MAINE STATE LEGISLATURE

The following document is provided by the

LAW AND LEGISLATIVE DIGITAL LIBRARY

at the Maine State Law and Legislative Reference Library

http://legislature.maine.gov/lawlib

Reproduced from electronic originals

(may include minor formatting differences from printed original)

Comprehensive Annual Financial Report

Maine State Retirement System

A Component Unit of the State of Maine

2005

For the Fiscal Year Ended June 30, 2005

MAINE STATE RETIREMENT SYSTEM

46 State House Station
Augusta, Maine 04333

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDING JUNE 30, 2005

Prepared by:
MSRS Department of Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Maine State Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Nancy L. Zielke

President

Jeffrey R. Esser

Executive Director

MAINE STATE RETIREMENT SYSTEM
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDING JUNE 30, 2005

TABLE OF CONTENTS

[This page intentionally left blank.]

INTRODUCTORY SECTION

MSRS
MAINE STATE RETIREMENT SYSTEM

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

BOARD OF TRUSTEES
David S. Wakelin, *Chair*
Peter M. Leslie, *Vice Chair*
John S. Eldridge III
Eunice C. Mercier
Catherine R. Sullivan
Benedetto Viola
Kenneth L. Williams

Ex-officio Member
David G. Lemoine
State Treasurer

LETTER OF TRANSMITTAL

December 1, 2005

In accordance with the requirements of 5 M.R.S.A. §17102, I am pleased to present the Comprehensive Annual Financial Report ("CAFR" or "Annual Report") of the Maine State Retirement System ("MSRS" or the "System") for the fiscal year ended June 30, 2005. This report is written so as to conform to the requirements of the Governmental Accounting Standards Board (GASB). MSRS management takes full responsibility for the accuracy, completeness and fairness of the representations made in this report.

This CAFR, taken as a whole, provides details on all aspects of the System. The Introductory Section presents this Letter of Transmittal, identifies the members of the System's Board of Trustees, sets out the names and positions of the System's senior administrative staff, provides an organizational chart reflecting the System's administrative staff, lists the principal professional consultants who provided services to the System in FY 2005 and includes a legislative update on the first regular and first special sessions of the 122nd Maine Legislature. The Financial Section includes the report of the System's independent auditors and the System's audited financial statements for the fiscal year ended June 30, 2005 with notes, required supplementary information and notes to supplementary information. The firm of Baker Newman & Noyes audited the System's financial information for the first time in FY 2005. Management's Discussion and Analysis (MD&A) and trust fund balances by System employer/program are also included in this Section, as well as financial information on the Group Life Insurance Program.

The Investment Section presents detail, at June 30, 2005, of principal investments for the MSRS defined benefit plans and Group Life Insurance Program. Additional information on investments is found in the MD&A, financial statements and notes. The Actuarial Section includes the June 30, 2004 actuarial valuations for the four principal retirement programs administered by the System: the State employee and teacher program, the legislative program, the judicial program and the program of the Consolidated Plan for Participating Local Districts (PLDs). (Valuations for the several non-consolidated PLD plans are not included but are available from the System.) The Statistical Section includes selected data thought to be of interest or useful to persons interested in the System.

OVERVIEW OF THE SYSTEM

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

Board of Trustees

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

The Board contracts for the services of an actuary to prepare annual valuations of the assets and liabilities of each of the retirement programs administered by the System. The actuary also provides information and recommendations as to sound and appropriate actuarial assumptions, which are utilized, together with valuation information, to determine the programs' funding requirements. The System's actuary in FY 2004 was Milliman USA. The firm of Cheiron was selected in FY 2005 to be the System's actuary.

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

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

Administration

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

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

The Department of Administration is responsible for most administrative and support functions, and consists of the Accounting & Finance, Communications, Facilities, Human Resources, Information Technology, Payrolls Administration, and Support Services units.

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

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

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

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

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

Membership and Contributions

State employees and teachers are covered under the Maine State Retirement System's State employee and teacher plan. State employees are required by law to become members of the MSRS when hired. There is an exception to this rule for elected and appointed officials, for whom membership is optional. Public school teachers must also become members of the MSRS when hired. PLD employees become members of the MSRS when they are hired if their employer participates as a PLD in the MSRS at that time and if they meet the membership eligibility requirements in effect when they are hired. For some PLD employees, membership is optional. These employees include those employed by their PLD before the PLD joined the MSRS, those whose employers provide Social Security under a federal Section 218 Agreement and who choose to be covered by Social Security, those covered by an employer-sponsored qualified plan, employees not covered by the Municipal Public Employees Labor Relations Law, elected and appointed officials, and chief administrative officers.

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

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

All members of each plan within the System contribute a percentage of their compensation to the System. Each employer also contributes to the System in an amount that is a percentage of total wages paid to members who are employees of that employer. The State pays the employer contribution on behalf of all teacher members as well as all State employee members. Employer contribution percentages are actuarially determined by plan and vary from year to year. Further details regarding plan provisions can be found elsewhere in this report in the actuarial valuation for each plan.

The State's employer contribution on behalf of all State employees and all teachers has two components: (1) the normal cost contribution, which, with current member contributions, supports benefits currently being earned by active members and (2) the unfunded actuarial liability (UAL) contribution, which is payment on the amortized debt that represents the liability for benefits in excess of the amount supported by assets of the System. The Maine Constitution requires that the UAL be fully funded in not more than 31 years from July 1, 1997. The amortization period at the end of FY 2005 is 24 years, requiring full payment of the UAL by the end of FY 2028.

The System also administers pay-as-you-go retirement plans for so-called pre-1984 judges and governors and their surviving spouses. The plans are funded each biennium by a direct appropriation from the Legislature and in the case of active governors, by employee contributions required by statute. Administration of the program for pre-1984 judges was transferred to the System from the Judiciary effective July 1, 2005.

Group Life Insurance Program

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

Operating Funds

The System's operating funds are provided by its participating employers. Total operating expenses for staff and all other costs of operations, with the exception of certain investment-related expenses required by law to be paid directly from investments, are allocated among the System's three employer/employee groups (i.e., State employees (including for this purpose judges and legislators), teachers, and PLDs). The System's administrative budget allocating these funds is approved annually by the Legislature.

Accounting and Reporting

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

The System's financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis, in accordance with the standards and requirements of the Governmental Accounting Standards Board (GASB). The financial statements are presented in accordance with GASB Statement No. 25, Financial Reporting for Defined Benefit Plans, and GASB Statement No. 34, Basic Financial Statements - Management's Discussion and Analysis for State and Local Governments. Financial information presented throughout this Report is consistent with the financial statements. The financial statements are prepared on the accrual basis of accounting.

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

The independent auditor, Baker Newman & Noyes (BNN), has conducted an audit of the financial statements in accordance with, as stated in its audit report, generally accepted auditing standards and including those tests and procedures BNN deemed necessary to express its opinion in its audit report. The auditors have unrestricted access to the Board and the Board's Audit Committee to discuss the audit and their findings with respect to the integrity of the System's financial reporting and adequacy of the System's internal controls. BNN audited the System's financial statements for the first time in FY 2005.

