09	85.0	0.11%	4.6	2.03
Cantor Fitzgerald	0.10	131.4	0.07%	3.6	2.68
Deutsche Bank	0.08	59.2	0.13%	5.5	1.45
Citigroup	0.08	59.8	0.13%	6.6	1.15
Goldman Sachs	0.07	110.4	0.06%	4.6	1.50
All Remaining Brokers	<u>0.86</u>	<u>1,044.2</u>	<u>0.08%</u>	<u>47.9</u>	<u>1.79</u>
	<b>2.10</b>	<b>3,846.7</b>	<b>0.05%</b>	<b>155.6</b>	<b>1.35</b>

Commissions reported above are those paid directly by MainePERS. 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 70. 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. MainePERS 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 PROGRAM

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

<u>FY Ended</u> <u>June 30</u>	<u>Opening Fair</u> <u>Market Value</u>	<u>Closing Fair</u> <u>Market Value</u>	<u>Actual</u> <u>Return</u>	<u>Benchmark</u> <u>Return</u>	<u>Performance</u>
2007	44.3	52.3	16.2%	16.3%	-0.1%
2006	42.9	44.3	3.1%	3.9%	-0.8%
2005	41.8	42.9	2.7%	2.1%	0.6%
2004	41.5	41.8	0.7%	0.5%	0.2%
2003	39.3	41.5	5.5%	4.9%	0.6%
2002	36.6	39.3	7.5%	7.0%	0.5%
2001	34.4	36.6	9.5%	9.3%	0.2%
2000	32.9	34.4	3.8%	5.5%	-1.7%
1999	29.7	32.9	3.9%	4.7%	-0.8%
1998	28.0	29.7	6.1%	5.3%	0.8%
		3 yrs ended 2007	7.2%	7.3%	-0.1%
		5 yrs ended 2007	5.5%	5.4%	0.1%
		10 yrs ended 2007	5.8%	5.9%	-0.1%

**Benchmarks:**

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

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, 2007, the actual return on the portfolio was slightly lower than the return on the performance benchmark. A portion of investment return is determined by how well the investment manager performs its assignment. To measure this, MainePERS compares the returns on the actual portfolio to an appropriate benchmark.

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.

## 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 2007 Comprehensive Annual Financial Report are for the year ended June 30, 2006. 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, 2006 valuations established the employer contribution rates for the FY 2008-2009 biennium which began July 1, 2007. 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, 2007 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, 2006 established the participating employer rates for the twelve month period beginning July 1, 2007. 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.





November 30, 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, 2006. 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 Statement No. 25. The Group Life Insurance numbers disclosed in the Financial Section were produced in accordance with the requirements of GASB Statement No. 43. 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.

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 or 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 2005 and 2006 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, FSA, EA  
Consulting Actuary

**SECTION I  
DEMOGRAPHIC INFORMATION**

<b>SCHEDULE OF ACTIVE MEMBER VALUATION DATA</b>				
Valuation Date June 30,	Number of Active Members	Annual Salaries of Active Members*	Average Annual Pay	Percentage Increase in Average Pay
<b>State Employee and Teacher Plan</b>				
2006	42,643	\$1,538,201,110	\$36,072	2.60%
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%
<b>Consolidated Plan for Participating Local Districts</b>				
2006	9,347	\$323,834,104	\$34,646	5.88%
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%
<b>Judicial Retirement System</b>				
2006	56	\$5,703,886	\$101,855	2.13%
2005	55	\$5,485,040	\$99,728	0.61%
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%
<b>Legislative Retirement System</b>				
2006	174	\$2,124,786	\$12,211	7.49%
2005	173	\$1,965,349	\$11,360	(4.92%)
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%

\* Legislative salaries in odd-numbered years have been increased to approximate a full session amount.

**SECTION I**  
**DEMOGRAPHIC INFORMATION** *(continued)*

<b>SCHEDULE OF BENEFIT RECIPIENTS VALUATION DATA</b>				
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
<b>State Employee and Teacher Plan</b>				
2006	25,731	\$422,302,916	\$16,412	1.50%
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%
<b>Consolidated Plan for Participating Local Districts</b>				
2006	6,777	\$76,975,417	\$11,358	0.74%
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%
<b>Judicial Retirement System</b>				
2006	43	\$2,108,084	\$49,025	(0.42%)
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%)
<b>Legislative Retirement System</b>				
2006	107	\$157,216	\$1,469	1.10%
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%

**SECTION I**  
**DEMOGRAPHIC INFORMATION** *(continued)*

<b>SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM THE ROLLS</b>						
Year Ended June 30,	Added to Rolls		Removed from Rolls		On Rolls at Year End	
	No.	Annual Allowance	No.	Annual Allowance	No.	Annual Allowance
<b>State Employee and Teacher Plan</b>						
2006	1,439	\$30,429,167	831	\$14,346,893	25,731	\$422,302,916
2005					25,123	\$406,220,642
<b>Participating Local Districts (Consolidated and non-Consolidated Plans)</b>						
2006	375	\$5,131,207	318	\$3,460,785	7,037	\$ 79,742,522
2005					6,980	\$ 78,072,101
<b>Judicial Retirement System</b>						
2006	2	\$80,525	2	\$89,355	43	\$ 2,108,084
2005					43	\$ 2,116,914
<b>Legislative Retirement System</b>						
2006	4	\$8,035	1	\$1,915	107	\$ 157,216
2005					104	\$ 151,096

We will add one year of information to this chart in each of the next five years until it is built up to the full six-years that are recommended for disclosure purposes.

Participating Local District counts do not agree with those on the previous page since these numbers include the Participating Local Districts outside of the Consolidated Plan. Counts here will agree with those shown in the Financial Section of the prior year's CAFR.

