

MAINE STATE LEGISLATURE

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(In three volumes)

VOLUME III.

Report

of the

State Employees' Retirement System

of the

State of Maine

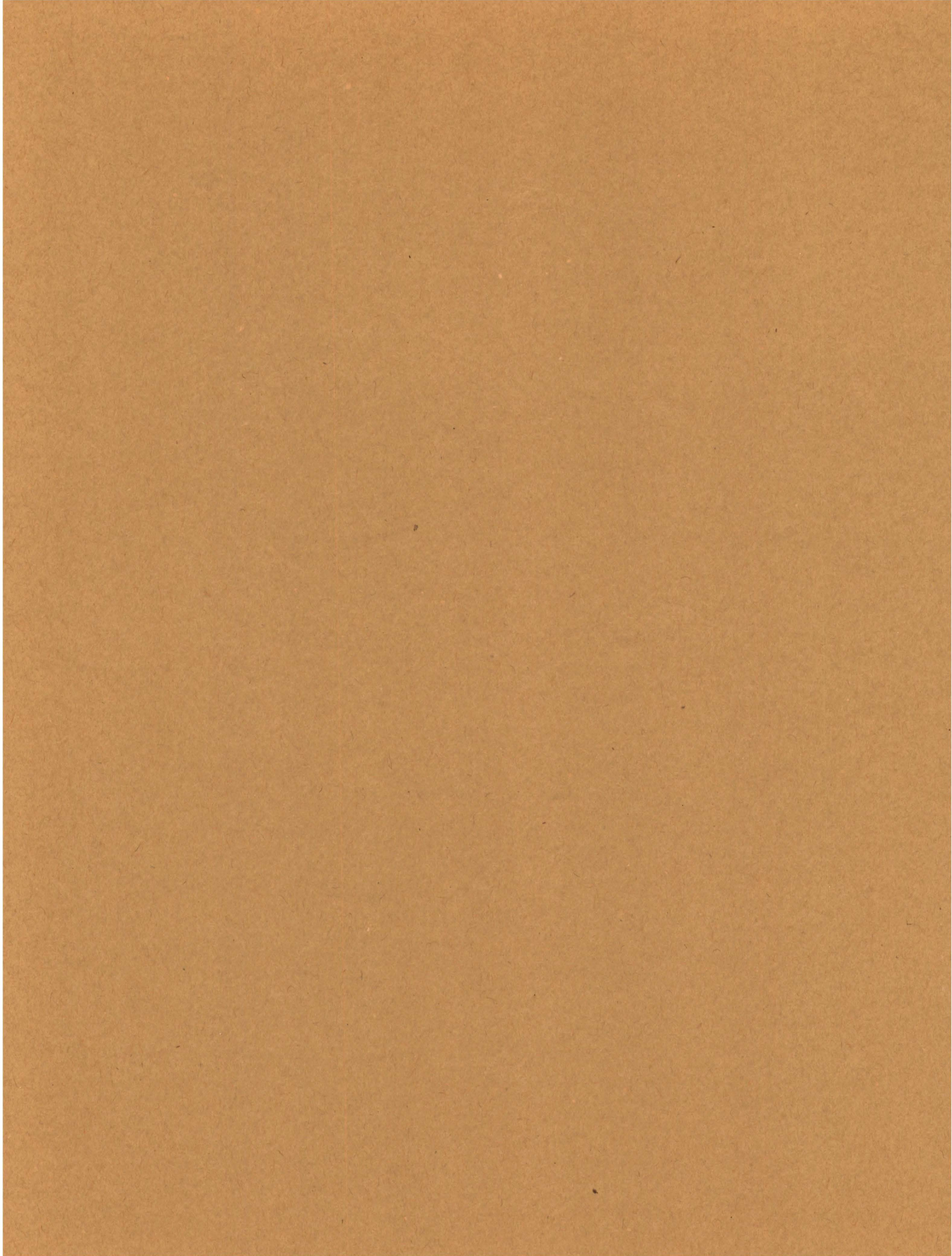
for the

Fiscal Biennium Ended June 30, 1948

As submitted by the

Board of Trustees

December 31, 1948



REPORT
of the
STATE EMPLOYEES' RETIREMENT SYSTEM
of the
STATE OF MAINE
for the
FISCAL BIENNIUM ENDED JUNE 30, 1948

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As submitted by the

BOARD OF TRUSTEES

December 31, 1948

MAINE STATE EMPLOYEES' RETIREMENT SYSTEM

Administrative Personnel

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Offices in
Vickery and Hill Building
Augusta, Maine

The report of the Board of Trustees of the State Employees' Retirement System of the State of Maine for the two fiscal years of operation ended June 30, 1948 is hereby submitted in accordance with the provisions of Section 15, Chapter 38 of the Revised Statutes, whereby, Departmental Reports are to be submitted once every two years and cover the two fiscal years immediately preceding each regular session of the Legislature.