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

FUNDING OF DEFINED BENEFIT RETIREMENT PLANS AND GROUP LIFE INSURANCE PLAN

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

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

The interplay of liabilities (i.e., the obligation to pay benefits) and assets (i.e., contributions and investment earnings thereon) can be seen in the plan's funded ratio and changes in funded ratios over time. The funded ratio of the State employee/teacher program has improved since the mid-1980s, though it has of course been affected by poor investment markets in recent years. The funding ratio at June 30, 2005 was 69.7 percent compared to 68.3 percent in 2004. The Judicial program, while slightly overfunded last year, has become slightly underfunded this year. The over 100 percent funded status of the Consolidated Plan for PLDs continues and reflects the circumstances and time of its structure and relatively recent inception. Information regarding overall funding progress appears in the MD&A on page 13. More information on the funding levels of all of the System's retirement programs can be obtained from the System.

The Group Life Insurance Program is funded by premiums paid by its participants and investment returns on reserves. The investment strategy for these reserves is discussed in the Investment Section on page 41. In November 2005, the Board changed its investment strategy for this plan, adopting the same strategy employed for its defined benefit plan assets. The System will engage in an extensive premium study in FY 2006 as well as an asset/liability study. These two studies will inform its long-term investment strategy.

Investments

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

The reserves of the Group Life Insurance program in previous years have been invested in short and medium term investment grade fixed income securities. The Board of Trustees has recently combined the assets of the Group Life Insurance program with the investment portfolio of the defined benefit plans. In 2005, the Board initiated a 5 percent allocation to real estate to be phased-in over two years. The Board also moved to more actively managed domestic and foreign equity investments.

Additional information, including information about performance, is contained in the Investment Section, beginning on page 41.

MAJOR INITIATIVES

Beginning in September 2004 and for most of FY 2005, the System operated under the direction of Gail Drake Wright, Chief Deputy Executive Director of the System, acting in the capacity of Executive Director in the absence of Executive Director Kay R.H. Evans. Upon the retirement of Ms. Evans for health reasons, the Board of Trustees undertook a national search for her replacement. In May, 2005, the Board named Gail Drake Wright as the Executive Director of the System and Ms. Wright named John C. Milazzo as the Chief Deputy Executive Director and General Counsel.

Again in FY 2005, the System maintained its focus on those automation activities that were designed to improve its ability to provide service and retirement information to members on demand, that is, at the time of a request. In last year's annual report, we reported that the System would be heavily engaged in FY 2005 in installing a new automated Benefits Payroll System (BAPS). In FYs 2004 and 2005, the System conducted an extensive process of vendor bidding and selection for BAPS but prior to finalizing its selection of a technology vendor, changes in the technology landscape persuaded the System to expand its BAPS selection process to seek out a vendor who could develop and implement an integrated, web-based line-of-business automated system (LOB). A Request for Supplemental Proposals resulted in the selection of an LOB vendor. The BAPS project will be subsumed within this larger, comprehensive automation project.

The project will take approximately three years and will require the work of at least 10 full time equivalent staff persons at the System and considerable capital investment. The Membership Record Keeping System (MRKS) that the System has been developing internally will be folded into the new comprehensive web-based LOB system. The LOB product will allow the System to move immediately to a web-based system and at the same time, through the re-engineering of business processes that is required, to advance its service goals by leaps and bounds. The challenge in FY 2006 with this major initiative will be to maintain services and service quality while layering on the work of re-engineering the business processes of the System and implementing a complete new system. William Saufley, Deputy Executive Director for Administration, and Christine Gianopoulos, Deputy Executive Director for Service Programs, will be Co-Managers of the LOB project.

In FY 2005, the System also continued its emphasis on manually determining the legacy service credit of its members, a task that has historically been performed only at the retirement of any given member. Progress in this task is critical for the ultimate success of an integrated LOB system which will be able to prospectively determine service credit for members every pay period and allow us to provide information on request. The need to manually determine legacy creditable service will not diminish with the new line-of-business software system and in fact the need to complete this work for the implementation of a line-of-business project only serves to emphasize the critical nature of the work.

ACKNOWLEDGEMENTS

The preparation of this report has been a collaborative effort of senior management, the Finance and Accounting Department and the Communications Department. The System takes responsibility for all of the information it contains and confidently presents it as a basis for the many decisions of the Board of Trustees, staff and others who will rely on it. I want to acknowledge the many staff who worked for years to incrementally improve the financial reporting practices of the MSRS.

Last year, for the first time, the System submitted its 2004 CAFR to the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting Program. We are proud to inform you that the System was awarded this Certificate of Excellence. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, with contents that meet or exceed program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. But for the perseverance of Deputy Executive Director William Saufley as leader of this effort, we would still be at least a year away from making our first CAFR submission to the GFOA. We are all extremely proud that your retirement funds are in the trustworthy hands of those who have been certified as excellent in their financial accounting and reporting practices. A Certificate of Achievement is valid only for one year. We believe our current report continues to conform to the Certificate of Achievement Program requirements. The 2005 CAFR will be submitted to the GFOA.

I want to applaud both our senior management staff for their skills and energy in leading the MSRS staff in the direction of change that moves the System toward excellence and I applaud our staff as a whole for their dedication to this work and their perseverance in the face of this long and winding road.

And finally, I want to acknowledge on behalf of all of us the many contributions of Kay R.H. Evans in her years as Executive Director of the System. We collectively and with all our hearts wish her well in her retirement.