SECTION II  
ACCOUNTING INFORMATION

ACCOUNTING STATEMENT INFORMATION as of June 30, 2006					
	State Employee & Teacher Plan	Consolidated Plan for PLD	Judicial Retirement System	Legislative Retirement System	
<b>A. FASB No. 35 Basis</b>					
1. Present Value of Benefits Accrued and Vested to Date					
a. Members Currently Receiving Payments	\$ 5,042,695,627	\$ 850,494,792	\$ 20,344,772	\$ 1,435,999	
b. Vested Terminated and Inactive Members	325,090,052	33,520,273	263,958	1,198,955	
c. Active Members	<u>3,217,789,485</u>	<u>627,347,119</u>	<u>17,136,091</u>	<u>1,598,422</u>	
d. Total PVAB	\$ 8,585,575,164	\$ 1,511,362,184	\$ 37,744,821	\$ 4,233,376	
2. Assets at Market Value	<u>7,503,201,781</u>	<u>1,846,054,077</u>	<u>44,344,633</u>	<u>7,943,390</u>	
3. Unfunded Present Value of Accrued Benefits, But Not Less Than Zero	\$ 1,082,373,383	\$ 0	\$ 0	\$ 0	
4. Ratio of Assets to Value of Benefits (2) / (1)(d)	87%	122%	117%	188%	
<b>B. GASB No. 25 Basis</b>					
1. Actuarial Liabilities					
a. Members Currently Receiving Payments	\$ 5,042,695,627	\$ 850,494,792	\$ 20,344,772	\$ 1,435,999	
b. Vested Deferred and Inactive Status Members	325,090,052	33,520,273	263,958	1,198,955	
c. Active Members	<u>5,179,513,515</u>	<u>836,114,675</u>	<u>22,493,679</u>	<u>5,309,514</u>	
d. Total	\$10,547,299,194	\$ 1,720,129,740	\$ 43,102,409	\$ 7,944,468	
2. Actuarial Value of Assets	<u>7,504,219,546</u>	<u>1,846,304,483</u>	<u>44,350,649</u>	<u>7,944,468</u>	
3. Unfunded Actuarial Liability	\$ 3,043,079,648	\$ (126,174,743)	\$ (1,248,240)	\$ 0	
4. Ratio of Actuarial Value of Assets to Actuarial Liability (2) / (1)(d)	71%	107%	103%	100%	



**SECTION II**  
**ACCOUNTING INFORMATION** *(continued)*

<b>STATEMENT OF CHANGES IN Total Actuarial Present Value of All Accrued Benefits</b>					
	<b>State Employee &amp; Teacher Plan</b>	<b>Consolidated Plan for PLD</b>	<b>Judicial Retirement System</b>	<b>Legislative Retirement System</b>	
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	
Increase (Decrease) During Years Attributable to:					
Passage of Time	631,768,032	111,522,952	2,702,133	289,264	
Benefits Paid – FY 2006	(436,560,524)	(76,975,417)	(2,112,111)	(192,803)	
Assumption Change	23,549,571	48,542,371	582,049	86,284	
Plan Amendment	0	0	0	0	
Benefits Accrued, Other Gains/Losses	<u>251,437,427</u>	<u>34,235,912</u>	<u>650,463</u>	<u>221,785</u>	
Net Increase (Decrease)	470,194,506	117,325,280	1,822,534	404,530	
Actuarial Present Value of Accrued Benefits as of June 30, 2006	\$ 8,585,575,164	\$ 1,511,362,184	\$ 37,744,821	\$ 4,233,376	

**SECTION II**  
**ACCOUNTING INFORMATION** *(continued)*

<b>NOTE TO REQUIRED SUPPLEMENTARY INFORMATION</b>				
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.				
	<b>State Employee &amp; Teacher Plan</b>	<b>Consolidated Plan for PLD</b>	<b>Judicial Retirement System</b>	<b>Legislative Retirement System</b>
Valuation date	June 30, 2006	June 30, 2006	June 30, 2006	June 30, 2006
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	22 years	15 years	11 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*	7.75%	7.75%	7.75%	7.75%
Projected salary increases*	4.75%-10.00%	4.50%-9.0%	4.00%	4.75%
*Includes inflation at	4.50%	4.50%		
Cost-of-living adjustments	3.75%	3.75%	3.75%	3.75%
Most Recent Review of Plan Experience:	2006	2001	2006	2006
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, 2006**

	<b>State Employee &amp; Teacher Plan</b>	<b>Consolidated Plan for PLD</b>	<b>Judicial Retirement System</b>	<b>Legislative Retirement System</b>
<b>Type of Activity</b>				
Investment Income	\$ (2,036,992)	\$ 0	\$ 6,114	\$ 15,029
Combined Liability Experience	48,354,919	18,317,866	1,245,511	(15,029)
Gain (or Loss) During Year from Financial Experience	\$ 46,317,927	18,317,866	\$ 1,251,625	\$ 0
Non-Recurring Items	5,292,234	(61,699,141)	334,815	0
<b>Composite Gain (or Loss) During Year</b>	<b>\$ 51,610,161</b>	<b>\$ (43,381,275)</b>	<b>\$ 1,586,440</b>	<b>\$ 0</b>

SECTION II  
ACCOUNTING INFORMATION (continued)

SOLVENCY TEST Aggregate Accrued Liabilities For						
Valuation Date	(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)
<b>State Employee and Teacher Plan</b>						
2006	\$ 1,645,241,719	\$ 5,367,785,679	\$ 3,534,271,796	\$ 7,504,219,546	100%	14%
2005	1,569,409,748	4,832,994,427	3,596,845,863	6,964,597,457	100%	16%
2004	1,464,936,256	4,387,963,456	3,589,489,687	6,452,570,243	100%	17%
<b>Consolidated Plan for Participating Local Districts</b>						
2006	\$ 239,876,523	\$ 884,015,065	\$ 596,238,152	\$ 1,846,304,483	100%	121%
2005	217,657,321	820,316,284	543,224,512	1,726,776,134	100%	127%
2004	195,013,387	772,474,507	524,178,904	1,633,016,411	100%	127%
<b>Judicial Retirement System</b>						
2006	\$ 6,463,859	\$ 20,608,730	\$ 16,029,820	\$ 44,350,649	100%	108%
2005	6,026,669	19,988,075	15,916,386	41,842,216	100%	99%
2004	5,600,058	18,534,194	12,254,479	39,210,995	100%	123%
<b>Legislative Retirement System</b>						
2006	\$ 1,648,363	\$ 2,634,954	\$ 3,661,151	\$ 7,944,468	100%	100%
2005	1,526,704	2,662,444	3,217,327	7,406,475	100%	100%
2004	1,359,835	2,203,021	3,264,622	6,827,478	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: 7.75%      Teachers: 7.75%