The Retirement law as enacted by a special session of the Legislature held in January 1942 became operative as of July 1, 1942. The original Act set up a Board of Trustees of three ex officio members which Board was vested with broad powers as to the administration of the Act, provided for a Secretary who should be the chief administrative officer of the System, a consulting Actuary, a Medical Board, and such other employees as might be found necessary.

Since the original effective date of the Retirement System law on July 1, 1942 many changes have been made in the law by each successive session of the Legislature. The changes made during the period July 1, 1942 to July 1, 1947 were for the most part technical changes only and had to do with clarification of the law in some details rather than changes as to broad policy.

The changes made by the 1947 Legislature, however, were many and quite sweeping in nature. The law thus revised now includes not only all state employees and employees of Participating Local Districts but also includes all Public School Teachers. Thus, almost over night, so to speak, the membership in the System jumped from approximately 5,000 to nearly 12,000, and the assets of the combined System from approximately \$3,000,000 to nearly \$6,000,000.

Three basic changes were made in the law by this revision so far as state employees are concerned: First, voluntary retirement at

age 60 rather than 65 as provided for under the old law; second, Prior Service benefits are computed on the basis of 1/50 of average final compensation times the total number of years service as opposed to the old 1/70 provision; and third, any state employee may separate from active state service after having completed 30 years of creditable service, wait until attained age 60 and then begin to draw the retirement benefits.

The compulsory age of 70 was not changed.

The method of computing retirement benefits for membership service, that is, all service rendered subsequent to July 1, 1942 remains as in the original act. Namely, 1/140 of average final compensation for each year of such membership service plus whatever annuity the contributions of the individual member will buy at point of retirement. For the purpose of approximate computations, however, it is usually safe to figure, that the ultimate retirement benefits derived from membership service would amount to 1/70 of average final compensation times the total number of years of such membership service.

Two other changes that were made in the law affecting state employees, while minor compared with the three basic changes enumerated above, are, nevertheless, of interest to members. First, any member of the System may now leave his contributions within the funds of the System for a period of absence from active service for not more than 10 in any consecutive 15 years. By so leaving their contributions in the funds of the System, all previous retirement credits are preserved in the event that such members return to active state service within the stipulated period of time. Second, any state employee formerly employed by the state and who is re-

employed by the state prior to July 1, 1950 shall receive all prior service credits and any membership service credits for which they wish to make up the contributions. This one change in the law alone has resulted in the securing again for the state the services of some employees who for one reason or another left state service within the last few years.

By the provisions of the revised Retirement Law practically the entire old teachers retirement laws were repealed, both the Old Non-contributory law, so called, and the Maine Teachers Retirement Association law.

Some of the provisions of the old laws, however, were preserved in the revised retirement law. One such provision which was brought over from the old law is the guarantee of minimum annual retirement benefits of \$400.00, \$500.00 and \$600.00 to the old non-contributory teachers, so called, for 25, 30 and 35 years of creditable teaching service respectively.

The provision in the old M. T. R. A. law to the effect that a teacher must have at least a minimum of 30 years service in order to cease teaching before attaining retirement age of 60 was also incorporated in the revised law.

One of the major changes in the new law as compared with the old teachers retirement laws is found in the provision whereby teachers who are in active service at age 60 may retire at any time upon their own election and receive as a retirement benefit approximately as many 70ths of their final compensation as they have total years of creditable service regardless of the number. Under the old law, the non-contributory teacher so called, must have completed a minimum of at least 25 years of creditable teaching service in order to be eligible for any benefit whatsoever, and under the provisions of the old M. T. R. A. law a teacher

had to complete a minimum of at least 30 years in order to be eligible for any benefits.

The retirement benefit established for all teachers is approximately 1/70 of average compensation times the total number of years of creditable teaching service. Should a teacher who falls within the category of the non-contributory group, so-called, receive a final average compensation during the last five years of her active teaching service that would develop more than the minimums established under the law based on this method of computations then the greater amount will always be paid.

