Maine State Retirement System
State Employee and Teacher Plan
Actuarial Valuation Report

as of June 30, 2006

Produced by Cheiron

November 2006

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November 30, 2006

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

Dear Members of the Board:

We are pleased to submit the June 30, 2006 Actuarial Valuation Report of the Maine State Retirement System. This report contains information on System assets, liabilities, and contributions, as well as the required accounting statement disclosures under the Government Accounting Standards Board Statement #25.

In preparing our report, we relied without audit, on 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. The actuarial assumptions reflect our understanding of the likely future experience of the Plan and the assumptions as a whole represent our best estimate for the future experience of the Plan. The accuracy of the results presented in this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the Plan could vary from our results.

We hereby certify that, to the best of our 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 Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board, and that as Members of the American Academy of Actuaries, we meet the Qualification Standards to render the opinions contained herein.

Sincerely,
Cheiron

Gene Kalwarski, FSA, EA
Consulting Actuary

Fiona E. Liston, FSA, EA
Consulting Actuary

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

FOREWORD

Cheiron has performed the actuarial valuation of the Maine State Retirement System State Employee and Teacher Plan as of June 30, 2006. The purpose of this report is to:

1) **Measure and disclose**, as of the valuation date, the financial condition of the Plan;

2) **Indicate trends**, both historical and prospective, in the financial condition of the Plan;

3) **Determine the contribution rates** to be paid by the State for Fiscal Years 2008 and 2009.

4) **Provide specific information** and documentation required by the Government Accounting Standards Board (GASB).

An actuarial valuation establishes and analyzes Plan assets and liabilities on a consistent basis, and traces the progress of both from one year to the next. It includes measurement of the Plan's investment performance as well as an analysis of actuarial liability gains and losses.

Section I presents a summary containing our key findings and discloses important trends experienced by the Plan in recent years.
Section II contains details on various asset measures, together with pertinent performance measurements.
Section III shows similar information on Plan liabilities, measured for actuarial, accounting, and government reporting purposes.
Section IV develops the State contribution rates that form the basis for the biennial budget for FY 08 and FY 09.
Section V includes the required disclosures under GASB Statement No. 25.

Finally, at the end of this report we present appendices that contain a summary of the:

- Plan's membership at the valuation date (Appendix A)
- the actuarial methods and assumptions used in the valuation (Appendix B)
- major benefit provisions of the Plan (Appendix C),

SECTION I
EXECUTIVE SUMMARY

General Comments

The State of Maine's annual contributions to this Plan are determined on a biennial basis (in every even-numbered year). As such, this valuation produces employer contribution rates for each plan which are used in the State's budgeting process to develop applicable rates for the FY 08 and FY 09 State budgets.

The State composite rate produced by the June 30, 2005 valuation was 17.46% of payroll. The State composite rate produced in this valuation is 17.59% of payroll.

State law requires that a portion of any General Fund surplus must be allocated to the Maine State Retirement System (MSRS) on an annual basis. The surplus allocation taken into account in this valuation report was $17 million. Had that surplus not been allocated to the MSRS the composite State rate would have been 17.66% of payroll.

This valuation reflects a change in some key actuarial assumptions. These changes were the result of an experience study which covered the period July 1, 1997 through June 30, 2005. Changes were proposed by the actuary and adopted by the Board of Trustees and are detailed in Appendix C of the Experience Study report. The key changes were a decrease in the investment return assumption from 8.0% to 7.75% per annum, a decrease in the post-retirement cost-of-living assumption from 4.0% to 3.75% per annum and a decrease in the across-the-board component of salary increase from 5.5% to 4.75% per annum. Additional adjustments were made to healthy and disabled mortality, and withdrawal assumptions.

The net impact of all recommended changes was to produce an aggregate State contribution rate that is approximately the same as under the prior assumptions. However, there was a slight increase in the System's unfunded liability and a slight decline in the normal costs. When combined these changes offset one another to produce the cost-neutral result on plan contributions.

Plan Experience July 1, 2005 through June 30, 2006 (FY 2006)

As of June 30, 2006, the Plan had an Unfunded Actuarial Liability (UAL) of $3.043 billion. This is an increase from the UAL measured as of June 30, 2005 to be $3.035 billion. This UAL was projected to increase to $3.091 billion and so the experience of the Plan reflected a net gain of $48 million over what was anticipated.

Two sources contributed to that net $48 million net gain; investment performance measured on an actuarial smoothing basis produced an actuarial loss of $2 million, and the overall liability experience for FY 2006 produced a gain of $50 million.

In addition to the change resulting from Plan experience during the year there was a transfer of unallocated surplus from the General Fund in the amount of $17 million, and a change in actuarial assumptions resulted in a UAL increase of $12 million.

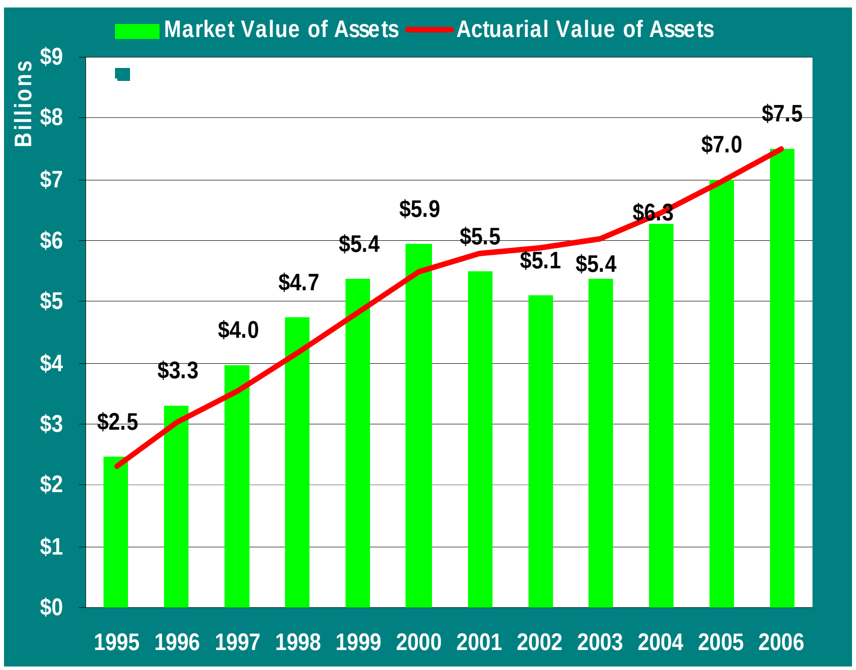
Historical Trends

It is important to take a step back from the current year valuation results and view them in context of the Plan's recent history. On the next page, we present a series of charts which display key historical trends in the Plan's financial condition. Following the historical review, we present projections of the probable condition of the Plan into the future under various market return scenarios.

SECTION I
EXECUTIVE SUMMARY

Growth in Assets

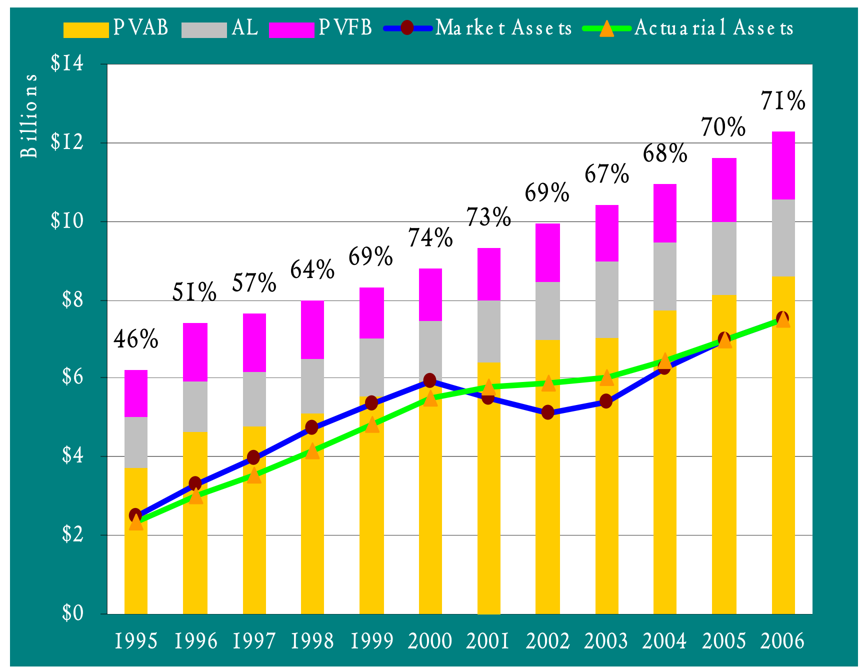
The first graph below illustrates how well the actuarial smoothing method has insulated the Plan from market volatility. The upward trend in market value of assets since 1995 was reversed in 2001 and 2002 as the equity bull market turned into a bear market. Due to the asset smoothing method in place, the actuarial value of assets continued to increase over these years. The market value has once again grown to approximately equal the actuarial value.



Assets and Liabilities

In this next graph, the three colored bars represent the three different measures of liability mentioned in this report. Used for funding purposes, the actuarial liability (AL) is represented by the top of the grey bar. We compare the actuarial value of assets to this measure of liability in developing the funding ratios. These are the percentages shown in the graph labels.

The chart illustrates that the Plan had its highest funded percentage (74%) at June 30, 2000, before the market slide. The amount represented by the top of the pink bars, the Present Value of Future Benefits (PVFB), is the amount needed to provide all benefits for the current participants and their beneficiaries. The yellow bars represent the Present Value of Accrued Benefits (PVAB) which is the value of all benefits accrued through the valuation date.