**2. Cost-of-Living Increases in Benefits:**

State Employees: 3.75%      Teachers: 3.75%

**3. Rates of Salary Increase (% at Selected Years of Service):**

Service	State Employees and Teachers
0	10.00%
5	7.50
10	6.07
15	5.28
20	4.90
25 and over	4.75

The above rates include a 4.75% across-the-board increase at each age.

**4. Rates of Termination (% at Selected Service):**

Service	State Employees	Teachers
0	30.00 %	37.00 %
5	7.50	12.50
10	4.40	6.00
15	3.50	4.50
20	2.00	3.00
25	2.00	2.00

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.

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

**5. Rate of Mortality for Active Healthy Lives and Retired Healthy Lives at Selected Ages (number of deaths per 10,000 members)\*:**

Age	State Employees		Teachers	
	Male	Female	Male	Female
20	5	3	5	3
25	7	3	6	3
30	9	4	7	3
35	9	5	8	4
40	12	8	10	6
45	17	10	14	9
50	28	15	24	13
55	48	25	40	21
60	86	48	73	41
65	156	93	133	79
70	255	148	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.

**6. Rates of Mortality for Future Disabled Lives and Retired Disabled Lives at Selected Ages (number of deaths per 10,000 members):**

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

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

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

Age	State Employees		Teachers	
	Tier 1	Tier 2	Tier 1	Tier 2
45	28	28	18	18
50	42	42	39	39
55	103	103	106	106
59	200	148	156	100
60	228	148	225	100
61	133	133	139	100
62	268	250	277	250
63	202	202	224	224
64	221	221	223	223
65	478	478	485	485
70	589	589	570	570

*\* Members of Special Groups are assumed to retire at a rate of 50% per year, once they reach eligibility for unreduced benefits at every age.*

In the case of State Regular and Teacher employees, Tier 1 refers to those who had accrued at least 10 years of service by July 1, 1993. Tier 2 are those who had not or were hired after that date.

**8. 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.*

**9. 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.



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

**10. 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.

**11. Changes Since Last Valuation**

As a result of an experience study performed in 2006, the actuary recommended changes to several assumptions and these recommendations were adopted by the Board and are disclosed here.

**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 4.75% per year. The UAL measured as of June 30, 2006 is amortized over a 22 year period.

Annual gains and losses are explicitly calculated under this method and are amortized in the same fashion as the rest of the unfunded actuarial liability. The Analysis of Financial Experience discloses the annual gains and losses for this plan.

**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.

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

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.

**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.

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

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.

**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  $2\frac{1}{4}\%$  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.

**STATE EMPLOYEE AND TEACHER PLAN**  
**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 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.

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.

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

*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.

*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.

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

*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.

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 (See Item 7):**

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 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 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 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 Worker's Compensation and Social Security, exceeds 80% of average final compensation.



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

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.

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.



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

**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.

**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 (Option 2) with pop-up\*.
- Option 7: 50% joint and survivor annuity (Option 3) 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:** 7.75%
2. **Cost-of-Living Increases in Benefits:** 3.75% (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
60	86	48
65	156	93
70	255	148

\*\* 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 Mortality for Disabled Lives 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

**6. 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.

**7. 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.

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

*(continued)*

**8. 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.

**9. 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

**10. Assumption Changes Since Last Valuation**

Investment return was 8.0%.

Cost-of-living increase was 4.0%.

Both healthy and disabled mortality used a different table for those retired prior to 1998. Now the same table is used regardless of retirement date.

**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.

Annual gains and losses are explicitly calculated under this method and are amortized in the same fashion as the rest of the unfunded actuarial liability. The Analysis of Financial Experience discloses the annual gains and losses for this plan.

**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 7.75% actuarial assumption for investment return.

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

*(continued)*

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

**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 AC 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.

**CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS**  
**SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS**  
*(continued)*

***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.

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 BC 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.



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

*(continued)*

***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.

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 4C reduced by approximately  $2\frac{1}{4}\%$  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.

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

*(continued)*

### *Special Plan 4N*

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

### *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 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 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.

**CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS  
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), 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.

**7. Disability Retirement Benefits Other Than No Age Benefits (See Item 8):**

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 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 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 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 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 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.

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

*(continued)*

### 9. Refund of Contributions:

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

Benefit: Member's accumulated contributions with interest.

### 10. Cost-of-Living Adjustments (COLA):

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 (Option 2) with pop-up\*.

Option 7: 50% joint and survivor annuity (Option 3) 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**

**A. ACTUARIAL ASSUMPTIONS**

1. **Annual Rate of Investment Return**      7.75%
2. **Annual Rate of Salary Increase**      4.00%
3. **Annual Cost-of-Living Increase**      3.75%
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:**

Age	Disability	Termination	Death	
			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:**

Age	Male	Female
25	.0007	.0003
30	.0009	.0004
35	.0009	.0005
40	.0012	.0008
45	.0017	.0010
50	.0028	.0015
55	.0048	.0025

**7. Rates of Disabled Life Mortality at Selected Ages**

Age	Male	Female
25	.0092	.0072
30	.0112	.0089
35	.0134	.0109
40	.0160	.0126
45	.0193	.0144
50	.0236	.0165
55	.0295	.0191

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

*(continued)*

### 8. Assumption Changes Since Last Valuation

Investment return was 8.0%.

Cost-of-living increase was 4.0%.

Retirement was assumed to occur 100% at first eligibility. Both healthy and disabled mortality used a different table for those retired prior to 1998. Now the same table is used regardless of retirement date.

