

MAINE STATE LEGISLATURE

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MAINE PUBLIC DOCUMENTS

1942-1944

(in three volumes)

VOLUME III

REPORT

of the

BOARD OF TRUSTEES

of the

EMPLOYEES' RETIREMENT SYSTEM

of the

STATE OF MAINE

for the

FISCAL YEAR ENDED JUNE 30, 1943

BOARD OF TRUSTEES

Edward F. Dow, Orono	Chairman
Joseph H. McGillicuddy, Houlton	Member
John J. Allen, Augusta	Member

Alfred W. Perkins (On Military Leave)	-	Actuary
A. Thomas Lehman	-	Acting Actuary
Earle R. Hayes	-	Secretary

Subsection 8 of Section 227-K of the Employees' Retirement System Law provides that the Board of Trustees shall publish annually a report showing the fiscal transactions of the System for the preceding fiscal year and its financial condition at the end of such period.

The actual compilation and reproduction for distribution of a report has been delayed somewhat for two reasons:

1. It was felt that the known experience of the first year's operation of the System would not be available for some months following the close of the period.
2. The Legislature, by provisions of Chapter 221, Public Laws of 1943, determined that all departmental reports should thereafter be published biennially only, and cover the two fiscal years immediately prior to each legislative session.

Due to the apparent public interest, however, in having a report of the functioning of the new retirement system, it was decided to compile at least a brief summary of its operations for the first fiscal year.

The law establishing a jointly-contributory system for State employees was enacted at a special session of the Legislature in January, 1942, and became operative as of July 1 of that year, except as to administrative provisions of the act which became effective upon its approval by the Governor.

The original act provided that the State Controller should be a member, ex officio, of the Board of Trustees, and for the appointment of two other members by the Governor.

Mr. A. L. Kane, who was State Controller at the time, therefore automatically became a member of the Board and the Governor appointed Belmont Smith, State Treasurer, as one member, and in the belief that the administration of the Retirement System was so closely allied with the functions carried on by the Department of Personnel that the administration of the system could best be handled by that department, he appointed the Chairman of the State Personnel Board, Mr. Edward F. Dow, as the other member of the Board of Trustees and upon the organization of the Board he was named Chairman.

To this same end, also, the Board of Trustees designated the Director of Personnel as the Secretary of the System.

For the first time in the governmental history of Maine we now have an actuarially sound legal reserve type of retirement system. As opposed to the old law, which provided that an employee of long service or advanced age might be retired, if the Governor and Council so decreed and sufficient money was available, the new law definitely guarantees that an employee who becomes a member of the system shall be eligible for retirement at a definitely fixed amount, upon attaining the age of 65 years.

This guaranteed feature of the law was liberalized by certain amendments enacted by the Legislature in 1943, to the extent that retirement at 1/2 of average final compensation was made available to employees upon completion of 25 years of "creditable" service, provided they had, as of July 1, 1942, prior service credit of at least 22 years. This particular amendment also provided for 1/2 pay retirement benefits to employees who attain age 70 with 20 years' service if they had 13 years of "prior" service on July 1, 1942.

The privilege of retirement at 1/2 final average compensation upon completion of 25 years of "creditable" service was also extended to certain other groups of State employees, namely: Wardens of the Department of Inland Fisheries and Game, Wardens in the Maine State Prison, and enlisted personnel of the State Police.

All of the amendments to the original law are printed in pamphlet form and available upon request to the Secretary.

One of the features of the original law which caused some concern administratively was the provision that every employee of the State who was in the service on July 1, 1942, had to elect to become a member or indicate that he did not wish to become a member, within 30 days from the said effective date of the act.

It was evident, however, that this was only one of the many features of the law that would need explanation and clarification to State employees. Hence, following a careful study

of its various provisions by the Attorney General's Department, a hand book was developed by the Secretary and the Actuary of the system, in collaboration with one of the Assistant Attorneys General, which set forth in as simple form as possible the basic provisions and procedures contained in the act. This hand book was placed in the hands of every State employee well in advance of the effective date of the law and was followed up by group meetings of employees of the various departments and institutions from time to time, at which the Secretary and/or the Actuary were present and endeavored to explain to all concerned as many of the various provisions of the law as time and existing knowledge permitted.

The result of this rather intensive informational campaign, conducted as it had to be over a relatively short period of time, was fairly satisfactory, but even so, a substantial number of employees elected, during the first 30-day period not to become members, presumably in the hope that some of their objections to certain provisions of the law would be ironed out by the Legislature of 1943.