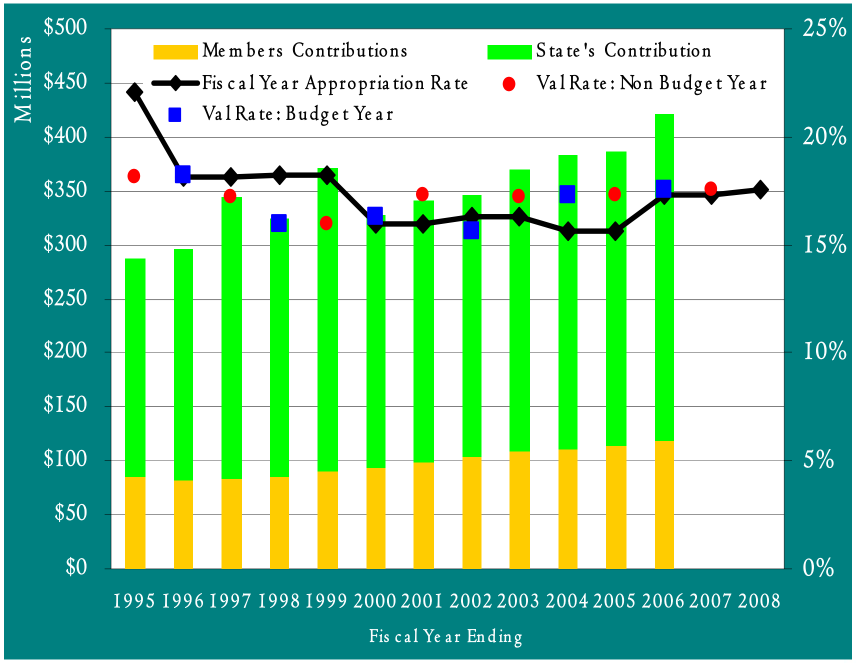


SECTION I
EXECUTIVE SUMMARY

Contributions

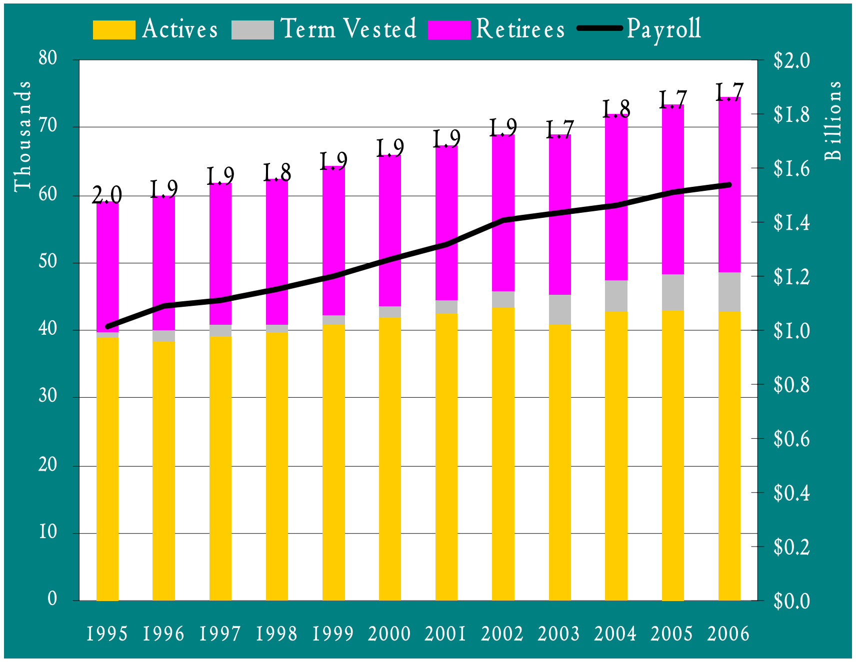
This graph shows the history of contributions to the Plan both as dollar amounts and as a percentage of payroll. The stacked bars in this graph show the contributions made by both the State and the members in dollar terms. These bars should be read in relation to the axis on the left-hand side. The solid black line shows the State's Fiscal Year Appropriation contribution rate as a percent of payroll and should reference the right-hand axis. In addition red and blue dots show the computed contribution rates coming out of each year's valuation.

The member contribution rate is set by the statutes, depending on the plan in which the member participates. The State contribution rate is set by the actuarial process, on a biennial basis. The contribution made during FY 2006 was based on the June 30, 2004 valuation and is the first to fully reflect the impact of the 2001 – 2002 market.



Participant Trends

As with many funds in this country, there has been a steady growth in the number of retired members as the Plan has matured. The bars in the graph below show the number of active members, terminated vesteds and retirees over the last eleven years. The labels above each bar show the "support ratio" defined as the number of active members per retiree. We anticipate this support ratio will continue to decline as the baby boom generation enters retirement. The valuation process takes this trend into account and the projections on the next two pages show that assets will be sufficient to meet this growing demand.



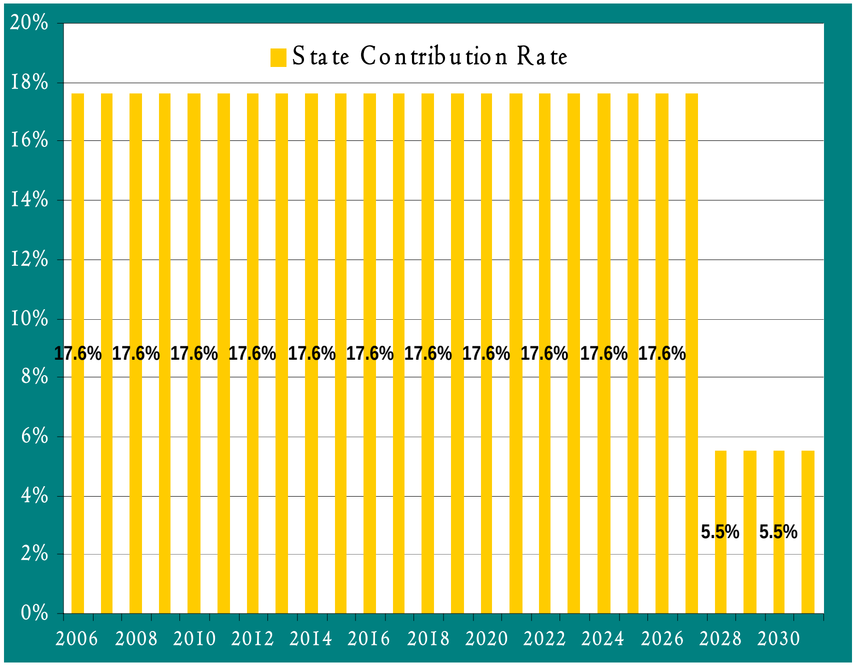
SECTION I
EXECUTIVE SUMMARY

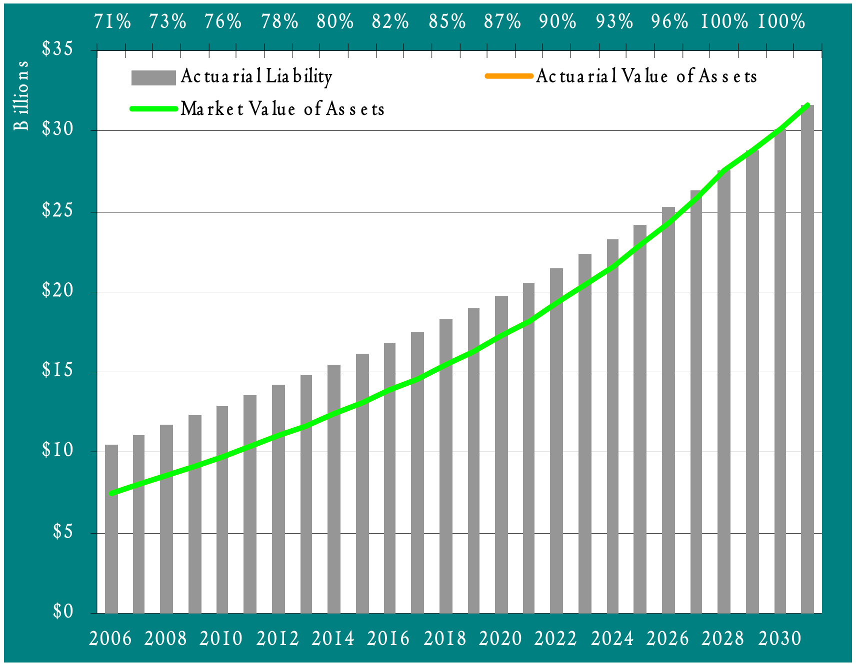
Projections

<u>Base Line Projections</u>

The charts on this page show the expected progress of the Plan's funding status over the next 25 years measured in terms of the State's contribution rate and the funding ratio. The first chart below shows that the State's composite contribution rate is projected to remain stable at 17.6% until 2027, if all actuarial assumptions are met, including the 7.75% investment assumption. In 2028, the UAL is expected to be paid off, and the State's contribution rate drops to the Normal Cost, or 5.5%.

The next chart compares Assets and Liabilities and shows that if all actuarial assumptions are exactly met, the Plan's funded ratio is projected to improve from the current level of 71% to 100% funding in 2028, the year that the Maine Constitution mandates that the Plan's UAL is to be paid off.