## 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, 2006. The payments are determined so that they will be a level percentage of pay, assuming total pay increases 4% per year.

Annual gains and losses are explicitly calculated under this method and are amortized in the same fashion as the rest of the unfunded actuarial liability. The Analysis of Financial Experience discloses the annual gains and losses for this plan.

### 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 7.75% actuarial assumption for investment return.

**JUDICIAL RETIREMENT SYSTEM**  
**SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS**  
*(continued)*

**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.

**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 his 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.



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

*(continued)*

- 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:  
  
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.

## JUDICIAL RETIREMENT SYSTEM

### SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS

*(continued)*

#### 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.

#### 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 payments 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.

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

*(continued)*

### 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 worker's 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.

## **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.

**JUDICIAL 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:**

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.

**JUDICIAL RETIREMENT SYSTEM**  
**SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND PLAN PROVISIONS**  
*(continued)*

**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.   |
| 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**      7.75%
2. **Annual Rate of Salary Increase**      4.75%
3. **Annual Cost-of-Living Increase**      3.75%
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:**

Age	Disability	Termination	Death	
			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:**

Age	Male	Female
25	.0007	.0003
30	.0009	.0004
35	.0009	.0005
40	.0012	.0008
45	.0017	.0010
50	.0028	.0015
55	.0048	.0025

**7. Rates of Disabled Life Mortality at Selected Ages**

Age	Male	Female
25	.0092	.0072
30	.0112	.0089
35	.0134	.0109
40	.0160	.0126
45	.0193	.0144
50	.0236	.0165
55	.0295	.0191

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

*(continued)*

**8. Assumption Changes Since Last Valuation**

Investment return was 8.0%.

Rate of salary increase was 5.5%.

Cost-of-living was 4.0%.

Both healthy and disabled mortality used a different table for those retired prior to 1998. Now the same table is used regardless of retirement date.

**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.

Annual gains and losses are not explicitly calculated under this funding method but are included in the normal cost.

**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 7.75% actuarial assumption for investment return.

**C. PLAN PROVISIONS**

**1. Membership**

Except as provided by statute, membership is mandatory for every Legislator in service in the Legislature 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.



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

*(continued)*

### 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;
- b. all legislative service before December 3, 1986, for which contributions have been 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

#### 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 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.

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

*(continued)*

- 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.

- 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 2¼% 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 (See Item 7)**

### 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 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 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 the date the service retirement benefit equals or exceeds the disability benefit.

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

*(continued)*

### 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 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 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.

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

*(continued)*

### 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."

### 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 (Option 2) with pop-up\*.
- Option 7: 50% joint and survivor annuity (Option 3) 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.*

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**MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**STATISTICAL SECTION**  
(unaudited)

This section of the Maine Public Employees 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:**

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**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.

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**Source:**

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

**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.

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**DEFINED BENEFIT PLAN  
CHANGES IN NET ASSETS**

**LAST TEN FISCAL YEARS**

	Fiscal Year									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>Additions</b>										
Member contributions	\$ 155,061,294	\$ 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
Employer contributions	323,376,847	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
Investment Income (net of expenses)	1,538,866,448	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
Total additions to plan net assets	2,017,304,589	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
<b>Deductions</b>										
Benefit payments	541,387,999	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
Refunds	21,938,751	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
Administrative expenses	10,892,369	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
Other expenses*	-	-	-	-	-	-	-	-	601,825	2,050,734
Total deductions from plan net assets	574,219,119	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
<b>Change in net assets</b>	\$ 1,443,085,470	\$ 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

\* 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									
	2007	2006	2005	2004	2003	2002	2001	2000*	1999*	1998*
<b>Additions</b>										
Member contributions	\$ 8,837,809	\$ 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
Employer contributions	243,115	216,103	211,576	211,691	215,777	184,336	178,086	176,388	168,987	166,807
Investment Income (net of expenses)	6,978,299	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
Total additions to plan net assets	16,059,223	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
<b>Deductions</b>										
Benefit payments	8,020,342	7,571,942	7,215,050	7,104,121	7,100,216	8,447,953	6,221,450	7,306,079	7,687,006	6,304,364
Refunds	30,157	32,002	17,279	19,535	17,195	14,724	14,688	15,000	25,834	6,532
Administrative expenses	856,436	812,833	841,752	854,891	895,521	734,383	703,686	650,303	595,419	493,217
Other expenses	-	-	-	-	-	-	-	-	-	-
Total deductions from plan net assets	8,906,935	8,416,777	8,074,081	7,978,547	8,012,932	9,197,060	6,939,824	7,971,382	8,308,259	6,804,113
<b>Change in net assets</b>	\$ 7,152,288	\$ 1,723,080	\$ 1,717,035	\$ 970,272	\$ 2,412,915	\$ 1,398,246	\$ 3,674,138	\$ 879,396	\$ 72,819	\$ 1,826,601

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

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

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

**LAST TEN FISCAL YEARS**

	Fiscal Year									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>Additions</b>										
Member contributions	\$ 163,899,103	\$ 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
Employer contributions	323,619,962	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
Investment Income (net of expenses)	1,545,844,747	665,183,979	942,426,169	1,144,348,701	351,340,591	(530,070,371)	(591,237,695)	678,239,769	692,116,191	922,374,461
Total additions to plan net assets	2,033,363,812	1,140,331,983	1,381,332,129	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
<b>Deductions</b>										
Benefit payments	549,408,341	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
Refunds	21,968,908	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
Administrative expenses	11,748,805	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
Other expenses	-	-	-	-	-	-	-	-	601,825	2,050,734
Total deductions from plan net assets	583,126,054	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
<b>Change in net assets</b>	\$ 1,450,237,758	\$ 600,520,410	\$ 877,741,174	\$ 1,118,277,431	\$ 342,942,378	\$ (396,476,972)	\$ (589,701,501)	\$ 685,389,878	\$ 751,134,083	\$ 970,412,315