Respectfully submitted,

Gail Drake Wright

Gail Drake Wright
Executive Director

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

William E. Saufley
Deputy Executive Director for Administration

Carl A. Cappello

Carl A. Cappello
Director of Finance and Accounting

BOARD OF TRUSTEES, MANAGEMENT STAFF, and PRINCIPAL PROFESSIONAL CONSULTANTS
June 30, 2005

BOARD OF TRUSTEES

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

SENIOR ADMINISTRATIVE STAFF

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

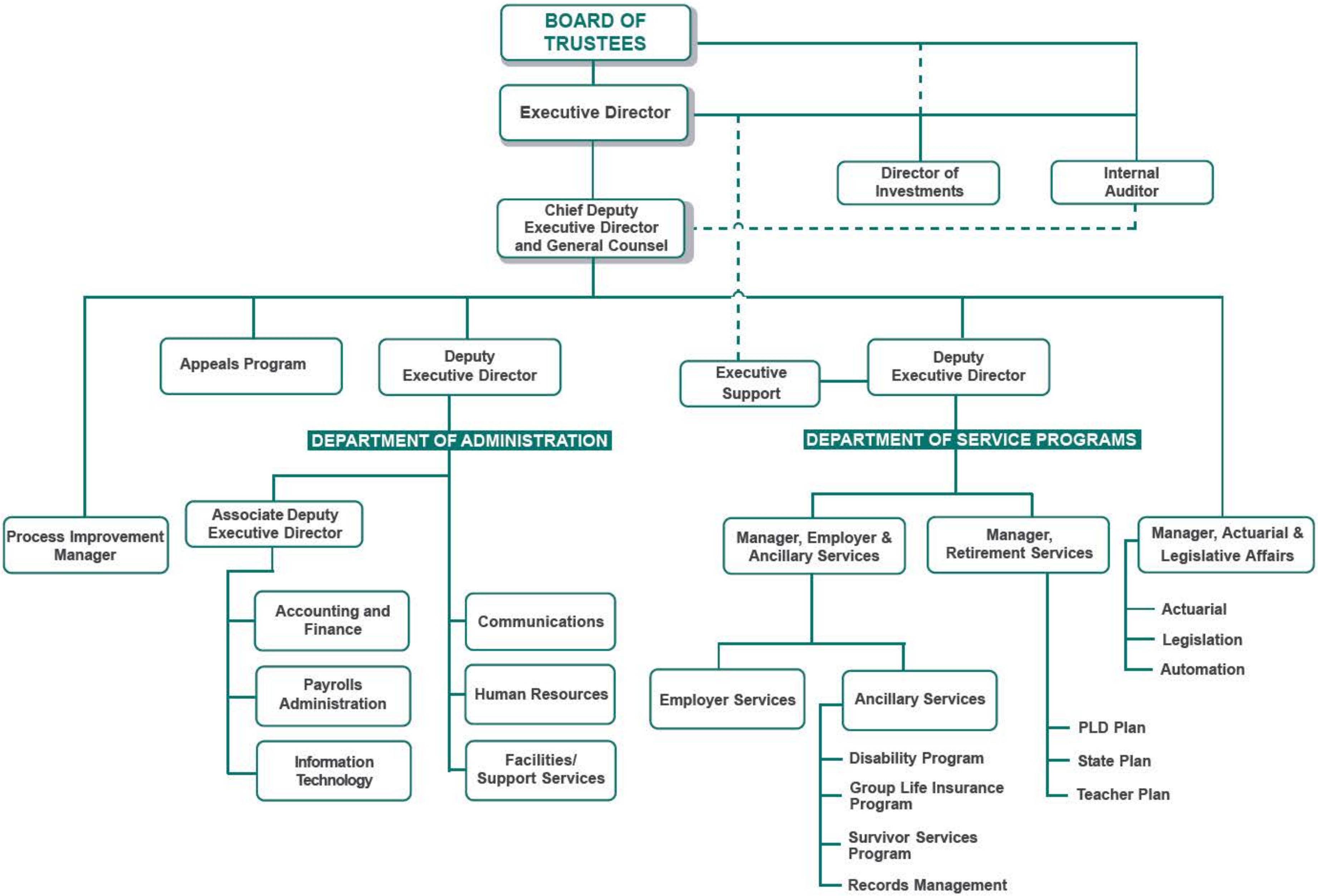
PRINCIPAL PROFESSIONAL CONSULTANTS

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

See page 52 for a list of professional investment management firms.

Maine State Retirement System

Organizational Chart by Function



2005 LEGISLATIVE UPDATE

Legislation Enacted in the First Regular and Special Sessions of the 122nd Legislature

An Act Making Unified Appropriations and Allocations for the Expenditures of State Government… for the Fiscal Years Ending June 30, 2005, June 30, 2006, and June 30, 2007

PL 2005, Chapter 12 [LD 468]
Effective Date: June 29, 2005

This bill is the "Part 1" State budget. Part R of this bill changes the amortization period of the unfunded actuarial liability associated with the retirement plan that covers State employees and teachers from 15 years from June 30, 2005, to 23 years from June 30, 2005, thereby extending the schedule to the full constitutional limit. Part X of this bill increases the portion of retiree health insurance paid by the State for teachers from 40% to 45%. As amended by PL 2005, Chapter 457, the effective date of this increase is January 1, 2006.

An Act to Increase the Limit on the Right to Rejoin the Maine State Retirement System

PL 2005, Chapter 76 [LD 515]
Effective Date: September 17, 2005
Members Affected: Some PLD Employees

This bill increases to two the number of times that a participating local district member who elects to terminate membership based on also having Social Security coverage may rejoin the MSRS. This new law is not applicable to employees of employers that are governed by the Consolidated Plan for Participating Local Districts until such time that the Advisory Committee that is responsible for the design of the Consolidated Plan elects to modify the plan accordingly.

An Act to Authorize the Maine State Retirement System to Provide Names and Addresses to Public Retiree Organizations

PL 2005, Chapter 149 [LD 209]
Effective Date: September 17, 2005
Members Affected: Members and retirees

This bill makes the home addresses of MSRS members and retirees no longer confidential to nonprofit or public organizations established to provide programs, services and representation to Maine public sector retirees if that information is used only for membership recruitment purposes. It also provides that members and retirees may sign a form indicating their desire that their home address not be released to the retiree organizations. *(See related article on page 1 of the Summer 2005 issue of Retirement News.)*

FINANCIAL SECTION

BAKER | NEWMAN | NOYES LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Maine State Retirement System
(A Component Unit of the State of Maine)

We have audited the accompanying statement of fiduciary net assets of Maine State Retirement System (the System) (A Component Unit of the State of Maine) as of June 30, 2005, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the System as of and for the year ended June 30, 2004, were audited by other auditors whose report dated November 5, 2004, expressed an unqualified opinion on those statements.

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

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the System as of June 30, 2005, and the changes in fiduciary net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note 1 to the financial statements, the System has revised its statement format to report the Group Life Insurance Plan separately.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2005 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 13 through 20 and the historical pension information on pages 36 through 40 are not required parts of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
October 5, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 Financial Report

Introduction

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

Financial Reporting Structure

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

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

For the first time, in 2005 the System reports the Group Life Insurance (GLI) Plan as a separate "plan" and in a separate column in the financial statements.

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

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

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

Effective for its 2005 financial statements, the System has adopted GASB Statement No. 40, Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3, issued in March 2003. This Statement requires additional disclosures, which are presented in these notes. These disclosures relate to custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk associated with deposits and investments; the disclosures have no impact on the System's net assets.