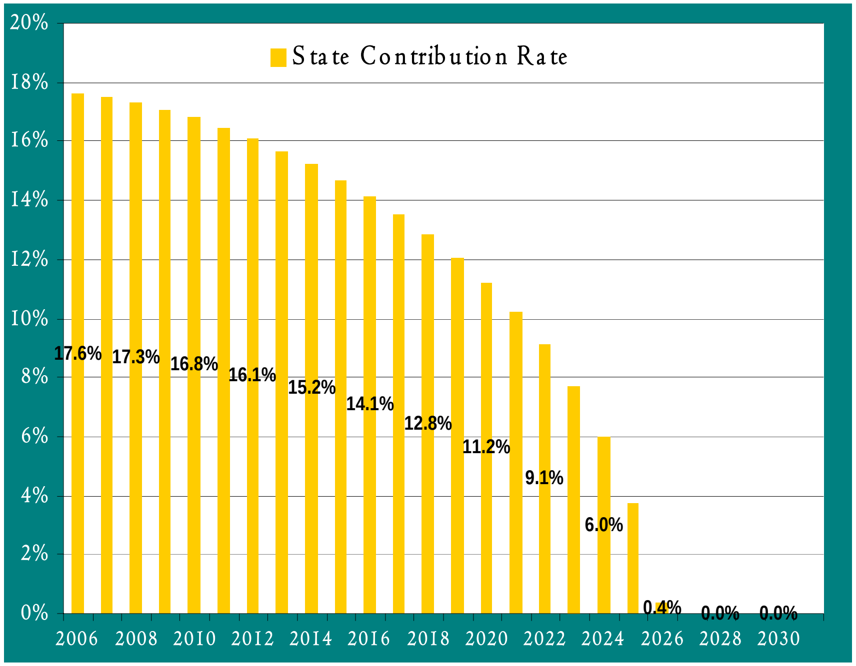


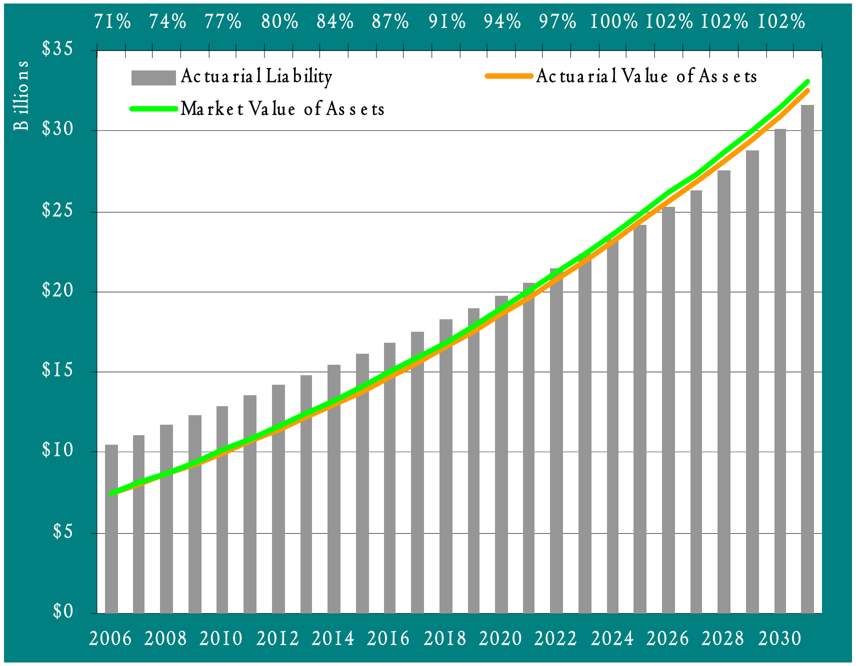
SECTION I
EXECUTIVE SUMMARY

Projections with Asset Returns of 8.75%

The future funding of this Plan will be largely driven by the investment earnings. Relatively minor changes in the market returns can have significant effects on the Plan's status. The chart below shows that if the Plan were to earn 8.75% annual returns each year, the contribution rate would decline to 0% by 2028.

Assuming the same 8.75% return on investments, this next chart shows that the Plan would reach full funding in 17 years, or 2023 well in advance of the 2028 target date.



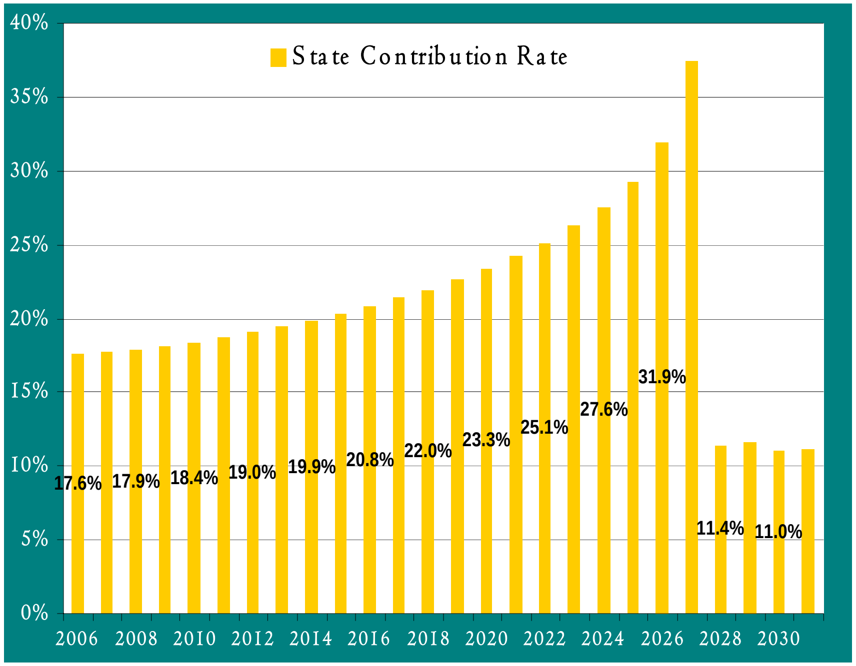


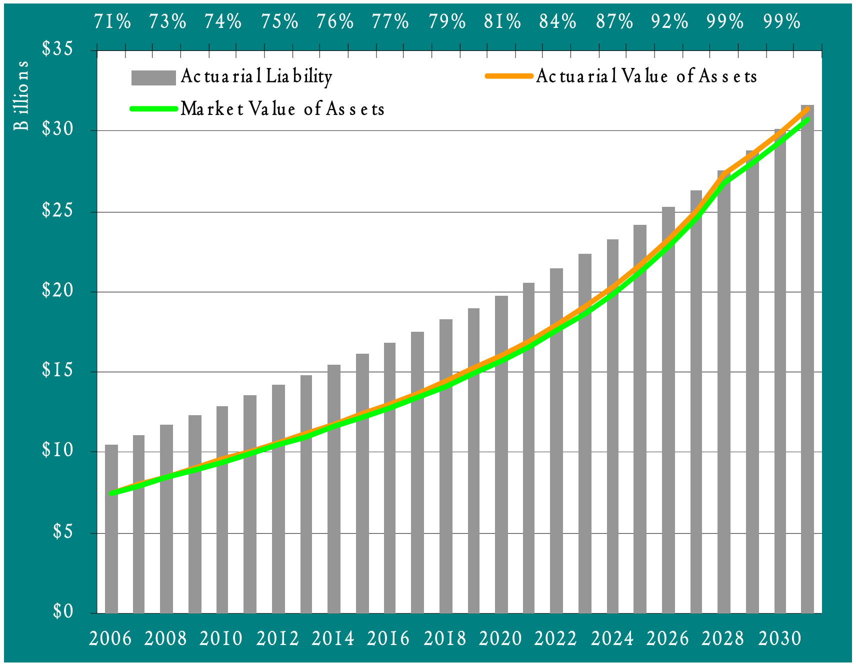
SECTION I
EXECUTIVE SUMMARY

Projections with Asset Returns of 6.75%

Just as returns in excess of the earnings assumption will lead to declining State contributions and an improved funded status, the opposite will occur if investment earnings are below the assumption. The graphs on this page show the projections under a 6.75% annual return scenario. The State's contribution rate would rise to over 35% of payroll by the year 2027, in order to meet the requirement of full funding in 2028.

The Plan's funded ratio would continue to increase from its current 71% but would grow to 99% over the next 24 years. In this scenario, the Plan would likely still have an Unfunded Actuarial Liability at the end of the current amortization period. The Constitutional Amendment would be satisfied, in that the UAL existing on July 1, 1997 would be paid off by 2028, but new losses would create additional UAL that would remain.





SECTION I
EXECUTIVE SUMMARY

Summary of Principal Plan Results
Total State Employee and Teacher Plan

Valuation as of:	June 30, 2005	June 30, 2006	% Change
Participant Counts			
Actives	42,910	42,643	(0.6)%
Retired Members	17,248	17,720	2.7%
Beneficiaries of Retirees*	4,883	5,460	11.8%
Survivors of Deceased Members	896	878	(2.0)%
Disabled Members*	2,096	1,673	(20.2)%
Deferred "Vested" Members	5,283	6,006	13.7%
Total	73,316	74,380	1.5%
Annual Salaries of Active Members	$ 1,508,645,818	$ 1,538,201,110	2.0%
Annual Payments to Benefit Recipients	$ 406,220,642	$ 422,302,716	4.0%
Assets and Liabilities			
Total Actuarial Liability	$ 9,999,250,038	$10,547,299,194	5.5%
Assets/Actuarial (Smoothed)	6,964,597,457	7,504,219,546	7.7%
Unfunded Actuarial Liability	$ 3,034,652,581	$ 3,043,079,648	0.3%
Funding Ratio	69.65%	71.15%	
Present Value of Accrued Benefits	$ 8,115,380,658	$ 8,585,575,164	5.8%
Assets/Market Value	6,997,802,832	7,503,201,781	7.2%
Unfunded PVAB	$ 1,117,577,826	$ 1,082,373,383	(3.2)%
Accrued Benefit Funding Ratio	86.23%	87.39%	
Contributions as a Percentage of Payroll	**Fiscal Year 2007**	**Fiscal Year 2008**	
Normal Cost Contribution	6.15%	5.52%	
Unfunded Actuarial Liability Contribution	11.31%	12.07%	
Total Contribution	17.46%	17.59%	

*In the 2005 and earlier valuations, beneficiaries of deceased disabled members were reported under the disabled member category. Starting with this 2006 valuation, they will be reported with other beneficiaries of retired members.

SECTION I
EXECUTIVE SUMMARY

Summary of Principal Plan Results
Teachers

Valuation as of:	**June 30, 2005**	**June 30, 2006**	**% Change**
Participant Counts			
Actives	28,275	28,105	(0.6)%
Retired Members	9,705	10,013	3.2%
Beneficiaries of Retirees*	2,067	2,291	10.8%
Survivors of Deceased Members	342	350	2.3%
Disabled Members*	834	680	(18.5)%
Deferred "Vested" Members	3,615	4,289	18.6%
Total	44,838	45,728	2.0%
Annual Salaries of Active Members	$ 981,952,490	$ 990,883,932	0.9%
Annual Payments to Benefit Recipients	$ 229,286,440	$ 240,110,548	4.7%
Assets and Liabilities			
Total Actuarial Liability	$ 6,456,907,318	$ 6,742,748,075	4.4%
Assets/Actuarial (Smoothed)	4,407,109,370	4,782,782,014	8.5%
Unfunded Actuarial Liability	$ 2,049,797,948	$ 1,959,966,061	(4.4)%
Funding Ratio	68.25%	70.90%	
Present Value of Accrued Benefits	$ 5,079,040,305	$ 5,361,416,430	5.6%
Assets/Market Value	4,428,121,312	4,782,133,346	8.0%
Unfunded PVAB	$ 650,918,993	$ 579,283,084	(11.0)%
Accrued Benefit Funding Ratio	87.18%	89.20%	
Contributions as a Percentage of Payroll	**Fiscal Year 2007**	**Fiscal Year 2008**	
Normal Cost Contribution	6.04%	5.25%	
Unfunded Actuarial Liability Contribution	11.74%	12.07%	
Total State Contribution	17.78%	17.32%	

*In the 2005 and earlier valuations, beneficiaries of deceased disabled members were reported under the disabled member category. Starting with this 2006 valuation, they will be reported with other beneficiaries of retired members.