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

**LAST TEN FISCAL YEARS**

	Fiscal Year									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>Type of Benefit</b>										
Service retirement benefits	\$ 484,050,311	\$ 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
Disability benefits	51,475,049	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
Pre-Retirement death benefits	5,862,639	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
<b>Total benefits</b>	<b>\$ 541,387,999</b>	<b>\$ 503,027,886</b>	<b>\$ 470,218,358</b>	<b>\$ 433,798,828</b>	<b>\$ 409,400,944</b>	<b>\$ 387,400,584</b>	<b>\$ 362,068,648</b>	<b>\$ 335,589,992</b>	<b>\$ 317,875,786</b>	<b>\$ 301,668,166</b>
<b>Type of Refund</b>										
Death	\$ 3,272,721	\$ 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
Separation	17,176,811	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
Other	1,489,218	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
<b>Total refunds</b>	<b>\$ 21,938,751</b>	<b>\$ 18,907,578</b>	<b>\$ 15,975,376</b>	<b>\$ 15,677,722</b>	<b>\$ 13,816,968</b>	<b>\$ 15,807,418</b>	<b>\$ 17,453,576</b>	<b>\$ 17,675,072</b>	<b>\$ 19,156,890</b>	<b>\$ 17,730,242</b>

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

**LAST TEN FISCAL YEARS**

	Fiscal Year									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>Type of Benefit</b>										
Basic active claims	\$ 1,650,657	\$ 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
Supplemental claims	1,505,000	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
Dependent claims	182,942	218,988	250,344	211,500	314,224	240,086	296,440	318,386	329,488	308,966
Accidental Death & Dismemberment claims	21,000	147,042	233,000	143,027	-	169,042	-	451,601	341,851	121,302
Basic retiree claims	4,509,130	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
	7,868,729	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
Conversion expense	151,613	203,044	93,085	35,900	67,900	124,343	86,450	46,522	153,069	321,212
Total benefits	\$ 8,020,342	\$ 7,571,942	\$ 7,215,050	\$ 7,104,122	\$ 7,100,216	\$ 8,447,953	\$ 6,221,450	\$ 7,306,079	\$ 7,687,006	\$ 6,304,364
<b>Type of Refund</b>										
Group Life Insurance premiums	30,157	32,002	17,279	19,535	17,195	14,724	14,688	15,000	25,834	6,532
Total refunds	\$ 30,157	\$ 32,002	\$ 17,279	\$ 19,535	\$ 17,195	\$ 14,724	\$ 14,688	\$ 15,000	\$ 25,834	\$ 6,532

**DEFINED BENEFIT PLAN  
RETIRED MEMBERS BY TYPE OF BENEFIT**

Fiscal Year Ended June 30:	Service Retiree			Pre-Retirement	
	<u>Service Retirees</u>	<u>Beneficiary Recipients</u>	<u>Disability Benefit Recipients</u>	<u>Death Benefits Recipients</u>	<u>Total Pension Benefit Recipients</u>
2007	26,416	3,442	2,703	1,090	33,651
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 July 1 1998 - June 30, 2007	Years of Creditable Service					
	<u>Less than 5</u>	<u>5-10</u>	<u>10-15</u>	<u>15-20</u>	<u>20-25</u>	<u>25-30 Greater than 30</u>
Period 7/1/1998 to 6/30/1999						
Average Monthly Benefit	105	269	412	689	1,142	1,856
Average Final Salary	13,917	16,089	14,768	18,321	22,697	27,180
Number of Active Retirants	411	1,092	3,004	2,451	3,387	4,530
Period 7/1/1999 to 6/30/2000						
Average Monthly Benefit	108	276	421	709	1,174	1,925
Average Final Salary	14,350	16,737	15,386	18,931	23,466	28,803
Number of Active Retirants	399	1,065	2,968	2,431	3,431	4,696
Period 7/1/2000 to 6/30/2001						
Average Monthly Benefit	113	289	439	740	1,233	2,028
Average Final Salary	14,797	17,383	16,093	19,593	24,288	30,555
Number of Active Retirants	389	1,026	2,986	2,400	3,428	4,895
Period 7/1/2001 to 6/30/2002						
Average Monthly Benefit	118	301	456	768	1,279	2,109
Average Final Salary	15,389	17,866	16,542	20,259	24,904	31,792
Number of Active Retirants	391	998	2,989	2,401	3,450	5,111
Period 7/1/2002 to 6/30/2003						
Average Monthly Benefit	121	306	468	791	1,312	2,170
Average Final Salary	16,083	18,912	17,361	21,472	26,137	33,731
Number of Active Retirants	379	968	2,935	2,397	3,473	5,366
Period 7/1/2003 to 6/30/2004						
Average Monthly Benefit	125	320	487	818	1,347	2,247
Average Final Salary	16,802	19,889	18,134	22,389	26,958	35,366
Number of Active Retirants	369	949	2,868	2,420	3,526	5,610
Period 7/1/2004 to 6/30/2005						
Average Monthly Benefit	132	329	511	855	1,408	2,343
Average Final Salary	17,769	20,676	18,974	23,337	28,063	36,905
Number of Active Retirants	375	957	2,827	2,442	3,607	5,925
Period 7/1/2005 to 6/30/2006						
Average Monthly Benefit	137	339	534	884	1,449	2,429
Average Final Salary	18,131	21,370	19,934	24,207	28,918	38,236
Number of Active Retirants	372	972	2,801	2,472	3,644	6,205
Period 7/1/2006 to 6/30/2007						
Average Monthly Benefit	143	357	561	931	1,514	2,549
Average Final Salary	18,663	22,659	20,722	25,350	29,825	39,620
Number of Active Retirants	371	1,009	2,806	2,484	3,682	6,476