Several changes in the law were made by the Legislature at the 1943 session, with the result that as of July 1, 1943, the deadline date, so called, prior to which it was necessary for all employees to become members of the system if they wanted their prior service credits, approximately 80% of all regular State employees had indicated their desire to become members of the system.

It is interesting to note that a great majority of those employees who did not join the system during the first year were in the institutional group.

One of the other amendments enacted at the 1943 legislative session definitely fixed the membership of the Board of Trustees--namely, the Chairman of the State Personnel Board, the State Controller, and the State Treasurer. During the latter part of the fiscal year Mr. Kane resigned from the employ of the State, and Mr. J. J. Allen was appointed Controller, thereby automatically becoming a member of the Board, and by virtue of the amendment just referred to Mr. J. H. McGillicuddy, the State Treasurer, also became a member in July, 1943.

One of the basic provisions of the Retirement System Law requires the appointment by the Board of Trustees of an Actuary and it was especially fortunate that we had such a man in the person of Mr. Alfred W. Perkins, Commissioner of Insurance. He was therefore named as Actuary of the System by the Board of Trustees, serving in that capacity until his enlistment as an officer in the United States Navy.

It is perhaps helpful that this initial report can tell not only something of the original provisions of the law and its first year of operation, but can also set forth some of the liberalizations that were effected by the 1943 session of the Legislature, since these changes in the original act became operative almost simultaneously with the expiration of the so called "year of grace" ended July 1, 1943, which date

also marked the end of the first year's operation of the System.

The retirement law not only covers State employees, but by the provisions of Section 227-0 provides that employees of any county, city, or town of the State may participate in the Retirement System, provided the governing bodies of such units of government approve of such participation and pay over to the State the necessary amounts of money annually to cover the liability involved.

Under this provision of the law, during the first year of operation, two cities elected to become local participating districts--Presque Isle was the first, joining the system as of January 1, 1943. The City of Portland was the second, becoming a participating district as of March 1, 1943. Evaluation was made during the first year for the Town of Millinocket and the County of Cumberland, but these two units did not actually become participating districts until after the close of the first fiscal period.

Recalling to mind that a more complete and detailed report will be compiled, covering the two fiscal years preceding the 1945 legislative session, as apparently required now under the new statute referred to earlier in this report, we close this brief summary of the first year's operation of the system with the appended report of the Actuary, together with the statement of Income and Expenditures and the Balance Sheet as submitted by the State Controller.

November 18, 1943

Board of Trustees
Maine Employees' Retirement System
Augusta, Maine

Gentlemen:

I have the honor to present the first valuation report of the assets and liabilities of the Employees' Retirement System as of June 30, 1943.

On the date of valuation there were 2,640 members of the State System, comprised of 1,694 males and 946 females.

The cities of Presque Isle and Portland and the Town of Millinocket have already become participating districts. This valuation does not include the assets and liabilities of the participating districts, because they have not been members for a full year up to the date of valuation. However, the contributions which these participating districts are now making to the Employees' Retirement System have been figured on an actuarial basis, and a regular valuation of each participating district will take place as soon as the particular district has been a member of the system for at least one full year.

At the end of this valuation will be found certain remarks which should be carefully considered. There will also be found the percentages which should be applied to the total salaries of members in order to determine the amounts which should be set up by the Ninety-second Legislature for the years beginning July 1, 1945 and 1946.

ACTUARIAL BALANCE SHEET

June 30, 1943

ASSETS

Annuity Savings Fund	\$ 120,721.62
Annuity Reserve Fund	137.17
Pension Accumulation Fund:	
Prior Service	122,848.09
Membership Service	115,404.00
Present Value of Prospective Contribution payable by the State to the Pension Accumulation Fund as follows:	
Prior Service (Active)	4,197,456.74
Prior Service (Disabled)	<u>181,346.00</u>
Total Assets	\$4,737,913.62

LIABILITIES

Annuity Savings Fund	\$ 120,721.62
Annuity Reserve Fund	536.00
Pension Accumulation Fund:	
Prior Service	3,140,434.00
Membership Service	115,404.00
Disability Reserve (Active)	181,346.00
Pensioners Reserve (not retired by System)	1,105,640.00
Pensioners Reserve (retired by System)	
Prior Service	73,105.00
Membership Service	<u>727.00</u>
Total Liabilities	\$4,737,913.62

ANNUITY SAVINGS FUND

The Annuity Savings Fund is the amount contributed by employees to pay for part of their retirement benefits. Until they do retire the amount in this fund is shown both as an asset and as a liability for exactly the same amount.