SECTION I
EXECUTIVE SUMMARY

Summary of Principal Plan Results
State Employees (Regular and Special Plans)

Valuation as of:	June 30, 2005	June 30, 2006	% Change
Participant Counts			
Actives	14,635	14,538	(0.7%)
Retired Members	7,543	7,707	2.2%
Beneficiaries of Retirees*	2,816	3,169	12.5%
Survivors of Deceased Members	554	528	(4.7%)
Disabled Members*	1,262	993	(21.3%)
Deferred "Vested" Members	1,668	1,717	2.9%
Total	28,478	28,652	0.6%
Annual Salaries of Active Members	$ 526,693,328	$ 547,317,178	3.9%
Annual Payments to Benefit Recipients	$ 176,934,202	$ 182,192,168	3.0%
Assets and Liabilities			
Total Actuarial Liability	$ 3,542,342,720	$ 3,804,551,119	7.4%
Assets/Actuarial (Smoothed)	2,557,488,087	2,721,437,532	6.4%
Unfunded Actuarial Liability	$ 984,854,633	$ 1,083,113,587	10.0%
Funding Ratio	72.20%	71.3%	
Present Value of Accrued Benefits	$ 3,036,340,353	$ 3,224,158,734	6.2%
Assets/Market Value	2,569,681,520	2,721,068,435	5.9%
Unfunded PVAB	$ 466,658,833	$ 503,090,299	7.8%
Accrued Benefit Funding Ratio	84.63%	84.40%	
Contributions as a Percentage of Payroll	**Fiscal Year 2007**	**Fiscal Year 2008**	
Normal Cost Contribution	6.36%	6.02%	
Unfunded Actuarial Liability Contribution	10.52%	12.08%	
Total State Contribution	16.88%	18.10%	

*In the 2005 and earlier valuations, beneficiaries of deceased disabled members were reported under the disabled member category. Starting with this 2006 valuation, they will be reported with other beneficiaries of retired members.

SECTION I
EXECUTIVE SUMMARY

Summary of Principal Plan Results
State Employees (Regular Plan)

Valuation as of:	**June 30, 2005**	**June 30, 2006**	**% Change**
Participant Counts			
Actives	12,751	12,665	(0.7%)
Retired Members	6,775	6,929	2.3%
Beneficiaries of Retirees*	2,515	2,845	13.1%
Survivors of Deceased Members	545	518	(5.0%)
Disabled Members*	1,202	926	(23.0%)
Deferred "Vested" Members	1,668	1,717	2.9%
Total	25,456	25,600	0.6%
Annual Salaries of Active Members	$ 445,800,804	$ 462,776,707	3.8%
Annual Payments to Benefit Recipients	$ 152,633,342	$ 157,005,543	2.9%
Assets and Liabilities			
Total Actuarial Liability	$ 3,000,256,950	$ 3,212,266,457	7.1%
Assets/Actuarial (Smoothed)	2,209,248,126	2,336,855,726	5.8%
Unfunded Actuarial Liability	$ 791,008,824	$ 875,410,731	10.7%
Funding Ratio	73.64%	72.75%	
Present Value of Accrued Benefits	$ 2,545,640,468	$ 2,701,531,273	6.1%
Assets/Market Value	2,219,781,243	2,336,538,789	5.3%
Unfunded PVAB	$ 325,859,225	$ 364,992,484	12.0%
Accrued Benefit Funding Ratio	87.20%	86.49%	
Contributions as a Percentage of Payroll	**Fiscal Year 2007**	**Fiscal Year 2008**	
Normal Cost Contribution	6.04%	5.75%	
Unfunded Actuarial Liability Contribution	9.98%	11.54%	
Total State Contribution	16.02%	17.29%	

*In the 2005 and earlier valuations, beneficiaries of deceased disabled members were reported under the disabled member category. Starting with this 2006 valuation, they will be reported with other beneficiaries of retired members.

SECTION I
EXECUTIVE SUMMARY

Summary of Principal Plan Results
State Employees (Special Plans - Composite)

Valuation as of:	**June 30, 2005**	**June 30, 2006**	**% Change**
Participant Counts			
Actives	1,884	1,873	(0.6%)
Retired Members	768	778	1.3%
Beneficiaries of Retirees*	301	324	7.6%
Survivors of Deceased Members	9	10	11.1%
Disabled Members*	60	67	11.7%
Deferred "Vested" Members	0	0	0.0%
Total	3,022	3,052	1.0%
Annual Salaries of Active Members	$ 80,892,524	$ 84,540,471	4.5%
Annual Payments to Benefit Recipients	$ 24,300,860	$ 25,186,625	3.6%
Assets and Liabilities			
Total Actuarial Liability	$ 542,085,770	$ 592,284,662	9.3%
Assets/Actuarial (Smoothed)	348,239,961	384,581,806	10.4%
Unfunded Actuarial Liability	$ 193,845,809	$ 207,702,856	7.1%
Funding Ratio	64.24%	64.93%	
Present Value of Accrued Benefits	$ 490,699,885	$ 522,627,461	6.5%
Assets/Market Value	349,900,277	384,529,646	9.9%
Unfunded PVAB	$ 140,799,608	$ 138,097,815	(1.9%)
Accrued Benefit Funding Ratio	71.31%	73.58%	
Contributions as a Percentage of Payroll	**Fiscal Year 2007**	**Fiscal Year 2008**	
Normal Cost Contribution	8.15%	7.47%	
Unfunded Actuarial Liability Contribution	13.48%	14.99%	
Total State Contribution	21.63%	22.46%	

*In the 2005 and earlier valuations, beneficiaries of deceased disabled members were reported under the disabled member category. Starting with this 2006 valuation, they will be reported with other beneficiaries of retired members.

SECTION II
ASSETS

Pension plan assets play a key role in the financial operation of the Plan and in the decisions the Trustees make with respect to future deployment of those assets. The level of assets, the allocation of assets among asset classes, and the methodology used to measure assets will likely impact benefit levels, State Contributions, and the ultimate security of participants' benefits.

The assets of the Plan include amounts contributed for all Plans for which the System is the Plan Sponsor, namely, the State Employee and Teacher Plan, the Judicial Retirement System, the Legislative Retirement System, the Consolidated Plan for Participating Local Districts (PLDs) along with several plans of PLDs who withdrew from the System, as the assets of all these plans are co-mingled for investment purposes. In performing the annual valuation, the actuarial value of assets that is developed reflects all Defined Benefit Plan assets and subsequently it is allocated across all defined benefit plans.

In this section, we present detailed information on Plan assets including:

- **Disclosure** of Plan assets at June 30, 2005 and June 30, 2006;
- Statement of the **changes** in market values during the year;
- Development of the **Actuarial Value of Assets**;
- **Allocation** of Actuarial Value to subplans;
- Assessment of **investment performance**; and
- Projection of the Plan's expected **cashflows** for the next ten years.

Disclosure

The market value of assets represents a "snap-shot" or "cash-out" value which provides the principal basis for measuring financial performance from one year to the next. Market values, however, can fluctuate widely with corresponding swings in the marketplace. Because these fluctuations would result in volatility in the resulting contributions if the market value were used, unadjusted, in the valuation process, an actuarial value is developed.

The actuarial value is based on the market value that has been smoothed. This actuarial value becomes the actuary's best estimate of long-term asset values and is used for evaluating the Plan's ongoing ability to meet its obligations.

Current actuarial methods employed in this Plan set the actuarial value equal to the expected value plus 33⅓% of the difference between the expected value of assets and the actual market value. The expected value is derived by adjusting the prior year's actuarial value of assets by contributions, benefit payments and expected interest at the 8% assumption. We continue to use the 8% assumption for the period July 1, 2005 – June 30, 2006 because the change to 7.75% takes place on June 30, 2006.

SECTION II
ASSETS

Changes in Market Value of Total Defined Benefit Plan Assets			
Value of Assets – June 30, 2005			**$ 8,930,532,689**
Additions			
Contributions:			
Employer Contributions	$ 312,016,508		
Employee Contributions	144,397,946		
Transfer	250,000		$ 456,664,454
Total Contributions			
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	$ 682,965,857		
Interest on Bank Balances	1,126,822		
Total Investment Income		$ 684,092,679	
Investment Activity Expenses:			
Management Fees	$ (19,909,150)		
Investment Related Expense	(224,295)		
Banking Fees	(66,078)		
Total Investment Activity Expenses		$ (20,199,523)	
Net Income from Investing Activities			$ 663,893,156
Total Additions			$ 1,120,557,610
Deductions			
Retirement Benefits	$ (448,342,677)		
Disability Benefits	(48,853,164)		
Survivor Benefits	(5,680,814)		
Refunds and Other Expenses	(18,907,578)		
Total Deductions			$ (521,784,233)
Total			
Net Increase (Decrease)			$ 598,773,377
Value of Assets – June 30, 2006			**$ 9,529,306,066**

SECTION II
ASSETS

Development of Actuarial Value of Assets as of June 30, 2006		
1.	Actuarial Value of Assets at June 30, 2005	$ 8,888,156,289
2.	Amount in (1) with Interest to June 30, 2006	9,599,208,792
3.	Employer and Member Contributions for the Plan Year Ended June 30, 2006	456,664,454
4.	Interest on Contributions Assuming Received Uniformly Throughout the Year to June 30, 2006	17,915,168
5.	Disbursements from Trust Except Investment Expenses, July 1, 2004 through June 30, 2006	(521,784,233)
6.	Interest on Disbursements Assuming Payments Made Uniformly throughout the Year to June 30, 2006	(20,759,233)
7.	Expected Value of Asset at June 30, 2006 = (2) + (3) + (4) + (5) + (6)	$ 9,531,244,960
8.	Actual Market Value of Assets at June 30, 2006	$ 9,529,306,066
9.	Excess of (8) Over (7)	(1,938,894)
10.	Actuarial Value of Assets at June 30, 2006 = (7) + 33⅓% of (9)	$ 9,530,598,662

All interest adjustments are made using the 8% per annum actuarial assumed interest rate, which was in effect for the period July 1, 2005 – June 30, 2006.

SECTION II
ASSETS

Actuarial Value of Assets

The Actuarial Value of Assets represents a "smoothed" value developed by the actuary to reduce, or eliminate, volatile contribution rates which could develop from short-term fluctuations in the Market Value of Assets. For this Plan, the Actuarial Value has been calculated by adding 33⅓% of the difference between Market Value and Expected Value to the Expected Value. The previous table illustrates the calculation of Actuarial Value of Assets for the June 30, 2006 valuation.

Allocation of Actuarial Value of Assets

The assets for all of the defined benefit plans are commingled for investment purposes. Other assets are in effect commingled in that their value is allocated among all of the plans. The actuarial smoothing methodology is applied on the market value of total assets. This produces an asset ratio which is then applied to the market value of assets attributable to each of the plans. The asset value derived in this valuation is 1.00014 ($9,530,598,662 ÷ $9,529,306,066). The allocation of actuarial value of assets to each of the System's plans is shown in the following chart.