**DEFINED BENEFIT PLAN  
RETIRED MEMBERS BY TYPE OF BENEFIT AND OPTION  
As of June 30, 2007**

Type of Retirement

Amount of Monthly Benefit	Number of Retired Member	Type of Retirement			
		1	2	3	4
0 - 250	5,599	2,768	131	1,636	1,064
251 - 500	4,623	3,748	102	762	11
501 - 750	3,362	3,041	80	236	5
751 - 1000	2,675	2,514	65	90	6
1001 - 1250	2,613	2,522	71	17	3
1251 - 1500	2,675	2,626	43	5	1
1501 - 1750	2,584	2,540	43	1	0
1751 - 2000	2,347	2,312	35	0	0
2001 over	7,172	7,124	48	0	0
<b>Totals</b>	<b>33,650</b>	<b>29,195</b>	<b>618</b>	<b>2,747</b>	<b>1,090</b>

Option Selected

Option Selected	Type of Retirement									
	0	1	2	3	4	5	6	7	8	Other
0	898	158	207	58	1	1,153	16	3	1	3,104
1	1,134	237	281	89	1	1,601	39	9	10	1,222
2	1,086	203	258	102	10	923	41	15	22	702
3	992	212	190	148	5	535	34	24	19	516
4	994	223	214	146	7	557	43	22	36	371
5	1,083	248	247	197	6	539	48	28	27	252
6	1,107	231	198	192	11	530	43	30	39	203
7	1,061	226	171	156	13	438	52	42	40	148
8	3,543	616	584	517	87	1,051	141	149	185	299
<b>Totals</b>	<b>11,898</b>	<b>2,354</b>	<b>2,350</b>	<b>1,605</b>	<b>141</b>	<b>7,327</b>	<b>457</b>	<b>322</b>	<b>379</b>	<b>6,817</b>

**EMPLOYEE CONTRIBUTION RATES  
LAST TEN FISCAL YEARS**

Fiscal Year

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
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	n/a	n/a	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	n/a	n/a	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	n/a	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%	8.65%	n/a
HazMat/DEP 24030	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	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

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>Judicial Plan Employees</b>	15.01%	15.09%	18.08%	18.10%	14.93%	14.45%	24.30%	24.12%	33.92%	26.18%
<b>Legislative Plan Employees</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.47%	0.47%
<b>School Teacher Employees</b>	17.23%	17.23%	16.02%	16.05%	17.71%	17.71%	18.34%	18.34%	19.30%	19.30%
<b>State of Maine Employees</b>										
<b>Employee Class:</b>										
<b>General</b>	15.88%	15.52%	13.74%	13.39%	12.43%	12.19%	14.81%	14.47%	16.68%	16.40%
<b>Police</b>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	16.48%	20.10%	20.10%
<b>Police - Grandfathered</b>	44.04%	43.02%	35.00%	34.32%	36.37%	35.65%	43.90%	42.89%	67.85%	66.16%
<b>Marine Wardens - Grandfathered</b>	45.63%	44.55%	38.27%	37.43%	35.36%	35.15%	43.61%	42.62%	59.15%	57.69%
<b>Game Wardens - Grandfathered</b>	47.07%	45.94%	39.03%	38.13%	37.12%	36.35%	40.23%	39.32%	84.82%	82.52%
<b>Prison Wardens</b>	n/a	n/a	n/a	n/a	n/a	13.88%	16.87%	16.48%	9.20%	9.20%
<b>Prison Wardens - Grandfathered</b>	24.29%	23.70%	17.79%	17.44%	18.76%	18.39%	22.28%	21.76%	27.14%	26.50%
<b>Liquor Inspectors - Grandfathered</b>	n/a	n/a	n/a	n/a	16.43%	16.02%	20.26%	19.87%	31.02%	30.24%
<b>Forest Rangers - Grandfathered</b>	18.21%	17.79%	15.78%	15.47%	14.93%	14.65%	17.65%	17.27%	26.90%	26.25%
<b>1998 Special Groups</b>	18.11%	17.68%	15.55%	15.21%	14.16%	13.88%	16.87%	16.48%	17.95%	n/a
<b>HazMat/DEP</b>	18.11%	17.68%	15.55%	15.21%	14.96%	14.68%	n/a	n/a	n/a	n/a
<b>Participating Local District Employees</b>										
<b>Employee Class:</b>										
<b>AC - General COLA</b>	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.30%	5.90%	8.00%
<b>BC - General COLA</b>	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	2.00%	3.70%	5.00%
<b>1C - Special COLA</b>	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	7.70%	14.70%	19.00%
<b>2C - Special COLA</b>	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.70%	9.00%	11.70%
<b>3C - Special COLA</b>	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%	6.30%	11.90%	15.40%
<b>4C - Special COLA</b>	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	4.10%	6.50%	8.40%
<b>AN - General No COLA</b>	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.80%	3.50%	4.70%
<b>1N - Special No COLA</b>	3.60%	3.60%	3.60%	3.60%	3.60%	3.60%	3.60%	4.30%	9.00%	11.70%
<b>2N - Special No COLA</b>	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%	2.50%	5.00%	6.50%
<b>3N - Special No COLA</b>	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	3.40%	6.70%	8.70%
<b>4N - Special No COLA</b>	1.90%	1.90%	1.90%	1.90%	1.90%	1.90%	1.90%	2.20%	3.60%	4.70%

PRINCIPAL PARTICIPATING EMPLOYERS  
CURRENT YEAR AND NINE YEARS AGO

2007

1999

Participating Entity	Covered Employees	Rank	Percentage of Total System	Participating Entity	Covered Employees	Rank	Percentage of Total System
State of Maine	15,896	1	25.63%	State of Maine	16,624	1	26.47%
Portland School Department	1,317	2	2.12%	Portland, City Of	1,739	2	2.77%
Portland, City Of	820	3	1.32%	Portland School Department	1,352	3	2.15%
Lewiston School Department	810	4	1.31%	Bangor School Department	784	4	1.25%
Bangor School Department	721	5	1.16%	Bangor, City Of	700	5	1.11%
MSAD #75 Topsham	711	6	1.15%	Auburn School Department	677	6	1.08%
Auburn School Department	651	7	1.05%	Lewiston School Department	667	7	1.06%
MSAD #6 Bar Mills	618	8	1.00%	MSAD #75 Topsham	638	8	1.02%
Sanford School Department	595	9	0.96%	Augusta School Department	621	9	0.99%
MSAD #54 Skowhegan	578	10	0.93%	MSAD #9 Farmington	604	10	0.96%
All Others *	40,208	11	64.83%	All Others	39,561	11	62.99%
<b>Total (545 Participating Entities)</b>	<b>62,019</b>		<b>100.00%</b>	<b>Total (568 Participating Entities)</b>	<b>62,808</b>		<b>100.00%</b>