Financial Highlights and Analysis

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

The net assets of the System in 2004 increased by $1,118 million (16%) from the prior year's net asset balance. This increase was due primarily to $1,144 million of Net Investment Income during fiscal year 2004. By comparison, Net Investment Income during

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
June 30, 2005 Financial Report

fiscal year 2003 was $351 million. As of June 30, 2004, approximately 50% of the System's assets were invested in domestic stocks, 16% in foreign common stocks, 26% in TIPS, and 7% in other fixed-income securities either with direct holdings or through investment in common/collective trusts. Higher returns in stock markets in 2004 as compared to 2003 resulted in the greater increase in investment income in 2004. The following are the Condensed Comparative Statements of Fiduciary Net Assets and Condensed Comparative Statements of Changes in Fiduciary Net Assets for the System for the fiscal years ended June 30, 2005, 2004 and 2003:

Condensed Comparative Fiduciary Statements of Net Assets
(In millions)

	June 30 2005	2004	2003
Cash and Receivables	$ 547.8	$ 99.3	$ 366.7
Investments at Fair Value	8,574.8	8,026.5	6,901.9
Securities Lending Collateral	2,636.5	230.6	440.4
Other	1.4	1.4	1.5
Total Assets	$ 11,760.5	$ 8,357.8	$ 7,710.5
Investment Purchases	$ 125.4	$ 11.9	$ 260.8
Securities Lending Payable	2,636.5	230.6	440.4
Investment Management Fees Payable	4.8	2.3	2.5
Other Liabilities	21.5	19.5	31.6
Total Liabilities	$ 2,788.2	$ 264.3	$ 735.3
Net Assets Held in Trust for Benefits	$ 8,972.3	$ 8,093.5	$ 6,975.2

Condensed Comparative Statements of Changes in Fiduciary Net Assets
(In millions)

	Year Ended June 30 2005	2004	2003
Additions:			
Member Contributions	$ 147.1	$ 140.6	$ 137.0
Employer Contributions	291.8	300.1	295.4
Net Investments and Other Income	943.4	1,144.3	351.3
Total	$ 1,382.3	$ 1,585.1	$ 783.7
Deductions:			
Benefit	$ 477.4	$ 440.9	$ 417.2
Other	26.1	25.8	23.6
Total	503.5	466.7	440.8
Net Increases (Decreases)	$ 878.8	$ 1,118.3	$ 342.9
Net Assets, Beginning of Year	8,093.5	6,975.2	6,632.3
Net Assets, End of Year	$ 8,972.3	$ 8,093.5	$ 6,975.2

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
June 30, 2005 Financial Report

Assets

Total assets increased $3,403 million (40.7%) during 2005. This increase is primarily attributable to an increase in the Securities Lending Collateral, coupled with increases in Cash and Receivables and Investments at Fair Value. The $2,406 million (1,043.3%) increase in Securities Lending Collateral is attributable primarily to the shift in the TIPS portfolio from a commingled fund to a separately managed account which the System utilizes in its securities lending program. The System records as an asset and corresponding liability, the cash collateral it holds due to its securities lending activity. The System's custodian records an Investment Purchase or Sale Receivable between the time it enters into a trade and the time that trade is settled. The receivable for outstanding trades at June 30, 2005 was approximately $57.5 million more than at June 30, 2004, due to the timing of investment purchases by the System's investment managers.

Total assets increased $648 million (8.4%) during 2004. This increase was attributable to an increase in the Fair Value of Investments, offset by a decrease in Cash and Receivables and a decrease in Securities Lending Collateral. The $1,125 million (16.3%) increase in the Fair Value of Investments was attributable primarily to $1,144 million of Net Investment Income. The receivable for outstanding trades at June 30, 2004 was approximately $130 million less than at June 30, 2003, due to the timing of investment sales by the System's investment managers. On June 30, 2004, the amount of loans outstanding in the securities lending program was $210 million less than at June 30, 2003.

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

Liabilities

The System's custodian records an Investment Purchase or Sale between the time it enters into a trade and the time that trade is settled. The outstanding trades at June 30, 2005 were approximately $114 million more than at June 30, 2004, due to the timing of investment purchases by the System's investment managers. The System records as an asset and corresponding liability, the cash collateral it holds due to its securities lending activity. On June 30, 2005, the amount of loans outstanding in the securities lending program was $2,406 million more than at June 30, 2004.

Outstanding trades at June 30, 2004 were approximately $249 million less than at June 30, 2003, due to the timing of investment purchases by the System's investment manager. On June 30, 2004, the amount of loans outstanding in the securities lending program was $210 million less than at June 30, 2003.

Additions to Fiduciary Net Assets

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

Additions to fiduciary net assets during fiscal year 2004 totaled $1,585 million, an increase of approximately 102.2% over fiscal year 2003. The major part of this increase was attributable to a 225.7% ($793 million increase) in Net Investment Income. The improvement in investment results was due to improved returns in the stock market in 2004 as compared to 2003.

Contributions

The State's contributions to the Regular and Special Plans on behalf of State employees totaled $86.4 million, $85.4 million, and $77.4 million for fiscal years 2005, 2004, and 2003, respectively. The State's contributions on behalf of teachers totaled $165.5 million, $156.6 million, and $166.2 million, for fiscal years 2005, 2004, and 2003, respectively.

An additional employer contribution is mandated by statute to be made when sufficient General Fund Surplus (GFS) monies exist at fiscal year end. Because GFS monies existed at June 30, 2005, 2004, and 2003, contributions of $13 million, $22 million, and $10.5 million, respectively, were accrued by the System as an estimate of what the System would receive from the State. These additional contributions were allocated, according to System policy, in equal parts to the State employee and teacher components of the plan. Thus, total State contributions in 2005 on behalf of State employees were $92.9 million and on behalf of teachers were $172.0 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
June 30, 2005 Financial Report

The State's fiscal 2005 contribution on behalf of judges was $1.0 million; in fiscal year 2004 this contribution was also $1.0 million. Because of the funding methodology and funded status of the Maine Legislative Retirement Plan, no employer contribution was required in fiscal years 2005 or 2004. For Participating Local Districts (PLDs) in the Consolidated Plan, the range of employer contributions as a percent of earnable compensation in fiscal year 2005 and in fiscal year 2004 was 1.5% to 6.5%. The net effect of the Consolidated Plan's funding status and established funding approach is that Plan employers' normal cost contributions may be, and currently are, less than what the true normal cost would otherwise require but will not be less than a base level that reflects the then-current funding status. New entrants to the Consolidated Plan pay the true normal cost for a period of three years. The range of true normal cost in fiscal year 2005 was 3.6% to 16.8%.