Allocation of Actuarial Value of Assets as of June 30, 2006

	Market Value	Actuarial Value
Teachers	$ 4,782,133,346	$ 4,782,782,014
State (Regular & Special)	2,721,068,435	2,721,437,532
Judges	44,344,633	44,350,649
Legislators	7,943,390	7,944,468
Participating Local Districts (Consolidated & Non-Consolidated)	1,973,816,262	1,974,083,468
Total Fund	$ 9,529,306,066	$ 9,530,598,662

Investment Performance

The Market Value of Assets returned 7.46% during FY 2006. This is lower then the Plan's assumed return of 8%. This year's return was the first year of returns below the assumption within the last 3 years, as the returns in FY 2005 and FY 2004 were 11.75% and 16.6% respectively.

On an actuarial value of assets basis, the return for FY 2006 was 7.99%. This return is greater than the return on a market value basis, but below the 8.0% assumption and therefore gives rise to a slight loss this year.

SECTION II
ASSETS

Projection of State and Teacher Plan Benefit Payments and Contributions

FY Ending June 30	Expected Benefit Payments	Expected State Contributions	Expected Member Contributions	Total Expected Contribution
2007	$ 447,889,000	$ 270,570,000	$ 118,441,000	$ 389,011,000
2008	484,845,000	283,422,000	124,067,000	407,489,000
2009	524,257,000	296,885,000	129,960,000	426,845,000
2010	566,487,000	310,987,000	136,133,000	447,120,000
2011	610,487,000	325,759,000	142,599,000	468,358,000
2012	657,927,000	341,233,000	149,372,000	490,605,000
2013	708,267,000	357,442,000	156,467,000	513,909,000
2014	759,660,000	374,420,000	163,899,000	538,319,000
2015	811,405,000	392,205,000	171,684,000	563,889,000
2016	862,315,000	410,835,000	179,839,000	590,674,000

We provide this projection of cashflows in and out of the Plan for informational purposes. The Board may share these projections with its investment advisor for consideration of the growing gap between cash coming in from State and member contributions and cash being paid out to provide benefits. The chart shows this gap is expected to widen as more of the baby boom generation joins the retiree payroll.

The expected benefit payments were developed on the basis of those currently included in this valuation and on the assumption that the actuarial assumptions disclosed in Appendix B will be exactly met. Actual benefit payments will vary if members retire sooner or later than assumed and if salary increases and projected future post-retirement COLAs differ from those assumed. The projections exclude any assumption about new hires, whose experience will eventually lead to increased benefit payments. However, we do not feel this exclusion will materially impact the projections for the time period shown.

Expected contributions are based on the current covered payroll and the composite State contribution rate developed in this valuation of 17.59% of payroll. We have assumed that payroll will increase by 4.75% per year in the projection period and that the rate will remain constant.

SECTION II
ASSETS

The projection of member contributions is similarly based on a 4.75% per year increase in covered payroll multiplied by the average aggregate member contribution rate of 7.70%.

SECTION III
LIABILITIES

In this section, we present detailed information on Plan liabilities including:

- **Disclosure** of Plan liabilities at June 30, 2005 and June 30, 2006;
- Statement of **changes** in these liabilities during the year; and
- An **allocation** of liabilities to the Teachers, State Regular and State Special Plans.

Disclosure

Several types of liabilities are calculated and presented in this report. Each type is distinguished by the purpose for which the figures are ultimately used.

- **Total Future Obligation:** Used for analyzing the overall financial outlook of the Plan, this represents the amount of money needed today to fully pay off all future benefits of the Plan, assuming participants continue to accrue benefits under the current Plan provisions.

- **Actuarial Liability:** Used for funding calculations and GASB disclosures, this liability is calculated taking the Total Future Obligations above and subtracting the present value of future Member Contributions and future Employer Normal Costs under an acceptable actuarial funding method. This method is referred to as the **Entry Age Normal** funding method.

- **Accrued Liabilities:** Used for communicating the current level of liabilities, this liability represents the total amount of money needed today to fully pay off the current accrued obligations of the Plan, assuming no future accruals of benefits. These liabilities are also required for accounting purposes (FAS 35) and used to assess whether the Plan can meet its current benefit commitments.

The following table discloses each of these liabilities for the current and prior years' valuations. With respect to the Actuarial Liability and the Accrued Liability, a subtraction of the appropriate value of Plan assets yields, for each respective type, a **net surplus** or an **unfunded liability**.

The Total Future Obligation is compared to the current market value of assets, the expected future value of member contributions and the expected future value of State contributions assuming the valuation rate remains constant. The difference between the Total Future Obligation (TFO) and these anticipated resources indicates either a shortfall or an expected surplus that may develop over time. This surplus or a shortfall indicates the size of the State and Teacher Plan's allocation of the stored gains or losses that remain outside of the valuation process. These gains or losses may enter the rate-making processes depending on the future investment performance.

SECTION III
LIABILITIES

Disclosure of Liabilities	June 30, 2005	June 30, 2006
Total Future Obligations (TFO)		
Active Participant Benefits	$ 6,791,583,412	$ 6,912,206,378
Retiree Benefits	4,538,294,376	5,042,695,627
Terminated Vested and Inactive Members	294,700,051	325,090,052
Total Future Obligations	**$ 11,624,577,839**	**$ 12,279,992,057**
Market Value of Assets (MVA)	6,997,802,832	7,503,201,781
Future Employee Contributions	906,023,925	1,010,640,232
Future State Contributions at the Current Rate (17.46% FY 2005; 17.59% FY 2006)	3,753,956,457	3,767,929,644
Projected (Surplus)/Shortfall	(33,205,375)	(1,779,599)
Total Resources	**$ 11,624,577,839**	**$ 12,279,992,057**
Actuarial Liability		
Total Future Obligations (TFO)	$ 11,624,577,839	$ 12,279,992,057
Present Value of Future Normal Costs (PVFNC)		
Employer Portion	719,303,876	722,052,631
Employee Portion	906,023,925	1,010,640,232
Actuarial Liability (AL = TFO – PVFNC)	**$ 9,999,250,038**	**$ 10,547,299,194**
Actuarial Value of Assets (AVA)	6,964,597,457	7,504,219,546
Net (Surplus)/Unfunded (AL – AVA)	**$ 3,034,652,581**	**$ 3,043,079,648**
Accrued Liability		
Total Future Obligations (TFO)	$ 11,624,577,839	$ 12,279,992,057
Present Value of Future Benefit Accruals (PVFBA)	3,509,197,181	3,694,416,893
Accrued Liability (PVAB = TFO – PVFBA)	**$ 8,115,380,688**	**$ 8,585,575,164**
Market Value of Assets (MVA)	6,997,802,832	7,503,201,781
Net (Surplus)/Unfunded (PVAB – MVA)	**$ 1,117,577,826**	**$ 1,082,373,383**

SECTION III
LIABILITIES

Changes in Liabilities

Each of the liabilities disclosed in the prior table is expected to change at each subsequent valuation. The components of these changes, depending upon which liability is analyzed, can include:

- New hires since the last valuation
- Benefits accrued since the last valuation
- Plan amendments increasing benefits
- Passage of time which adds interest to the prior liability
- Benefits paid to retirees since the last valuation
- Participants retiring, terminating, or dying at rates different than expected
- A change in actuarial or investment assumptions
- A change in the actuarial funding method

Unfunded liabilities will change because of all of the above, and also due to changes in Plan assets resulting from:

- State contributions being different than expected
- Investment earnings being different than expected
- A change in the method used to measure Plan assets

In each valuation, we report on those elements of change which are of particular significance, potentially affecting the long-term financial outlook of the Plan. Below we present key changes in liabilities since the last valuation.

	Total Future Obligation	Actuarial Liability	Accrued Liability
Liabilities 6/30/2005	$ 11,624,577,839	$ 9,999,250,038	$ 8,115,380,658
Liabilities 6/30/2006	12,279,992,057	10,547,299,194	8,585,575,164
Liability Increase (Decrease)	655,414,218	548,049,156	470,194,506
Change Due to:			
Plan Amendment and Ad Hoc COLAs	$ --	$ --	$ --
Assumption Change	58,011,185	11,707,766	23,549,571
Actuarial (Gain)/Loss	N/C	(48,354,919)	N/C
Benefits Accumulated and Other Sources	597,403,033	584,696,309	446,644,935

N/C = Not calculated

SECTION III
LIABILITIES

Allocation of Actuarial Liability as of June 30, 2006

	Total Plan	Teachers	State Regular	Special Plans
1. Actuarial Liabilities for:				
a. Active Members	$ 5,179,513,515	$ 3,564,514,604	$ 1,355,745,167	$ 259,253,744
b. Retired, Disabled and Beneficiary Members	5,042,695,627	2,948,257,553	1,761,407,156	333,030,918
c. Vested Deferred and Inactive Status Members	325,090,052	229,975,918	95,144,134	0
2. Total Actuarial Liability (1(a) + 1(b) + 1(c))	$10,547,299,194	$ 6,742,748,075	$ 3,212,266,457	$ 592,284,662
3. Actuarial Value of Assets	7,504,219,546	4,782,782,014	2,336,855,726	384,581,806
4. Unfunded Actuarial Liability (2 – 3)	$ 3,043,079,648	$ 1,959,966,061	$ 875,410,731	$ 207,702,856

SECTION IV
CONTRIBUTIONS

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions is needed to achieve and maintain an appropriate funded status of a plan. Typically, the actuarial process will use a funding method that will result in a pattern of contributions that are both stable and predictable.

For this Plan, the funding methodology employed is the **Entry Age Actuarial Cost Method**. Under this method, there are two components to the total contribution: the **normal cost rate**, and the **unfunded actuarial liability rate** (UAL rate). The normal cost rate is determined by the following steps. First, an individual normal cost rate is determined by taking the value, as of entry age into the Plan, of a representative new entrant's projected future benefits. This value is then divided by the value, also at entry age, of the member's expected future salary. Second, this individual normal cost rate is divided by the present value of future pay at current age to obtain an average total normal cost rate for the Plan. Finally, the total normal cost rate is reduced by the member contribution rate to produce the employer normal cost rate.

The UAL rate is that percentage of member payroll which, when applied to each year's payroll, is sufficient to amortize the unfunded actuarial liability (UAL) over 22 years from June 30, 2006.

The table below presents and compares the composite State contribution rate for the Plan for this valuation and the prior one.

	Composite State Rate June 30, 2005	June 30, 2006
Normal Cost Rate	6.15%	5.52%
UAL Rate	11.31%	12.07%
Total State Rate	17.46%	17.59%

The charts on the pages that follow show the rate for each plan within the State and Teacher Plan and the development of the UAL amortization rate for each plan.