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

In 2007, "All Others" consisted of:

Employer Type	Number of Employees	Covered Employees
Judicial Retirement System	1	62
Legislative Retirement System	1	174
Participating Local Districts	220	7,884
School Districts	<u>309</u>	<u>32,088</u>
	<b><u>531</u></b>	<b><u>40,208</u></b>

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

**EMPLOYERS FOR WHOM MAINEPERS ADMINISTERS RETIREMENT PROGRAMS**

**PROGRAM:** STATE EMPLOYEE / TEACHER  
RETIREMENT PROGRAM

**Participants:** State Employees  
**Employer:** State of Maine  
**Reporting Entity:** State of Maine

**Participants:** State Employees  
**Employers:** Various  
**Reporting Entity:** (as follows)

Central Maine Community College  
Eastern Maine Community College  
Maine Educational Center for the Deaf and Hard of Hearing  
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

**Participants:** Teachers  
**Employers:** State of Maine; School Administrative  
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  
Chebeague Island 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  
Lincolnvile 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  
MSAD #21 Dixfield  
MSAD #22 Hampden  
MSAD #23 Carmel  
MSAD #24 Van Buren  
MSAD #25 Sherman Station

## EMPLOYERS FOR WHOM MAINEPERS ADMINISTERS RETIREMENT PROGRAMS

*(continued)*TEACHERS *(continued)*

MSAD #26 Ellsworth	Monhegan Plantation School Department
MSAD #27 Fort Kent	Monmouth School Department
MSAD #28 Camden	Old Orchard Beach School Department
MSAD #29 Houlton	Old Town School Department
MSAD #30 Lee	Orland School Department
MSAD #31 Howland	Orrington School Department
MSAD #32 Ashland	Oxford Hill Technical School #11
MSAD #33 St. Agatha	Peninsula Community School District
MSAD #34 Belfast	Pleasant Point School
MSAD #35 Eliot	Portland School Department
MSAD #36 Livermore Falls	Raymond School Department
MSAD #37 Harrington	Region 2 Southern Aroostook County
MSAD #38 Etna	Region 3 Northern Penobscot County
MSAD #39 Buckfield	Region 4 Southern Penobscot County
MSAD #40 Waldoboro	Region 7 Waldo County Technical Center
MSAD #41 Milo	Region 8 Knox County Vocational School
MSAD #42 Mars Hill	Region 9 School of Applied Technology
MSAD #43 Mexico	Region 10 Cumberland-Sagadahoc County
MSAD #44 Bethel	Richmond School Department
MSAD #45 Washburn	Sanford School Department
MSAD #46 Dexter	Scarborough School Department
MSAD #47 Oakland	School Agent Carrabassett
MSAD #48 Newport	School Agent Coplin Plantation
MSAD #49 Fairfield	School Union 52 Winslow
MSAD #50 Thomaston	School Union 132 Central office
MSAD #51 Cumberland Center	School Union 133 Central office
MSAD #52 Turner	South Portland School Department
MSAD #53 Pittsfield	Thornton Academy
MSAD #54 Skowhegan	Union 7 Dayton
MSAD #55 Cornish	Union 7 Saco
MSAD #56 Searsport	Union 29 Mechanic Falls
MSAD #57 Waterboro	Union 29 Minot
MSAD #58 Kingfield	Union 29 Poland
MSAD #59 Madison	Union 30 Durham
MSAD #60 North Berwick	Union 30 Lisbon
MSAD #61 Bridgton	Union 37 Rangeley
MSAD #62 Pownal	Union 42 Manchester
MSAD #63 East Holden	Union 42 Mount Vernon
MSAD #64 East Corinth	Union 42 Readfield
MSAD #65 Matinicus	Union 42 Wayne
MSAD #67 Lincoln	Union 44 Litchfield
MSAD #68 Dover-Foxcroft	Union 44 Sabattus
MSAD #70 Hodgdon	Union 44 Wales
MSAD #71 Kennebunk	Union 47 Administration
MSAD #72 Fryeburg	Union 47 Georgetown
MSAD #74 North Anson	Union 47 Phippsburg
MSAD #75 Topsham	Union 47 West Bath
MSAD #76 Swans Island	Union 47 Woolwich
MSAD #77 Machias	Union 49 Edgecomb
Machiasport School Department	Union 49 Southport
Madawaska School Department	Union 52 China
Maine Central Institute	Union 52 Vassalboro
Maine Education Association	Union 60 Greenville
Maine Indian Education	Union 60 Shirley
Maine School of Science & Mathematics	Union 69 Appleton
Millinocket School Department	Union 69 Hope



EMPLOYERS FOR WHOM MAINEPERS ADMINISTERS RETIREMENT PROGRAMS

(continued)

TEACHERS (continued)

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 Milford  
 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 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

**PROGRAM:** LEGISLATIVE RETIREMENT PROGRAM  
**Participants:** Legislators  
**Employer:** State of Maine  
**Reporting Entity:** Office of the Executive Director of the Maine Legislature

**PROGRAM:** JUDICIAL RETIREMENT PROGRAM  
**Participants:** Judges  
**Employer:** State of Maine  
**Reporting Entity:** Administrative Office of the Courts

**PROGRAM:** PARTICIPATING LOCAL DISTRICT RETIREMENT PROGRAM  
**Employers:** Participating Local Districts (Active and Withdrawn)  
**Reporting Entities:** (as follows)