The contributions which the M. T. R. A. teacher had made prior to July 1, 1947 were applied by the state toward the liquidation of the benefits provided by the new law for all years of prior service, rather than toward an ultimate annuity. Under the existing statute the state is guaranteeing to all such teachers a retirement benefit of 1/70 of average final compensation times the total number of years of such prior service credits whereas under the old law the ultimate retirement benefits which would have been derived from such years of service could never have amounted to anywhere near this amount.

Another provision which is found in the new law and which, in effect, is exactly the same as it was under the old M. T. R. A. law is that no credits for any years of service can be allowed unless and until contributions for such years have been paid into the System.

LOCAL DISTRICTS

The section of the law giving to Counties, Cities, Towns and all other quasi-municipal agencies the right to become Participating Local Districts under the provisions of the law was not changed to any great extent. A special provision was inserted in the law, however, whereby Local Districts may elect to take any or all of the provisions of the law as they see fit. This provision removes some of the restrictions which apparently appeared

in the original Act and applied to Local Districts. It is now also possible under another special provision of the law to admit any educational institution in the state of a secondary level or higher to the System as a Participating Local District. What this provision really does is to give the opportunity to all of our colleges, the State University and any so-called private secondary schools the privileges of the general system if they wish to take them on and for which they pay their own way in exactly the same manner as all other Participating Local Districts.

As of the 1946 report there were 13 Participating Local Districts which had affiliated with the System up to that time. As of now there are 12 more such units included in the System making a total of 25 in all. These Districts are made up as follows: Two Counties, nine Cities, eight Towns, five Water Districts and one Public Library.

Twenty other governmental agencies have been surveyed and the initial valuation report developed by the Actuary, and many if not all of these units will ultimately become members of the System without doubt.

Some 25 other governmental units have held one or more preliminary conferences with either the Secretary or the Actuary or both looking toward ultimate valuation reports and the possibility of affiliating with this System in the not too far distant future. It is highly probable that during the next biennium the number of Local Participating Districts will be at least double the number which are now affiliated with the State System. More and more interest is being evidenced every day by City and Town Managers, Boards of Selectmen, members of City Governments and employee groups themselves.

The trend is definitely in this direction, not only in Maine but many other States, 29 of the States have already established and are now operating retirement plans on a state-wide basis.

A few of these plans are compulsory whereas the Maine plan so far as participation of Local Districts is concerned is entirely voluntary.

The entire cost of the operation of these Local Participating Districts is borne by the units themselves. The state assumes no liability whatsoever in connection with these Local Districts; it simply acts as Trustee of the funds and administers the overall plan.

The law provides that in connection with the initial valuation which is made by the Actuary for any municipality or other governmental agency, the cost of such valuation report must be borne by the local governmental unit involved. All of the cost of the liability brought about by the "prior service" of employees, that is, service rendered up to the date the plan actually starts in any given district, is borne by the municipality or other agency itself. Following the affiliation with the State System each Local District pays annually a contribution toward the liquidation of the "membership liability" so-called, and the employees themselves contribute a flat 5% of total salary for each year of such membership service. Each Local District bears its pro-rata share of the cost of administration of the plan, and if the invested funds of the System fail to earn the rate of interest established under the law, each District as well as the state is required to contribute its share of any such unearned interest.

Under such a plan every Local District is given the benefits of an overall Retirement System which is founded on a legal reserve basis, every part of which is figured on accepted actuarial principals and for which total costs in relation to the retirement benefits accruing to the members are much less than could possibly be obtained elsewhere.

During the period covered by this report the Board of Trustees has undergone certain changes. Up until the last revision of the law, effective July 1, 1947, there was a Board of first three and then five Trustees. The

revised law provides for a board of seven Trustees, namely four Ex Officio members and three appointed members. The Ex Officio members are the State Controller, State Bank Commissioner, State Treasurer, and the Chairman of the State Personnel Board. The appointed members are, one member appointed by the Governor, one member appointed by the Maine Teachers Association and one member appointed by the State Employees Association.

The administrative staff, in addition to the Executive Secretary and the consulting Actuary, includes a Supervising Accountant with three assistants, a Supervisor of the record section with four clerical assistants, a Supervisor of the Actuarial section with one assistant, or a total personnel of 13.