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

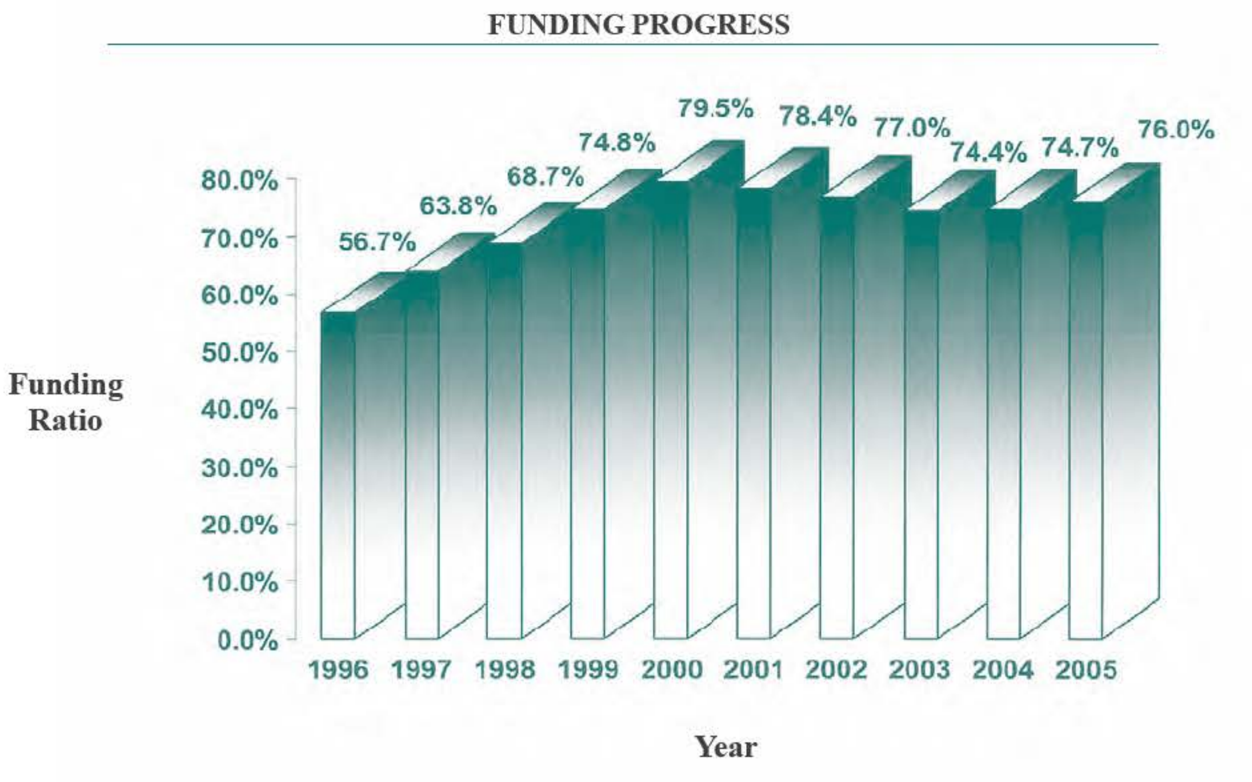
Deductions from Fiduciary Net Assets

Total deductions from fiduciary net assets during fiscal year 2005 increased by 7.9% ($36.9 million). The fiscal year 2005 increase is due to the increased cost of benefits paid. The increase in benefits is the result of the routine application of a cost-of-living adjustment of 3.3% and a 2.5% increase in the number of retirees and beneficiaries receiving benefits. The System experienced changes in net assets due to contributions and benefit payments in 2005 of $39 million. Contributions totaled $438 million, and benefit payments totaled $477 million.

Total deductions from fiduciary net assets during fiscal year 2004 increased by 5.9% ($25.9 million). The fiscal year 2004 increase was due to the increased cost of benefits paid. The increase in benefits was the result of the routine application of a cost-of-living adjustment of 2.1% and a 2.2% increase in the number of retirees and beneficiaries receiving benefits. The System experienced no significant net changes in assets due to contributions and benefit payments in 2004. Contributions totaled $441 million, and benefit payments totaled $441 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
June 30, 2005 Financial Report

System Funding Status



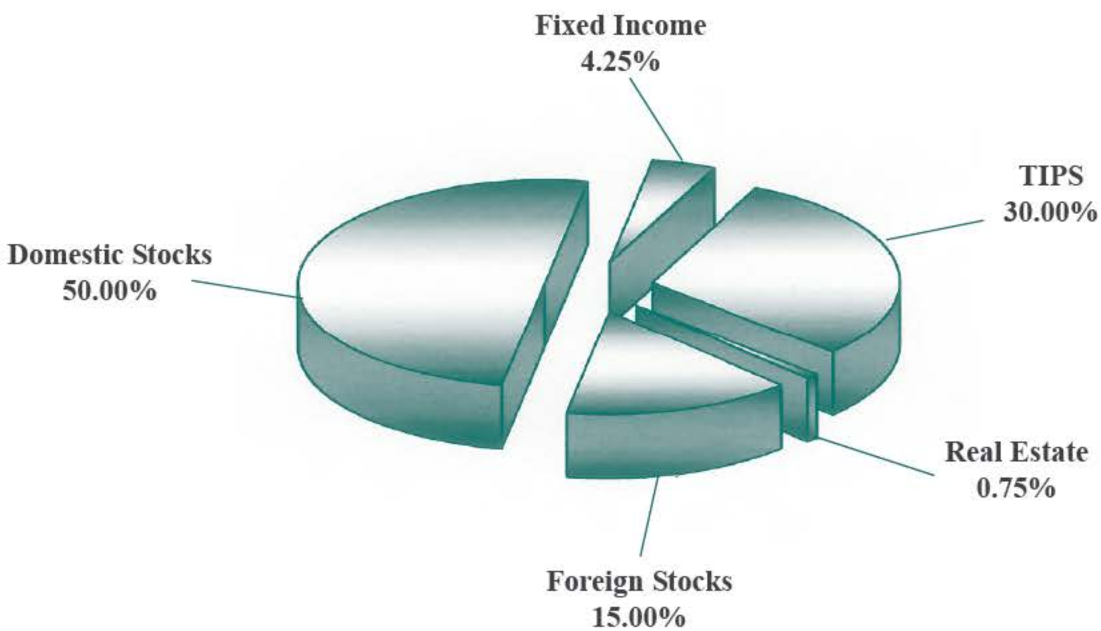
At June 30, 2005, the System was actuarially funded at 76.0%, which is an increase from its actuarial funding level of 74.7% at June 30, 2004. As illustrated in the chart, the funded ratio of the System increased steadily from 1996 to a peak of 79.5% in 2000 after which there was a decline over the following three years to 74.4% at the end of fiscal year 2003, with an increase in 2004 and in 2005. The increase in funding level for 2005 is a function of the combination of the performance of the investment markets and the results of actuarial smoothing techniques.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
June 30, 2005 Financial Report

Investments

The assets of all the defined benefit retirement plans that the System administers are commingled for investment purposes. Essentially all of the assets are invested in five asset classes: publicly traded domestic stocks, publicly traded foreign stocks, Treasury Inflation Protected Securities (TIPS), other publicly traded fixed income securities, and real estate. Publicly traded derivative securities are used in some portfolios to emulate the five asset classes. Approximately 1% of assets are invested other than in these classes, primarily in cash and cash-like securities. The investment policy established by the System's Board of Trustees assigns strategic target allocations for each of the five asset classes. As of June 30, 2005, the targets are 50% for domestic stocks, 15% for foreign stocks, 30% for TIPS, 4.25% for other fixed income and 0.75% for real estate. Only minor variations resulting from market activity and controlled by a formally approved rebalancing methodology are allowed between actual allocations and the strategic targets.

ASSET ALLOCATION
Fiscal Year 2005



Essentially all of the defined benefit assets of the System are in portfolios managed by professional investment management firms. These managers act as fiduciaries and invest the assets assigned to them in accordance with the System's investment policy and their separate contractual arrangements. At June 30, 2005, total assets in these portfolios (together with the amounts otherwise managed) were $8.6 billion. The total assets as of June 30, 2004 were $8.0 billion. The investment return for the fiscal year ending June 30, 2005 was positive 11.8%. The investment return for the fiscal year ending June 30, 2004 was positive 16.6%. Investment returns in fiscal year 2005 were less than in 2004 because approximately 65% of the System's portfolio is invested in publicly traded domestic and foreign stocks, which returned less than in 2004. In 2005 the System's domestic stock benchmark, the Dow Jones Wilshire 5000 Index, returned 8.2%, compared to 21.2% in 2004. The System's foreign stock benchmark, the MSCI All Country World ex - U.S. Free Index, returned 16.5% in 2005 as compared to 32.0% in 2004. Over the ten-year period ended June 30, 2005, the average annual investment return was positive 8.8%.