Androscoggin County  
 Androscoggin Valley Council of Government  
 Aroostook County  
 Auburn Housing Authority  
 Auburn Lewiston Airport  
 Auburn Public Library  
 Auburn, City of  
 Auburn School Support  
 Auburn Water and Sewer District  
 Augusta Sanitary District  
 Augusta Water District  
 Augusta, City of  
 Augusta School Support  
 Baileyville, Town of  
 Baileyville School Support  
 Bangor, City of  
 Bangor School Support  
 Bangor Housing Authority  
 Bangor Public Library  
 Bangor Water District  
 Bar Harbor School Support



## EMPLOYERS FOR WHOM MAINEPERS ADMINISTERS RETIREMENT PROGRAMS

(continued)

**CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS** (continued)

Bar Harbor, Town of	Ellsworth, City of
Bath Water District	Ellsworth School Support
Bath, City of	Erskine Academy
Bath School Support	Fairfield, Town of
Belfast Water District	Falmouth Memorial Library
Belfast, City of	Falmouth, Town of
Berwick Sewer District	Falmouth School Support
Berwick, Town of	Farmington Village Corporation
Bethel, Town of	Farmington, Town of
Biddeford Housing Authority	Fayette, Town of
Biddeford School Department	Fort Fairfield Housing Authority
Biddeford, City of	Fort Fairfield Utilities District
Boothbay Region Water District	Fort Fairfield, Town of
Boothbay Harbor, Town of	Franklin County
Boothbay Region Water District	Freeport, Town of
Brewer Housing Authority	Frenchville, Town of
Brewer, City of	Fryeburg, Town of
Brewer School Support	Gardiner Water District
Bridgton Water District	Gardiner, City of
Brunswick Fire And Police	Glenburn, Town of
Brunswick Public Library Association	Glenburn School Support
Brunswick Sewer District	Gould Academy
Brunswick, Town of	Greenville, Town of
Brunswick School Support	Greenville School Support
Bucksport, Town of	Hallowell, City of
Bucksport School Food Service	Hampden Water District
Bucksport School Support	Hampden, Town of
Calais, City of	Hancock County
Calais School Support	Harrison, Town of
Camden, Town of	Hermon School Support
Caribou Fire & Police	Hermon, Town of
Carrabassett Valley, Town of	Hodgdon, Town of
Chesterville, Town of	Houlton Water Company
Cheverus High School	Houlton, Town of
China, Town of	Indian Township Tribal Government
Coastal Counties Workforce Incorporated	Jackman Utility District
Community School District #912	Jay, Town of
Community School District #915	Jay School Support
Community School District #918	Kennebec County
Corinna Sewer District	Kennebec Sanitary Treatment District
Corinna, Town of	Kennebec Water District
Cumberland County	Kennebunk Kennebunkport Wells Water District
Cumberland, Town of	Kennebunk Light & Power District
Dexter, Town of	Kennebunk Sewer District
Dover-Foxcroft Water District	Kennebunk, Town of
Dover-Foxcroft, Town of	Kennebunkport, Town of
Durham, Town of	Kittery - School Support
Durham School Support	Kittery Water District
East Millinocket, Town of	Kittery, Town of
East Millinocket School Support	Lebanon, Town of
Eagle Lake Water & Sewer District	Lewiston Auburn 911
Easton, Town of	Lewiston Housing Authority
Easton School Support	Lewiston, City of
Eliot, Town of	Lewiston-Auburn Water Pollution Control Authority
	Lewiston School Support
	Limestone, Town of
	Limestone School Support

## EMPLOYERS FOR WHOM MAINEPERS ADMINISTERS RETIREMENT PROGRAMS

*(continued)***CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS** *(continued)*

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.  
 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  
 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 Public Employees Retirement System  
 Maine School Management Association  
 Maine State Housing Authority  
 Maine Turnpike Authority  
 Maine Veterans' Homes  
 Mapleton, 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  
 Mt. Desert Island Regional  
 Mt. Desert Water District  
 Mt. Desert School Support  
 Mt. Desert, Town of  
 Naples, Town of  
 New Gloucester, Town of  
 North Berwick Water District  
 North Berwick, Town of  
 Norway Water District  
 Norway, Town of  
 Ogunquit, 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 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 Support  
 Piscataquis County  
 Pittsfield, Town of  
 Pleasant Pt. Passamaquoddy Reservation Housing Auth.  
 Portland Housing Authority  
 Portland Public Library  
 Portland, City of  
 Portland School Support  
 Princeton, Town of  
 Princeton School Support  
 Region 4 So. Penobscot  
 Richmond Utility District  
 Richmond, Town of  
 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

EMPLOYERS FOR WHOM MAINEPERS ADMINISTERS RETIREMENT PROGRAMS

(continued)

**CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS** (continued)

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 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  
 Two Bridges Regional Jail  
 Tri-Community Sanitary Landfill  
 Van Buren Housing Authority  
 Van Buren, Town of  
 Vassalboro, Town of  
 Veazie Fire & Police  
 Waldo County  
 Waldo County Technical Center  
 Waldoboro, Town of  
 Washburn, Town of  
 Washington County  
 Waterville Fire & Police  
 Waterville Sewer District  
 Wells, Town of  
 Westbrook Fire & Police  
 Westbrook, City of  
 Westbrook Housing Authority  
 Westbrook School Support  
 Windham, Town of  
 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

**PROGRAM: PARTICIPATING LOCAL DISTRICT RETIREMENT PROGRAM**

**Individual Employers:** Withdrawn (Non-Consolidated) Participating Local Districts  
**Reporting Entities:** (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  
 Garland, Town of  
 Georgetown School Support  
 Georgetown, Town of  
 Greater Portland Council of Government  
 Howland, Town of  
 Knox County  
 Limestone Water & Sewer District  
 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 School Support  
 Sabattus Sanitary District  
 Thomaston, Town of  
 Wallagrass Plantation  
 Western Maine Community Action Council  
 Wilton, Town of

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This report has been produced as required by 5 M.R.S.A. §17102 (10), which states that the Maine Public Employees 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."



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