The valuation report of the Actuary is appended hereto followed by: -

Exhibit 1 - Balance sheet showing actual cash condition as of

June 30, 1948

Exhibit 2 - Tabulation of Investments of System

Exhibit 3 - List of Participating Local Districts

Exhibit 4 - Detail of June, 1948 pay roll

Exhibit 5 - Tabulation of required appropriations next

biennium

Exhibit 6 - Detail of Administration expenses year ended

June 30, 1948

BOARD OF TRUSTEES

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State of Maine
EMPLOYEES' RETIREMENT SYSTEM
AUGUSTA

Portland, Maine
November 10, 1948

Board of Trustees
Maine Employees' Retirement System
Augusta, Maine

Gentlemen:

I submit herein the sixth valuation report of the Assets and Liabilities of the Employees' Retirement System as of June 30, 1948.

The total membership valued was 5040 which included 4573 active and 467 retired members.

This valuation report covers the regular state employees only. Valuations of each participating district will be done separately and are not attached to this report. At the present time it is impossible to make a valuation of the teachers as their prior service has not as yet been determined.

Following is the Actuarial Balance Sheet covering the members subject to valuation:

ACTUARIAL BALANCE SHEET
June 30, 1948

ASSETS

Annuity Savings Fund	\$ 1,462,827.50	
Annuity Reserve Fund	122,374.99	
Pension Reserve Fund	632.38	
Pension Accumulation Fund	985,164.28	
Total of above funds		\$ 2,570,999.15
Present Value of Prospective Contributions as follows:		
Accrued Liability Contributions	10,029,277.00	
Normal Contributions	4,826,561.72	
Total of such contributions		14,855,838.72
Total Assets		\$17,426,837.87

LIABILITIES

Annuity Savings Fund		\$ 1,462,827.50
Annuity Reserve Fund		122,374.99
Pension Reserve Fund		632.38
Pension Accumulation Fund		
Present Value of prospective benefits to active members on account of:		
Service prior to membership	\$ 6,604,794.00	
Past Membership Service	1,444,850.00	
Future Membership Service	4,366,942.00	12,416,586.00
Present Value of benefits now being paid to Pensioners retired by the system on account of:		
Prior Service	2,468,906.00	
Membership Service	139,387.00	2,608,293.00
Present Value of benefits now being paid to Pensioners not retired by the system		816,124.00
Total Liabilities		\$17,426,837.87

ANNUITY SAVINGS FUND

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

ANNUITY RESERVE FUND

The Annuity Reserve Fund is the fund from which is paid all annuities and benefits in lieu of annuities. It is made up of reserves transferred from the Annuity Savings Fund upon retirement of members.

PENSION RESERVE FUND

The Pension Reserve Fund is the fund from which all membership service pensions are paid if no prior service pension is being paid to the retired member.

PENSION ACCUMULATION FUND

In this fund is accumulated all reserve for the payment of pensions and other benefits payable from contributions made by the State. From this fund is paid all pensions and other benefits on account of members with prior service credit payable from said contributions.

NORMAL CONTRIBUTIONS

Normal Contributions necessary to be made to the Pension Accumulation Fund from funds indicated below were obtained by multiplying total salaries of members of such funds by 3.71% in accordance with provisions of law:

<u>Fund</u>	<u>Salaries</u>	<u>Normal Contributions</u>	
		<u>1949-50</u>	<u>1950-51</u>
General	\$5,583,301.62	\$ 207,141.00	\$ 207,141.00
State Highway	1,978,791.80	73,414.00	73,414.00 (See also)
M. U. C. C.	756,604.28	28,070.00	28,070.00 (Schedule
Liquor Commission	620,074.94	23,005.00	23,005.00 # 5)
Maine Port Authority	<u>32,304.00</u>	<u>1,199.00</u>	<u>1,199.00</u>
Total	\$8,971,076.64	\$ 332,829.00	\$ 332,829.00

ACCRUED LIABILITY PERCENTAGE

Accrued Liability contributions necessary to be made to the Pension Accumulation Fund from Funds indicated below were obtained by multiplying total salaries of members of such Funds by 4.00% for first year of Biennium and figuring 103% of that amount for the second year as required by law:

<u>Fund</u>	<u>Salaries</u>	<u>Accrued Liability</u>	
		<u>1949-50</u>	<u>1950-51</u>
General	\$ 5,583,301.62	\$ 223,332.00	\$230,032.00
State Highway	1,978,791.80	79,152.00	81,526.00
M. U. C. C.	756,604.28	30,264.00	31,172.00
Liquor Commission	620,074.94	24,803.00	25,547.00
Maine Port Authority	<u>32,304.00</u>	<u>1,292.00</u>	<u>1,331.00</u>
Total	\$ 8,971,076.64	\$ 358,843.00	\$ 369,608.00

(See also)
(Schedule #5)

NEW LAW EFFECTIVE AUGUST 1947

The 1947 Legislature combined the Teachers' Pension Systems with the Employees' Retirement System. It provided minimum benefits for some teachers and guaranteed rights for members of the so-called "Maine Teachers Retirement Association", rights which they did not have under their old law.

The Employees' Retirement System assumed the liability of both Teachers' Systems. It is interesting to note that present monthly pension payments to retired teachers amounts to \$38,677.92 or at the rate of \$464,135.04 per year. This can be expected to increase fairly rapidly for sometime to come.

Respectfully submitted,

/s/ Alfred W. Perkins
Alfred W. Perkins
Actuary

Progress of Membership - State Employees

Year Commencing July 1st	New Members	Terminations			Total Members	Year Ending June 30th
		Withdrawals	Deaths	Retired		
1942	2762	100	2	17	2643	1943
1943	456	175	24	35	2865	1944
1944	761	230	24	65	3307	1945
1945	758	318	24	90	3633	1946
1946	978	472	28	101	4010	1947
1947	<u>1098</u>	<u>414</u>	<u>27</u>	<u>94</u>	<u>4573</u>	1948
Totals	<u>6813</u>	<u>1709</u>	<u>129</u>	<u>402</u>	<u>4573</u>	

Retired Members

Year Commencing July 1st	New Pensioners	Deaths	Re-employed	Total Pensioners	Year Ending June 30th
1942	17	-	-	17	1943
1943	35	1	-	51	1944
1944	65	5	2	109	1945
1945	90	8	-	191	1946
1946	101	7	-	285	1947
1947	<u>94</u>	<u>16</u>	<u>1</u>	<u>362</u>	1948
Totals	<u>402</u>	<u>37</u>	<u>3</u>	<u>362</u>	

Retired by Governor & Council

1942	127	-	-	127	1943
1943	-	2	-	125	1944
1944	-	4	-	121	1945
1945	3	7	-	117	1946
1946	-	8	1	108	1947
1947	<u>-</u>	<u>3</u>	<u>-</u>	<u>105</u>	1948
Totals	<u>130</u>	<u>24</u>	<u>1</u>	<u>105</u>	

Exhibit 1

BALANCE SHEET - JUNE 30, 1948

Combined E. R. S. and Teachers Retirement

<u>ASSETS</u>	<u>EMPLOYEES</u>	<u>TEACHERS</u>	<u>COMBINED</u>
Cash	\$ 211,268.35	\$ 161,019.84	\$ 372,288.19
Accounts Receivable	621.34		621.34
*Investments	3,703,869.37	3,245,840.51	6,949,709.88
Due from Other Funds		255.00	255.00
TOTAL ASSETS	\$3,915,759.06	\$3,407,115.35	\$7,322,874.41

LIABILITIES

Prepaid Contributions	11,177.25		11,177.25
Accounts Payable	3,086.23	5,608.57	8,694.80
TOTAL LIABILITIES	14,263.48	5,608.57	19,872.05

RESERVES

Trust Funds	3,901,210.08	3,401,506.78	7,302,716.75
Reserve for Authorized Expenditures	285.50		285.50
TOTAL LIABILITIES & RESERVES	\$3,915,759.06	\$3,407,115.35	\$7,322,874.41

*At Cost Less Ratable Amortization

Exhibit 2

INVESTMENTS OF THE EMPLOYEES' RETIREMENT SYSTEM

June 30, 1948

	<u>Employees & Part. Dist.</u>	<u>Teachers</u>	<u>Combined</u>
Government Bonds	\$2,446,000.00	\$2,498,000.00	\$4,944,000.00
Corporate Bonds	1,230,000.00	574,000.00	1,804,000.00
Municipal Bonds	16,000.00		16,000.00
Foreign Bonds		<u>85,000.00</u>	85,000.00
Stocks		62,834.88	62,834.88
TOTAL	\$3,692,000.00	\$3,219,834.88	\$6,911,834.88

(Bonds at face value, Stocks at cost)