The assets of the Group Life Insurance ("GLI") Plan are invested in a low-risk mutual fund focusing on short maturity fixed income securities. The total investments as of June 30, 2005 were $42.9 million. The total investments as of June 30, 2004 and 2003 were $41.8 million and $41.5 million, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
June 30, 2005 Financial Report

System Membership

The following membership counts derive from actuarial valuation data:

	June 30		Percentage
	2005	2004	change
Current participants:			
Vested and nonvested	52,434	52,029	0.8%
Terminated participants			
Vested	6,248	5,652	10.5%
Retirees and beneficiaries receiving benefits	32,250	31,460	2.5%
Total Membership	**90,932**	**89,141**	**2.0%**

The number of State employees at June 30, 2005 in the Regular and Special plans was 14,635, an increase of 24 over June 30, 2004. The number of Teachers at June 30, 2005 was 28,275, an increase of 70 over June 30, 2004. Membership for judges was 55, a decrease of one from the previous year. Membership for Legislators was 173, a decrease of three from June 30, 2004. The Consolidated Plan for Participating Local Districts (PLDs) offers 11 retirement plans. Each PLD in the Consolidated Plan chooses the plan or plans under which its employees will be covered. Membership in the Consolidated Plan at June 30, 2005 was 9,186, an increase of 327 over June 30, 2004.

Group Life Insurance Plan — Financial Highlights and Analysis

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

	June 30		
	2005	2004	2003
Actuarial Value of Assets	$41.8	$40.1	$39.0
Actuarial Liability	$127.0	$91.7	$87.3
Unfunded Actuarial Liability	**$85.2**	**$51.6**	**$48.3**

The actuarially determined liabilities of the Group Life Insurance Plan at June 30, 2005 totaled $127.0 million, compared to $91.7 million at June 30, 2004, and $87.3 million at June 30, 2003. The obligations are significantly greater in 2005 than in prior years primarily because of improved recordkeeping ability.

With the System's gains over the last few years in automated recordkeeping ability, the System can now identify much more accurately the actual numbers of group life insurance participants. For 2005, actual group life insurance participant data was available for the first time. Using this actual participant data in the GLI valuation resulted in greater liability than resulted from previous actuarial data extrapolation methodologies. In previous years, the valuation methodology for making defined benefit estimates about average benefit, salary increases and years of service, all of which were used to extrapolate group life insurance liabilities, resulted in lower liabilities than those obtained when using 2005 actual data.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
June 30, 2005 Financial Report

Currently Known Facts, Decisions, or Conditions

After the close of FY 2005, having completed a proposal, bidding, and selection process begun in December 2004, the System selected a firm to provide a Benefits Administration Payroll System (BAPS), to be implemented prior to December 1, 2006. The MSRS expanded the scope of the technology services it was seeking and, after issuing a Request for Supplemental Proposals, it selected the firm with which it is now negotiating a contract for a complete "Line of Business" technology system that will encompass the BAPS as well as automation of other pension administrative functions of the MSRS. Provided that negotiations are successful, the firm will deliver, configure, customize and implement the line of business system over a period of two to three years, and provide continued updates and maintenance services at an agreed price for another four years. Investment in the line of business system will be reflected in the depreciation expenses of the System in future periods.

Requests for Information

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

STATEMENTS OF FIDUCIARY NET ASSETS
Years Ended June 30, 2005 and 2004

	PENSION	GROUP LIFE INSURANCE	2005 TOTAL	2004 TOTAL
Assets:				
Cash and cash equivalents (note 3)	$ 433,364,152	$ 25,000	$ 433,389,152	$ 53,493,675
Investments at fair value (notes 3 and 4):				
Debt securities:				
U.S. Government and government agencies	3,016,214,001	–	3,016,214,001	–
Corporate	167,366,767	–	167,366,767	–
Foreign bonds	34,015,244	–	34,015,244	–
Common equity securities	2,070,003,616	–	2,070,003,616	1,399,810,029
Preferred equity securities	6,144,680	–	6,144,680	8,663,248
Common/collective trusts	3,231,229,032	42,933,499	3,274,162,531	6,610,827,751
Real estate/mortgages	6,924,146	–	6,924,146	7,192,008
Total investments	8,531,897,486	42,933,499	8,574,830,985	8,026,493,036
Receivables:				
State and local agency contributions and premiums (note 6)	22,494,543	756,685	23,251,228	32,897,469
Accrued interest and dividends	23,059,295	–	23,059,295	2,311,044
Due from brokers for securities sold	68,065,397	–	68,065,397	10,559,927
Total receivables	113,619,235	756,685	114,375,920	45,768,440
Collateral on loaned securities (note 5)	2,636,500,591	–	2,636,500,591	230,631,813
Fixed assets, net of accumulated depreciation	1,400,804	44,617	1,445,421	1,415,120
Total assets	11,716,782,268	43,759,801	11,760,542,069	8,357,802,084
Liabilities:				
Accounts payable	946,950	19,450	966,400	910,749
Due to brokers for securities purchased	125,406,611	–	125,406,611	11,871,226
Other liabilities	18,596,171	2,010,306	20,606,477	18,597,652
Accrued investment management fees	4,799,256	–	4,799,256	2,269,084
Obligations under securities lending activities (note 5)	2,636,500,591	–	2,636,500,591	230,631,813
Total liabilities	2,786,249,579	2,029,756	2,788,279,335	264,280,524
Net assets held in trust for pension and group life insurance benefits (the information on funding progress is shown on pages 35-36)	$ 8,930,532,689	$ 41,730,045	$ 8,972,262,734	$ 8,093,521,560

See accompanying *Notes To Financial Statements*.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
Years Ended June 30, 2005 and 2004