SECTION IV
CONTRIBUTIONS

Table IV-1
State Employer Contribution Rates

Valuation Date June 30, 2006	Total State	Teacher	State Regular	State Police Marine Resources Inland Fish & Wildlife (Closed)	Prison Employees (Closed)	Forest Rangers (Closed)	25 & Out Plan	1998 Special Plan
New Entrant Normal Cost Contributions as a Percent of Payroll	5.52%	5.25%	5.75%	17.84%	9.04%	7.34%	8.25%	6.50%
Unfunded Actuarial Liability Contribution as a Percent of Payroll	12.07	12.07	11.54	35.80	18.14	14.73	16.55	13.04
Total Contributions as a Percent of Payroll	17.59%	17.32%	17.29%	53.64%	27.18%	22.07%	24.80%	19.54%

SECTION IV
CONTRIBUTIONS

Table IV-2
Derivation of Unfunded Actuarial Liability Rates

	Valuation Date June 30, 2006	Teachers	State Regular	State Police Marine Resources Inland Fish & Wildlife (Closed)	Prison Employees (Closed)	Forest Rangers (Closed)	25 & Out Plan	1998 Special Plan
1.	Present Value of Future Benefits	$ 7,827,677,278	$ 3,763,243,409	$ 267,275,030	$ 53,949,618	$ 25,903,782	$ 104,418,956	$ 237,523,984
2.	Normal Cost Rate	5.25%	5.75%	17.84%	9.04%	7.34%	8.25%	6.50%
3.	Present Value of Future Payroll	8,410,303,900	4,111,768,300	6,495,000	2,812,900	3,185,400	208,447,000	388,328,000
4.	Present Value of Future Normal Cost (2) x (3)	441,540,955	236,426,677	1,158,707	254,286	233,808	17,196,878	25,241,320
5.	Present Value of Future Contributions	643,388,248	314,550,275	561,818	243,316	275,537	18,030,666	33,590,372
6.	Actuarial Liability (1) – (4) – (5)	6,742,748,075	3,212,266,457	265,554,505	53,452,016	25,394,437	69,191,412	178,692,292
7.	Actuarial Value of Assets	4,782,782,014	2,336,855,726	245,322,887	50,818,739	22,988,966	7,233,871	58,217,343
8.	Unfunded Actuarial Liability (6) – (7)	1,959,966,061	875,410,731	20,231,618	2,633,277	2,405,471	61,957,541	120,474,949
9.	Estimated Payroll	990,883,932	462,776,707	3,448,989	885,899	996,690	22,840,009	56,368,884
10.	Amortization Factor	16.3860	16.3860	16.3860	16.3860	16.3860	16.3860	16.3860
11.	Unfunded Actuarial Liability Rate (8) / (9) / (10)	12.07%	11.54%	35.80%	18.14%	14.73%	16.55%	13.04%

SECTION V
ACCOUNTING STATEMENT INFORMATION

Statement No. 35 of the Financial Accounting Standards Board (FASB) requires the Plan to disclose certain information regarding its funded status. Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for disclosure of pension information by public employee retirement systems (PERS) and governmental employers in notes to financial statements and supplementary information.

The FASB-35 disclosures provide a quasi "snap shot" view of how the Plan's assets compare to its liabilities if contributions stopped and accrued benefit claims had to be satisfied. However, due to potential legal requirements and the possibility that alternative interest rates would have to be used to determine the liabilities, these values may not be a good indication of the amount of money it would take to buy the benefits for all members if the Plan were to terminate.

The GASB-25 actuarial accrued liability is the same as the actuarial liability amount calculated for funding purposes.

Both the present value of accrued benefits (FASB-35) and the actuarial accrued liability (GASB-25) are determined assuming that the Plan is ongoing and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions. Liabilities are discounted at the assumed valuation interest rate of 7.75% per annum.

FASB Statement No. 35 specifies that a comparison of the present value of accrued (accumulated) benefits with the market value of the assets as of the valuation date must be provided. GASB Statement No. 25 requires the actuarial accrued liability be compared with the actuarial value of assets for funding purposes. The relevant amounts as of June 30, 2005 and June 30, 2006 are exhibited in Table V-1. Table V-2 reconciles the FASB-35 liabilities determined as of the prior valuation, June 30, 2005 to the liabilities as of June 30, 2006.

Tables V-3 through V-5 are exhibits required for the System's Comprehensive Annual Financial Report. The GFOA recommends showing 6-10 years of experience in each of these exhibits. This report will continue to add years of experience to the charts and eventually build up to the recommended disclosure. Table V-3 shows the Notes to Required Supplementary Information. Table V-4 is a history of gains and losses in Accrued Liability, and Table V-5 is the Solvency Test which shows the portion of Accrued Liability covered by Assets.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-1
Accounting Statement Information

	June 30, 2005	June 30, 2006
A. FASB No. 35 Basis		
1. Present Value of Benefits Accrued and Vested to Date		
a. Members Currently Receiving Payments	$ 4,538,294,376	$ 5,042,695,627
b. Vested Terminated	294,700,051	325,090,052
c. Active Members	3,282,386,231	3,217,789,485
d. Total PVAB	$ 8,115,380,658	$ 8,585,575,164
2. Assets at Market Value	6,997,802,832	7,503,201,781
3. Unfunded Present Value of Accrued Benefits, But Not Less Than Zero	$ 1,117,577,826	$ 1,082,373,383
4. Ratio of Assets to Value of Benefits (2) / (1)(d)	86.23%	87.39%
B. GASB No. 25 Basis		
1. Actuarial Liabilities		
a. Members Currently Receiving Payments	$ 4,538,294,376	$ 5,042,695,627
b. Vested Deferred and Inactive Status Members	294,700,051	325,090,052
c. Active Members	5,166,255,611	5,179,513,515
d. Total	$ 9,999,250,038	$10,547,299,194
2. Actuarial Value of Assets	6,964,597,457	7,504,219,546
3. Unfunded Actuarial Liability	$ 3,034,652,581	$ 3,043,079,648
4. Ratio of Actuarial Value of Assets to Actuarial Liability (2) / (1)(d)	69.65%	71.15%

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-2
Statement of Changes in Total Actuarial Present Value of All Accrued Benefits

	Accumulated Benefit Obligation (FASB 35)
Actuarial Present Value of Accrued Benefits as of June 30, 2005	$ 8,115,380,658
Increase (Decrease) During Years Attributable to:	
Passage of Time	631,768,032
Benefits Paid – FY 2006	(436,560,524)
Assumption Change	23,549,571
Plan Amendment	--
Benefits Accrued, Other Gains/Losses	251,437,427
Net Increase (Decrease)	470,194,506
Actuarial Present Value of Accrued Benefits as of June 30, 2006	$ 8,585,575,164

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-3
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

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

Valuation date	June 30, 2006
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	22 years
Asset valuation method	3-Year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases*	4.75%
*Includes inflation at	4.50%
Cost-of-living adjustments	3.75%

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, completed in 2006.

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 plan participant. 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 V
ACCOUNTING STATEMENT INFORMATION

Table V-4
ANALYSIS OF FINANCIAL EXPERIENCE
Gain and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	*Gain (or Loss) for Year ended June 30, 2005*	*Gain (or Loss) for Year ended June 30, 2006*
Investment Income	$ 16,350,568	$ (2,036,992)
Combined Liability Experience	3,388,524	48,354,919
Gain (or Loss) During Year from Financial Experience	$ 19,739,692	$ 46,317,927
Non-Recurring Items*	0	5,292,234
Composite Gain (or Loss) During Year	**$ 19,739,092**	**$ 51,610,161**

* Assumption change: $ (11,707,766)
Surplus transfer: $ 17,000,000

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-5
SOLVENCY TEST
Aggregate Accrued Liabilities For

Valuation Date June 30,	(1) Active Member Contributions	(2) Retirees Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
2006	$ 1,645,241,719	$ 5,367,785,679	$ 3,534,271,796	$ 7,504,219,546	100%	100%	14%
2005	1,569,409,748	4,832,994,427	3,596,845,863	6,964,597,457	100%	100%	16%
2004	1,464,936,256	4,387,963,456	3,589,489,687	6,452,570,243	100%	100%	17%

APPENDIX A
MEMBERSHIP INFORMATION

Maine State Retirement System Active Member Data as of June 30, 2006	
Teachers	
Count	28,105
Average Current Age	45.9
Average Service	14.2
Average Valuation Pay	$ 35,257
State Employee Regular Plan	
Count	12,665
Average Current Age	46.6
Average Service	12.9
Average Valuation Pay	$ 36,540
Forest Rangers Special Plan (Closed Plan)	
Count	20
Average Current Age	50.0
Average Service	27.1
Average Valuation Pay	$ 49,835
Inland Fisheries & Wildlife Officers Special Plan (Closed Plan)	
Count	16
Average Current Age	53.7
Average Service	29.8
Average Valuation Pay	$ 52,594
Prison Employees Special Plan (Closed Plan)	
Count	19
Average Current Age	52.2
Average Service	26.4
Average Valuation Pay	$ 46,626

APPENDIX A
MEMBERSHIP INFORMATION

Maine State Retirement System Active Member Data as of June 30, 2006	
State Police Special Plan (Closed Plan)	
Count	33
Average Current Age	50.4
Average Service	25.1
Average Valuation Pay	$ 73,918
Marine Resource Officers Special Plan (Closed Plan)	
Count	3
Average Current Age	50.8
Average Service	29.0
Average Valuation Pay	$ 56,060
State Employee Special 25 & Out Plan	
Count	397
Average Current Age	38.5
Average Service	12.0
Average Valuation Pay	$ 57,532
State Employee 1998 Special Plan	
Count	1,385
Average Current Age	43.2
Average Service	10.2
Average Valuation Pay	$ 40,700
State Employee Totals (Excludes Teachers)	
Count	14,538
Average Current Age	46.1
Average Service	12.7
Average Valuation Pay	$ 37,647

APPENDIX A
MEMBERSHIP INFORMATION

Maine State Retirement System
Non-Active Member Data as of June 30, 2006
Teachers

	Count	Total Annual Benefit	Average Annual Benefit
Retired	10,013	$ 201,997,420	$ 20,174
Retired – Concurrent Beneficiaries	1,302	$ 6,204,819	$ 4,766
Disabilities / 1122	3	$ 70,622	$ 23,541
Disabilities / 3 and 3A	677	$ 16,804,376	$ 24,822
Beneficiaries	989	$ 13,101,104	$ 13,274
Pre-Retirement Death Benefits	350	$ 1,932,207	$ 5,521
Terminated Vested	4,289	$ 25,666,686	$ 5,984