ANNUITY RESERVE FUND

It will be noted that the amount transferred from the Annuity Savings Fund to the Annuity Reserve Fund on the asset side of the balance sheet is less than the reserve shown as a liability. The reason is that as soon as a person retires, a liability card is made up on which is shown the amount of money necessary to be transferred from the Annuity Savings Fund to the Annuity Reserve Fund to pay for the member's annuity. However, this may not be transferred by the Controller's Department for some time after a person has actually retired.

ACCRUED LIABILITY PERCENTAGE

In accordance with the requirements of the law, a new accrued liability percentage has been figured. This liability represents the State's recognition of past service for which contributions must be made by the State. It is figured that this liability will be completely paid for over a period of about thirty years from the date of establishment of the Retirement System. This percentage is to be applied to the total annual payroll of the members of this System. The result represents the amount which must be set up by the Legislature in the coming years. This percentage is 3.38%. The Ninety-second Legislature should appropriate for the fiscal year beginning

July 1, 1945, 3.38% of the total salaries of the then members of the Retirement System. This Legislature should also set up in accordance with the law 1.03% of the amount set aside for the fiscal year beginning July 1, 1945, to take care of the liability for the fiscal year beginning July 1, 1946.

NORMAL CONTRIBUTION PERCENTAGE

The normal contribution percentage is figured to take care of the membership liability incurred by the State under the Retirement System. This percentage should remain constant for several years unless there is a change in either benefits or payments under the Retirement System. This percentage has been figured in accordance with the law to be 3.89%. The Ninety-second Legislature should set up for the fiscal year beginning July 1, 1945, 3.89% of the total members' annual salaries in order to take care of the State's membership liability for the year then current. This Legislature should also set up the same amount for the fiscal year beginning July 1, 1946.

REMARKS

The percentages indicated above are higher than the ones originally stated in the law. The reasons for the increase: First, strengthening of the basic table to be used in figuring the benefits. Second, an increase in the percentage because of the reserves which must be set up for pensioners retired by the Governor and Council, and whose liability must now be absorbed by this System. Incidentally, as will be noted from the balance sheet, the present value of this liability is \$1,105,640.

Third, the Ninety-first Legislature liberalized the benefits under the Retirement System to a certain extent which, of course, also tends to increase the State's liability.

Respectfully submitted,

/s/ A. W. Perkins, Actuary

Note: It must be kept in mind that the foregoing report is that of the Actuary of the System and the figures set forth therein are based on actuarial tables and computations and are, therefore from an actuarial standpoint proper and desirable.

However, the actual cash situation of the System is reflected in the Statement of Income and Expenditures, and the Balance Sheet shown below.

STATEMENT OF INCOME AND EXPENDITURES

EMPLOYEES' RETIREMENT SYSTEM

YEAR ENDED JUNE 30, 1943

Balance July 1, 1942	\$ 14,407.17	
State Contributions	320,000.00	
Individuals' Contributions	120,867.60	
Deposits by Cities and Towns	32,507.38	
Interest Earned on Investments	<u>1,884.35</u>	
Total		\$489,666.50
Deductions		
Administration Expenses	8,896.05	
Pensions Paid to State Employees	116,148.45	
Transfer to General Fund of Unexpended balance of Appropriation for Administrative Expenses	5,511.12	
	<u></u>	<u>\$130,555.62</u>
Balance June 30, 1943		\$359,110.88

EMPLOYEES' RETIREMENT SYSTEM

BALANCE SHEET

YEAR ENDED JUNE 30, 1943

ASSETS

Cash	\$ 38,226.57
Accounts Receivable	4,514.72
Investments*	<u>318,000.00*</u>
Total Assets	\$360,741.29

LIABILITIES

Accounts Payable	\$ 1,630.41
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RESERVES

Annuity Savings Fund	\$120,721.62
Annuity Reserve Fund	137.17
Pension Accumulation Fund	<u>238,252.09</u>
Total Reserves	\$359,110.88
Total Liabilities and Reserves	<u>\$360,741.29</u>

*July 29, 1942	- U. S. Treas. Series G	- 2 1/2
	Due July 1, 1954	
Oct. 22, 1942	- U. S. Treas. Series G	- 2 1/2
	Due Oct. 1, 1954	
Jan. 12, 1943	- U. S. of America Treas. Reg.	- 2 1/2
	Due Dec. 15, 1968/63	
May 11, 1943	- U. S. of America Treas. Reg.	- 2 1/2
	Due June 15, 1969/64	
Apr. 26, 1943	- U. S. Treas. Series G	- 2 1/2
	Due April 1, 1955.	