LIST OF PARTICIPATING DISTRICTS

as of
June 30, 1948

Number of Members
June 30, 1948

City of Portland	320
Town of Millinocket	18
City of Presque Isle	26
Cumberland County	56
Town of Camden	15
City of South Portland	88
Town of Houlton	38
Penobscot County	31
Kittery Water District	12
City of Ellsworth	21
Town of Kittery	11
Town of Bar Harbor	37
Town of Mount Desert	17
Town of Fort Fairfield	40
City of Rockland	63
Bath Water District	13
City of Bangor	87
Boothbay Harbor Water System	6
Bangor Public Library	27
City of Augusta	112
City of Gardiner	19
Houlton Water Co.	38
City of Auburn	92

PENSION PAY ROLL FOR MONTH OF JUNE 1948

	Gross Pay Roll June 30 1948	
State Employees	<u>30,656.07</u>	
Total State		30,656.07
Portland	2,491.82	
Millinocket	47.64	
Presque Isle	62.24	
Cumberland County	567.44	
Camden	55.57	
South Portland	292.05	
Houlton	27.27	
Penobscot	133.71	
Ellsworth	34.41	
Bar Harbor	322.76	
Mt. Desert	34.89	
Ft. Fairfield	137.99	
Rockland	188.83	
Bangor	128.53	
Bangor Public Library	20.85	
Augusta	506.07	
Gardiner	81.18	
Auburn	<u>229.56</u>	
Total Participating Districts		5,362.81
Teachers - 1913 retiring under E. R. S. Law	5,704.89	
Teachers - M. T. R. A. retir- ing under E. R. S. Law	86.46	
Teachers - Pensioned under Prior Law	<u>30,139.63</u>	
Total teachers		<u>35,930.98</u>
Grand Total		71,949.86

Exhibit 5

Amounts required to be appropriated from General Funds for next biennium to cover the liabilities incurred by the inclusion in the State Retirement System of all Teachers - (See report of Actuary for appropriation requirements for State employees).

ACCRUED LIABILITY - ("Prior Service")

	<u>1949-50</u>	<u>1950-51</u>
M. T. R. A. Group	\$ 14,400.00	\$ 14,400.00
Non-Contributory Group	475,000.00	487,250.00
	<hr/>	<hr/>
Totals	\$489,400.00	\$501,650.00

NORMAL CONTRIBUTION - ("Membership Service")

	<u>1949-50</u>	<u>1950-51</u>
M. T. R. A. Group	\$160,080.00	\$160,080.00
Non Contributory Group	81,600.00	81,600.00
	<hr/>	<hr/>
Totals	\$241,680.00	\$241,680.00

Grand Totals for Teachers	\$731,080.00	\$743,330.00
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Add amounts required
for State Employees
as shown in Actuary's
Report:

	<u>1949-50</u>	<u>1950-51</u>
Accrued Liability	\$223,332.00	\$230,032.00
Normal Contribution	207,141.00	207,141.00
	<hr/>	<hr/>
Totals	\$430,473.00	\$437,173.00

Combined Totals Teachers & State Employees from General Funds	\$1,161,553.00	\$1,180,503.00
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To be transferred
from other funds:

Accrued Liability	134,511.00	139,576.00
Normal Contribution	125,688.00	125,688.00
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Grand Total Appropriations next biennium	\$1,421,752.00	\$1,445,767.00
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EMPLOYEES' RETIREMENT SYSTEM

ADMINISTRATION

Summary of Revenue and Expenditures
for the Year Ending June 30, 1948

REVENUE

SOURCE:-

General Fund	\$36,000.00	
Highway Fund	4,500.00	
MUCC & MSES	584.00	
Liquor Comm.	1,471.00	
Cities & Towns	5,029.50	
Total Revenues		\$47,584.50

EXPENDITURES

Salaries including temporary increase	\$24,770.41	
Medical services and Actuarial fees	4,091.08	
Travel expense	982.33	
Telephone	379.56	
Postage	332.69	
Repairs	94.65	
Printing & Mimeographing	1,854.51	
Employees Bonds	12.64	
Office Supplies	2,024.76	
Office Equipment	9,384.72	
Uncollectible accounts written off	130.98	
Miscellaneous Expense	3.99	
TOTAL EXPENDITURES		\$44,062.32
Reserve for authorized expenditures	285.50	
Lapsed to General Fund June 30, 1948	3,236.68	
Total		\$47,584.50