Maine State Retirement System
Non-Active Member Data as of June 30, 2006
State Regular

	Count	Total Annual Benefit	Average Annual Benefit
Retired	6,929	$ 113,349,574	$ 16,359
Retired – Concurrent Beneficiaries	1,134	$ 4,914,046	$ 4,333
Disabilities / 1122	7	$ 113,978	$ 16,283
Disabilities / 3 and 3A	919	$ 17,628,620	$ 19,182
Beneficiaries	1,711	$ 18,188,426	$ 10,630
Pre-Retirement Death Benefits	518	$ 2,810,899	$ 5,302
Terminated Vested	1,717	$ 12,435,760	$ 7,243

APPENDIX A
MEMBERSHIP INFORMATION

Maine State Retirement System
Non-Active Member Data as of June 30, 2006
Special Plans

	Count	Total Annual Benefit	Average Annual Benefit
Retired	778	$ 20,707,218	$ 26,616
Retired – Concurrent Beneficiaries	165	$ 792,182	$ 4,801
Disabilities / 1122	3	$ 49,309	$ 16,436
Disabilities / 3 and 3A	64	$ 1,480,458	$ 23,132
Beneficiaries	159	$ 2,065,470	$ 12,990
Pre-Retirement Death Benefits	10	$ 91,988	$ 9,199
Terminated Vested	0	$ 0	$ 0

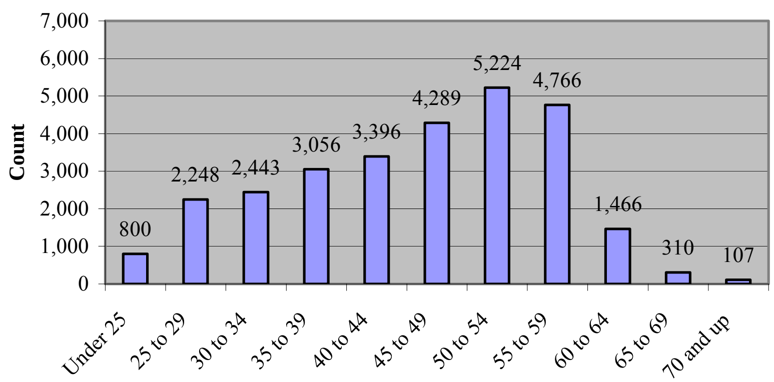
APPENDIX A
MEMBERSHIP INFORMATION

Maine State Retirement System
Distribution of Active Members
As of June 30, 2006

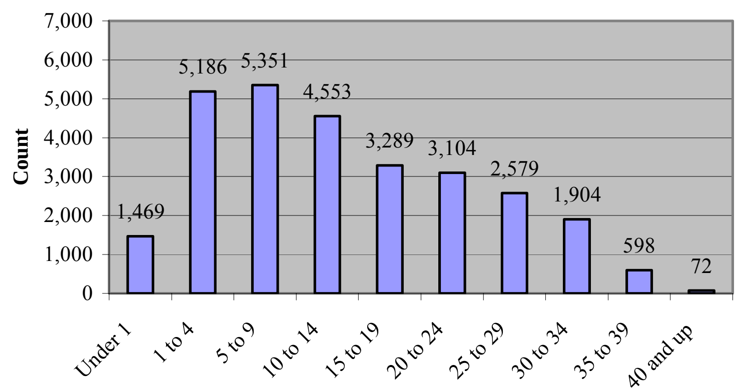
Teachers

	Years of Service										
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	Totals
Under 25	257	492	51	0	0	0	0	0	0	0	800
25 to 29	222	1,093	902	31	0	0	0	0	0	0	2,248
30 to 34	183	633	909	716	2	0	0	0	0	0	2,443
35 to 39	215	680	669	1,114	367	11	0	0	0	0	3,056
40 to 44	190	687	724	530	716	542	7	0	0	0	3,396
45 to 49	137	608	826	710	551	914	533	9	1	0	4,289
50 to 54	111	463	616	784	710	672	1,202	657	9	0	5,224
55 to 59	98	333	415	494	687	670	586	1,075	401	7	4,766
60 to 64	34	134	158	132	214	251	209	127	173	34	1,466
65 to 69	18	37	52	31	36	36	31	31	11	27	310
70 and up	4	26	29	11	6	8	11	5	3	4	107
Total	1,469	5,186	5,351	4,553	3,289	3,104	2,579	1,904	598	72	28,105

Age Distribution



Service Distribution



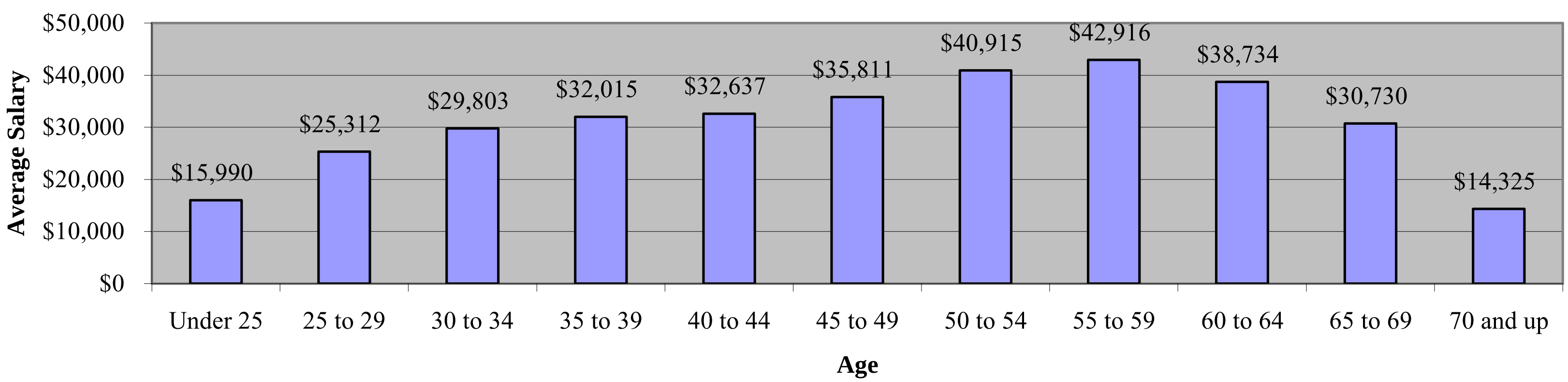
APPENDIX A
MEMBERSHIP INFORMATION

Maine State Retirement System
Distribution of Active Members
As of June 30, 2006

Teachers

	Average Salary Years of Service										
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	Average
Under 25	$ 11,101	$ 18,045	$ 20,802	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,990
25 to 29	15,117	24,665	28,503	28,284	-	-	-	-	-	-	25,312
30 to 34	16,496	25,299	31,506	34,998	39,310	-	-	-	-	-	29,803
35 to 39	15,664	24,454	30,554	37,878	40,429	33,298	-	-	-	-	32,015
40 to 44	14,216	20,247	27,991	35,875	43,196	43,685	48,518	-	-	-	32,637
45 to 49	15,435	21,798	27,362	33,521	42,973	46,158	47,876	46,120	24,520	-	35,811
50 to 54	16,524	25,283	28,359	33,656	43,022	46,035	50,322	51,739	42,322	-	40,915
55 to 59	16,465	26,055	30,471	35,147	41,543	44,621	48,139	52,191	52,724	49,226	42,916
60 to 64	10,720	19,640	26,803	31,565	39,856	41,436	45,492	50,182	51,273	50,144	38,734
65 to 69	9,544	10,895	19,768	27,593	39,447	31,152	42,057	43,867	43,109	51,436	30,730
70 and up	5,325	6,240	9,044	11,984	27,759	26,309	12,939	19,023	47,575	49,475	14,325
Average	$ 14,579	$ 22,989	$ 28,846	$ 35,108	$ 42,178	$ 44,715	$ 48,666	$ 51,650	$ 51,898	$ 50,502	$ 35,257

Average Salary Distribution



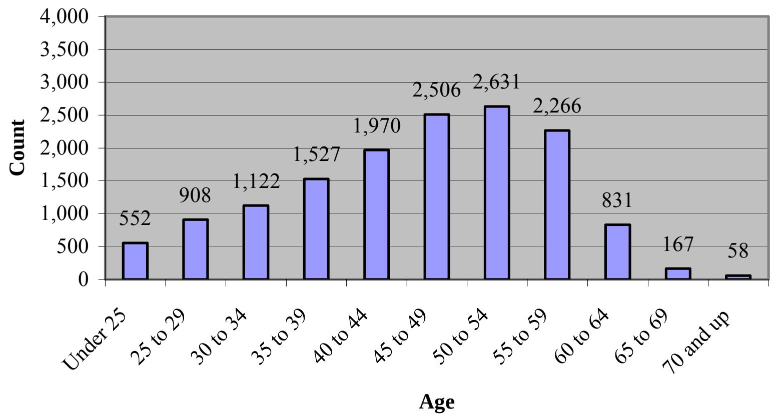
APPENDIX A
MEMBERSHIP INFORMATION

Maine State Retirement System
Distribution of Active Members
As of June 30, 2006

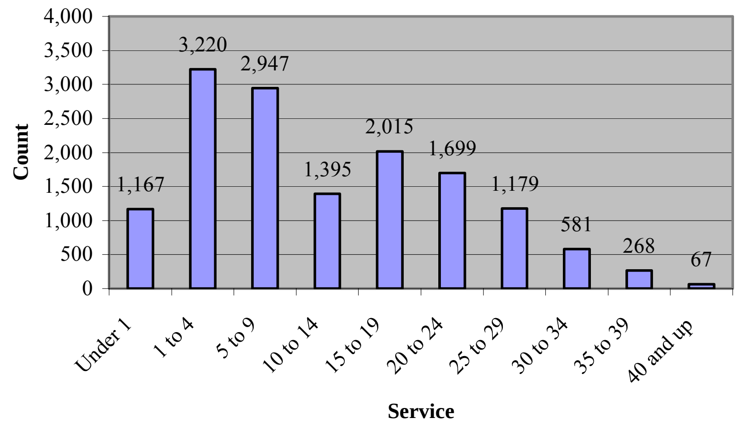
State

	Years of Service										
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	Totals
Under 25	261	272	19	0	0	0	0	0	0	0	552
25 to 29	151	545	208	4	0	0	0	0	0	0	908
30 to 34	137	432	452	93	8	0	0	0	0	0	1,122
35 to 39	125	396	474	260	248	24	0	0	0	0	1,527
40 to 44	126	418	441	228	448	290	19	0	0	0	1,970
45 to 49	142	386	463	236	438	464	349	28	0	0	2,506
50 to 54	105	360	425	249	393	395	437	233	33	1	2,631
55 to 59	85	283	293	220	308	372	262	249	180	14	2,266
60 to 64	29	103	136	84	141	129	79	51	40	39	831
65 to 69	3	18	31	18	26	18	24	10	11	8	167
70 and up	3	7	5	3	5	7	9	10	4	5	58
Total	1,167	3,220	2,947	1,395	2,015	1,699	1,179	581	268	67	14,538

Age Distribution



Service Distribution



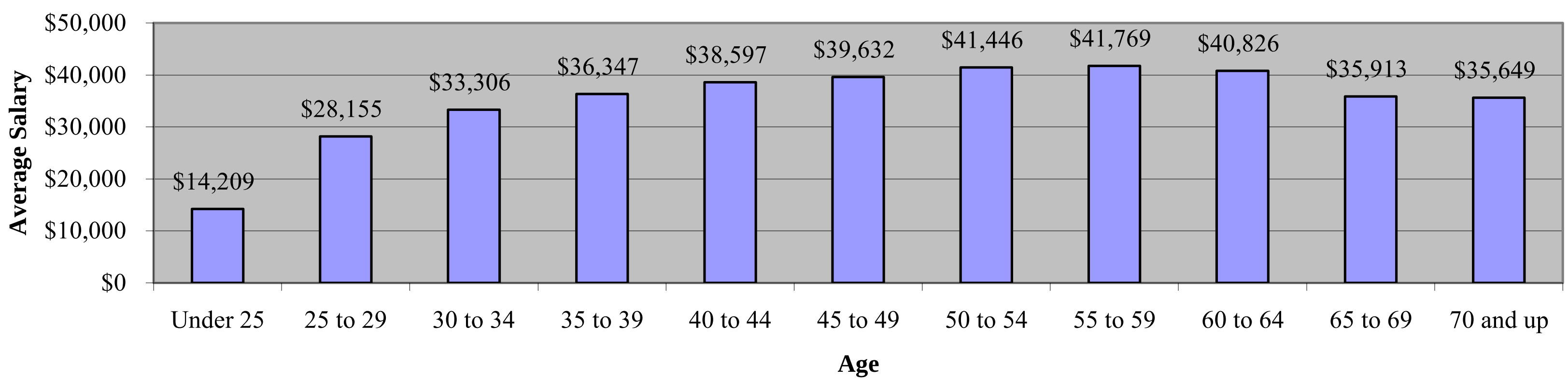
APPENDIX A
MEMBERSHIP INFORMATION

Maine State Retirement System
Distribution of Active Members
As of June 30, 2006

State

	Average Salary Years of Service										
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	Average
Under 25	$ 7,762	$ 19,474	$ 27,381	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 14,209
25 to 29	14,579	30,287	32,237	37,845	-	-	-	-	-	-	28,155
30 to 34	14,755	32,053	38,188	42,551	35,423	-	-	-	-	-	33,306
35 to 39	13,108	33,396	36,853	45,519	41,689	41,527	-	-	-	-	36,347
40 to 44	14,288	33,631	37,657	43,791	44,577	44,372	39,385	-	-	-	38,597
45 to 49	15,438	34,130	36,459	43,155	44,821	44,465	44,476	39,319	-	-	39,632
50 to 54	15,687	34,095	38,032	41,960	44,944	45,796	48,199	43,556	45,549	42,860	41,446
55 to 59	13,783	34,459	37,860	42,562	40,656	45,301	47,756	47,864	48,835	48,170	41,769
60 to 64	11,957	31,922	37,045	37,331	43,780	43,011	48,341	51,386	51,880	48,255	40,826
65 to 69	9,833	31,149	34,122	32,575	35,134	38,227	38,037	39,526	44,394	45,628	35,913
70 and up	6,569	22,276	17,095	23,596	32,174	27,994	46,844	45,944	53,387	56,860	35,649
Average	$ 12,934	$ 31,720	$ 36,946	$ 42,808	$ 43,502	$ 44,656	$ 46,649	$ 45,857	$ 48,770	$ 48,485	$ 37,647

Average Salary Distribution

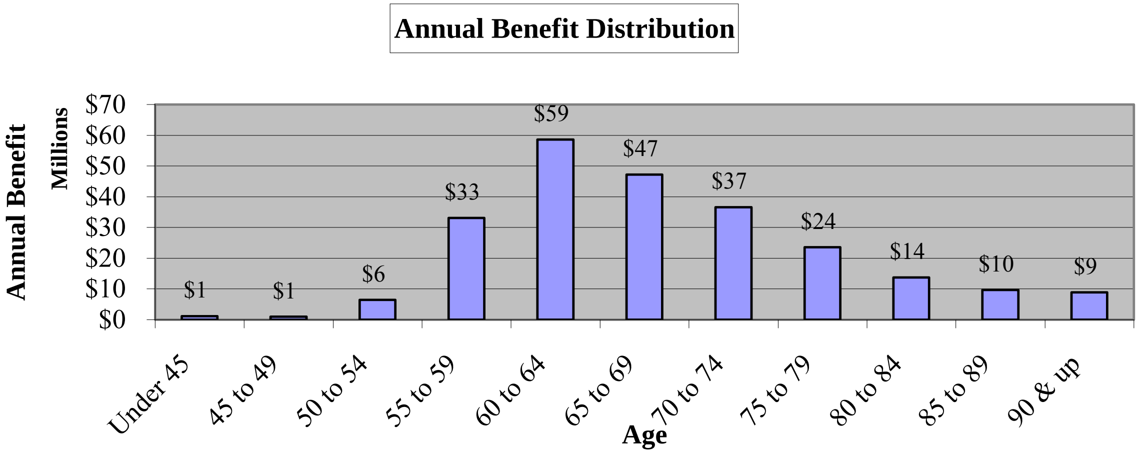


APPENDIX A
MEMBERSHIP INFORMATION

Maine State Retirement System
Distribution of Retirees, Disabled Members, Beneficiaries, and Survivors
As of June 30, 2006

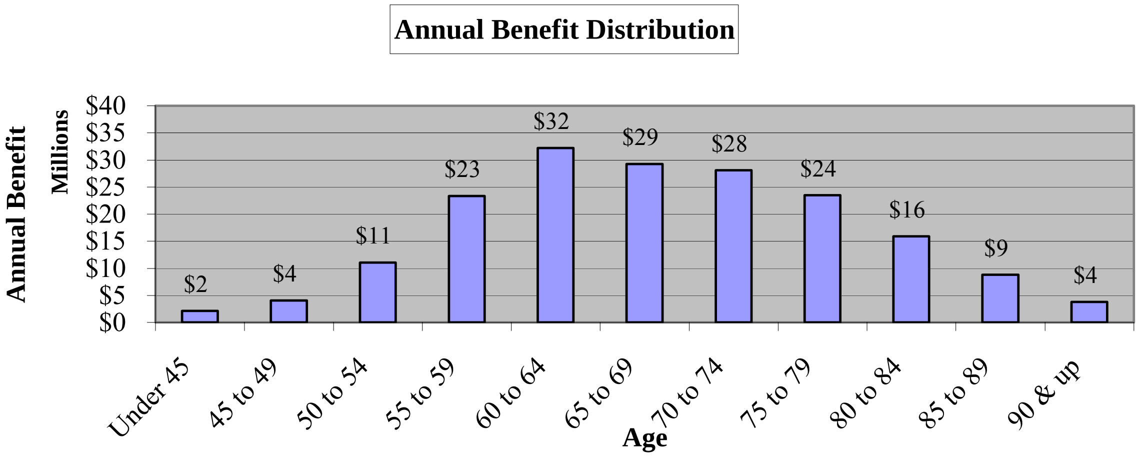
Teachers

Age	Count	Annual Benefit
Under 45	177	$ 1,180,647
45 to 49	74	1,011,210
50 to 54	343	6,490,174
55 to 59	1,561	33,144,354
60 to 64	2,739	58,636,041
65 to 69	2,489	47,249,005
70 to 74	2,087	36,579,452
75 to 79	1,539	23,593,930
80 to 84	1,007	13,721,036
85 to 89	704	9,637,326
90 & up	614	8,867,373
Total	13,334	$ 240,110,548



State

Age	Count	Annual Benefit
Under 45	266	$ 2,151,588
45 to 49	282	4,060,024
50 to 54	639	11,074,462
55 to 59	1,268	23,342,342
60 to 64	1,789	32,204,488
65 to 69	1,917	29,245,610
70 to 74	1,953	28,111,201
75 to 79	1,746	23,518,906
80 to 84	1,341	15,884,176
85 to 89	805	8,827,054
90 & up	391	3,772,317
Total	12,397	$ 182,192,168



APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

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 year of service.

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.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

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

	State Employees		Teachers	
Age	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):

	State Employees		Teachers	
Age	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

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

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

Age	State Employees Tier 1	State Employees Tier 2	Teachers Tier 1	Teachers 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.

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.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

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. Please refer to the Experience Study report for details on the recommended changes.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

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.

2. Asset Valuation Method:

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

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

APPENDIX C
SUMMARY OF PLAN PROVISIONS

State Employees and Teachers

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.

<u>**Contribution Requirements for Special State Employee Groups**</u>

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

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

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

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

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

3. Average Final Compensation:

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

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

APPENDIX C
SUMMARY OF PLAN PROVISIONS

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 2¼% for each year retirement age is less than age 60.

Form of Payment: Life annuity.

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

Normal Retirement Age: 62

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

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

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

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

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.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

Form of Payment: Life annuity.

B. Special Plans (State Employees)

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

Eligibility: 20 years of creditable service in named positions.

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

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

ii. Forest Rangers Employed Before 9/1/84

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

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

Form of Payment: Life annuity.

iii. Airplane Pilots Employed Before 9/1/84

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

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

Form of Payment: Life annuity.

iv. Liquor Inspectors Employed Before 9/1/84

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

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

Form of Payment: Life annuity.

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

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

APPENDIX C
SUMMARY OF PLAN PROVISIONS

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

Form of Payment: Life annuity.

vi. 1998 Special Plan

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

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

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

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

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

-AND-

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

Form of Payment: Life annuity.

vii. 25 & Out Plan

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

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

Eligibility: 25 years of creditable service in named positions.

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

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.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

Benefit: 66⅔% 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 66⅔% 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 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.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

9. Pre-Retirement Accidental Death Benefits:

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

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

10. Refund of Contributions:

Eligibility: Termination of service without retirement or death.

Benefit: Member's accumulated contributions with interest.

11. Cost-of-Living Adjustments:

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

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

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

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.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

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.