	PENSION	GROUP LIFE INSURANCE	2005 TOTAL	2004 TOTAL
Additions:				
Investment income:				
From investing activities:				
Net appreciation in the fair value of plan investments	$ 837,798,991	$ 1,162,512	$ 838,961,503	$1,107,779,801
Interest	79,038,659	3,087	79,041,746	25,106,311
Dividends	36,918,875	–	36,918,875	22,436,210
Less:				
Investment expenses	(13,777,903)	(42,678)	(13,820,581)	(11,979,885)
Net income from investing activities	939,978,622	1,122,921	941,101,543	1,143,342,437
From securities lending activities:				
Securities lending income	50,804,175	–	50,804,175	3,324,957
Securities lending expenses:				
Borrower rebates	(47,625,130)	–	(47,625,130)	(1,999,397)
Management fees	(854,419)	–	(854,419)	(319,296)
Total securities lending activities expenses	(48,479,549)	–	(48,479,549)	(2,318,693)
Net income from securities lending activities	2,324,626	–	2,324,626	1,006,264
Total net investment income	942,303,248	1,122,921	943,426,169	1,144,348,701
Contributions and premiums (note 6):				
Members	138,622,166	8,456,619	147,078,785	140,599,869
State and local agencies	291,615,599	211,576	291,827,175	300,112,176
Total contributions	430,237,765	8,668,195	438,905,960	440,712,045
Total additions	1,372,541,013	9,791,116	1,382,332,129	1,585,060,746
Deductions:				
Benefits paid, net	470,218,358	7,215,051	477,433,409	440,902,949
Refunds and withdrawals	15,975,376	17,279	15,992,655	15,697,257
Claims processing expenses	–	630,176	630,176	643,200
Administrative expenses	9,323,141	211,574	9,534,715	9,539,909
Total deductions	495,516,875	8,074,080	503,590,955	466,783,315
Net increase	877,024,138	1,717,036	878,741,174	1,118,277,431
Net assets held in trust for pension and group life insurance benefits:				
Beginning of year	8,053,508,551	40,013,009	8,093,521,560	6,975,244,129
End of year	$8,930,532,689	$ 41,730,045	$8,972,262,734	$8,093,521,560

See accompanying *Notes to Financial Statements.*

NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

1. Overview of the Maine State Retirement System Benefit Plans

Defined Benefit Plan

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

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

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

At June 30, the membership counts are as follows:

	2005	2004
Current participants:		
Vested and nonvested	52,434	52,029
Terminated participants:		
Vested	6,248	5,652
Retirees and beneficiaries receiving benefits	32,250	31,460
	90,932	89,141

Group Life Insurance Plan

Management made the determination in fiscal 2005, based upon the fact that Group Life Insurance assets may only be used to pay Group Life Insurance benefits, that Group Life Insurance is, in fact, a separate plan in and of itself. As a result, the System has revised its statement format for the basic financial statements for fiscal 2005.

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2005 and 2004

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

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

Benefits and Refunds

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

Investments

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

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

Due to/from Brokers

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

Cash and Cash Equivalents

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

Use of Estimates

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

Risks and Uncertainties

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

NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2005 and 2004

2. Summary of Significant Accounting Policies (continued)

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

Reclassification

Certain balances from the 2004 financial statements have been reclassified to conform to the 2005 presentation.

3. Cash and Investments

The System has implemented the disclosure requirements of GASB Statement No. 40 effective for the year ended June 30, 2005.

Disclosures for cash and investments at June 30, 2005 are as follows:

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

Cash equivalents at Northern Trust are invested in the Short Term Investment Fund (STIF). The STIF is composed of short term debt securities held in a collective trust for the benefit of the System and other investors. All securities purchased in the STIF must either be payable on demand or have a maturity not exceeding fifteen months from the time of purchase. In addition, no transaction may be effected if as a result thereof more than 20% of the STIF will be obligations having maturity dates more than 91 days from the date of the transactions. The System's custodial credit risk exposure for cash and investments at June 30, 2005 is summarized in the table below:

Exposed to Custodial Credit Risk (uninsured and uncollateralized)	$ 21,675,637
Not Exposed to Custodial Credit Risk	8,986,544,499
Total Market Value	$ 9,008,220,136

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

These amounts are disclosed in the financial statements at June 30, 2005 as follows:

Cash and cash equivalents	$ 433,389,151
Investments	8,574,830,985
Total Market Value	$ 9,008,220,136

NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2005 and 2004

3. Cash and Investments (continued)

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

Quality Rating	
AAA	$ 380,883,977
A	12,062,964
BBB+	701,526
BBB	2,805,476
BBB-	2,010,548
BB+	11,562,641
BB	9,911,055
BB-	7,848,244
Total Credit Risk Debt	427,786,431
US Government & Agencies(1)	2,789,809,581
	$ 3,217,596,012

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

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

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

NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2005 and 2004

3. Cash and Investments (continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All of the System's fixed income portfolios are managed in accordance with contractual guidelines. These guidelines specify a level of tracking error. The investment manager has the responsibility of determining the amount of interest rate risk which is compatible with the specified tracking error. In addition, contractual guidelines generally specify a range of effective duration for the portfolio. Duration is widely used in the management of fixed income portfolios as a measure of a debt investment's exposure to fair value changes arising from changing interest rates. The following table details the System's interest rate risk for its investments at June 30, 2005 using the segmented time distribution method.

INVESTMENT TYPE	MARKET VALUE	LESS THAN 1 YEAR	1 TO 6 YEARS	6 TO 10 YEARS	10+ YEARS
Asset-Backed Securities	$ 75,330,977	$ 2,101,170	$ 766,377	$ 1,329,268	$ 71,134,162
Commercial Paper	1,871,290	1,871,290	–	–	–
Corporate Bonds	36,524,112	18,383,378	18,140,734	–	–
Government Bonds	35,239,230	–	6,264,000	2,968,835	26,006,395
Government Mortgage Backed Securities	229,533,724	–	–	–	229,533,724
Treasury inflation protected securities	2,784,962,191	–	–	–	2,784,962,191
Non-Government Backed Collateralized Mortgage Obligations	53,640,388	–	–	–	53,640,388
Short Term Bills and Notes	494,100	494,100	–	–	–
Total	$ 3,217,596,012	$ 22,849,938	$ 25,171,111	$ 4,298,103	$3,165,276,860

NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2005 and 2004

3. Cash and Investments (continued)

Foreign currency risk is that changes in exchange rates will adversely impact the recorded fair value of an investment. The System's currency exposures reside primarily in the System's international equity investments. Managers may or may not hedge a portfolio's foreign currency exposure with currency forward contracts depending on their views of the currency relative to the dollar. All of the System's portfolios are managed in accordance with contractual guidelines. These guidelines specify a level of tracking error. The investment manager has the responsibility of determining the amount of foreign currency risk that is compatible with the specified tracking error. The System's exposure to foreign currency risk in U.S. dollars as of June 30, 2005 is highlighted in the table below:

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

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

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

Disclosures for cash and investments at June 30, 2004 are as follows:

The following summary presents the amount of deposits as of June 30, 2004 and the related category of custodial credit risk. Deposits that are fully insured or collateralized with securities held by the System or its agent in the System's name are shown in Category 1. Deposits collateralized with securities held by the pledging institutions or trust departments or their agent in the System's name are shown in Category 2. Deposits that are not insured or collateralized are shown in Category 3. Non-categorized cash and cash equivalents are those that do not meet the criteria set forth in Categories 1, 2 or 3.

NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2005 and 2004

3. Cash and Investments (continued)

At June 30, 2004, cash and cash equivalents comprised the following:

	BANK BALANCE CATEGORY 1	2	3	TOTAL BANK BALANCE	NOT CATEGORIZED	CARRYING AMOUNT
Cash on deposit with local bank	$ 13,593,734	$ –	$ –	$ 13,593,734	$ –	$ 13,593,734
Short-term investment funds	–	–	–	–	37,392,705	37,392,705
Foreign currency deposits	–	–	–	–	2,507,236	2,507,236
Total	$ 13,593,734	$ –	$ –	$ 13,593,734	$ 39,899,941	$ 53,493,675

The System's investments would generally be categorized into one of three separate categories of custodial risk. Category 1 includes investments that are insured or registered in the System's name or are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party or its agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party or its agent, but not in the System's name. Non-categorized investments (N/A) are those that do not meet the criteria set forth in Categories 1, 2, or 3 as they are not evidenced by physical securities.

The System's investments at June 30, 2004 were as follows:

	CATEGORY	FAIR VALUE
Investments:		
Common equity securities	1	1,091,036,979
Preferred equity securities	1	8,663,248
Common/collective trusts	N/A	6,610,827,751
Other	N/A	7,192,008
Maine Learning Technology Fund	N/A	–
		7,717,719,986
Securities on loan with noncash collateral:		
Common equity securities	3	85,025,168
		85,025,168
Securities on loan with short-term collateral investment pool (cash):		
Common equity securities	N/A	223,747,882
		223,747,882
		$ 8,026,493,036
Securities lending short-term collateral investment pool	N/A	$ 230,631,813

NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2005 and 2004

4. Derivative Securities

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

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

Foreign currency forward contracts are used to hedge against the currency risk in the System's foreign equity and fixed income security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed upon price. The contracts are valued at forward exchange rates, and the changes in value of open contracts are recognized in the statement of changes in fiduciary net assets. The unrealized gain or loss on forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in the statements of changes in fiduciary net assets. As of June 30, 2005 and 2004, the fair value of forward currency contracts held by the System was $13,455,881 and $0, respectively.

The System's fixed income managers invest in CMOs to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2005 and 2004, the carrying value of the System's CMO holdings totaled $53,640,388 and $0 respectively.

The System's managers also invest in swaps. Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities. Long swap positions increase exposure to long term rates; short positions decrease exposure. Credit default swaps are used to manage credit exposure. Purchased credit default swaps decrease credit exposure, while written credit default swaps increase exposure. Total return swaps are a means to gain exposure to an index. As of June 30, 2005 and 2004, the System carried swaps with fair market values of $(5,300,566) and $0 and notional values of $97,900,000 and $0, respectively.

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

Upon entering into such a contract, the System is required to pledge to the broker an amount of cash or securities equal to a certain percentage of the contract amount (initial margin deposit). Pursuant to the contract, the System agrees to receive from, or pay to, the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as "variation margin" and are recorded by the custodial bank on behalf of the System as unrealized gains or losses. When the contract is closed, the custodial bank on behalf of the System records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The potential risk to the

NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2005 and 2004

4. Derivative Securities (continued)

System is that the change in value of futures contracts primarily corresponds to the value of the underlying instruments, which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that the System may not be able to close out its futures positions due to an illiquid secondary market or the potential inability of a counterparty to meet the terms of a contract.

Futures and options with a fair value of $(5,031,719) and a notional value of $745,869,337 were held for investment purposes at June 30, 2005. Futures and options of $47,815,005 were held for investment purposes at June 30, 2004. Gains and losses on futures and options are determined based upon quoted market prices and recorded in the statements of changes in plan net assets.

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

5. Securities Lending

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

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

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

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

During fiscal years 2005 and 2004, there were no violations of legal or contractual provisions, and no borrower or lending agent default losses identified to the System by the securities lending agent.

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

Custodial credit risk is the risk that the System's securities are not returned due to the insolvency of a borrower and the master custodian has failed to live up to its contractual responsibilities relating to the lending of those securities. The master custodian's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. At June 30, 2005 and 2004, all of the collateral for securities lending is subject to custodial credit risk.

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

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

NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2005 and 2004

5. Securities Lending (continued)

Securities on loan by asset class:

	2005	2004
Domestic equity	$ 126,435,054	$ 155,765,195
International equity	204,785,132	153,007,856
Domestic fixed income	5,715,426	–
International fixed income	17,843,027	–
U.S. Government and government agencies	2,803,643,010	–
Total securities on loan	$ 3,158,421,649	$ 308,773,051

Securities lending collateral:

	2005	2004
Short term Investment collateral pool	$ 2,636,500,591	$ 230,631,813
Non-Cash Collateral	609,417,834	90,552,061
Total Collateral	$ 3,245,918,425	$ 321,183,874

6. Contributions

Defined Benefit Contributions

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

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

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

The State of Maine is required by Maine law to remit a percentage of its unallocated General Fund Surplus, if sufficient, at the end of its fiscal year to the System, in order to reduce any unfunded pension liability for state employees and teachers. For fiscal years 2005 and 2004, this additional contribution was approximately $13,000,000 and $22,000,000, respectively. This amount is included as contributions receivable at June 30.

NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2005 and 2004

6. Contributions (continued)

Retirement contribution rates for all employee members are set by law. Employer retirement contribution rates as applied to State employee members' and teacher members' compensation are the actuarially determined rates as adjusted in the State's budget process to reflect differences in, e.g., salary growth projections. PLD employer contribution rates are the actuarially determined rates. The rates in effect in 2005 and 2004 are as follows:

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

	2005	2004
State:		
Employees(1)	7.65 – 8.65%	7.65 – 8.65%
Employer(1)	13.39 – 38.18%	13.39 – 38.18%
Teachers:		
Employees	7.65%	7.65%
Employer	16.02%	16.05%
Participating local districts:		
Employees(1)	3.0 – 8.0%	3.0 – 8.0%
Employers(1)	1.5 – 6.5%	1.5 – 6.5%
Employer other(2)	5.1 – 9.0%	5.1 – 9.0%

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

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

Group Life Insurance Premiums

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

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

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

NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2005 and 2004

7. Benefits

Defined Benefit Plan

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

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

Group Life Insurance Plan

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

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

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

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

All benefits are processed and paid by a third-party administrator (TPA). The fees incurred for services performed by the TPA totaled approximately $630,176 and $643,200 for the years ended June 30, 2005 and 2004, respectively, and are listed as claims processing expenses in the basic financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2005 and 2004

8. Statutory and Constitutional Requirements

An amendment to the Maine constitution approved in November 1995 requires the State to fund the unfunded actuarial liabilities of the State and teacher plans existing on June 30, 1996, over a period not to exceed 31 years beginning July 1, 1997. The amendment also prohibits the creation of new unfunded liabilities in the State and teacher plans except those arising from experience losses, which must be funded over a period of not more than ten years. In addition, the amendment requires use of actuarially sound current cost accounting, reinforcing existing statutory requirements. In 1998, the State enacted a statute that required the State to fund the unfunded actuarial liabilities of the State and teacher plans existing on June 30, 1998 over a period not to exceed 25 years, commencing June 30, 1998, thus adopting a shorter amortization period than required by the State constitution. In 2000, the amortization period was further reduced by the Legislature to 19 years, commencing June 30, 2000. The two legislative changes made in 1998 and 2000 shortened the amortization period by a total of nine years. In 2004, the Legislature re-extended the amortization period to the full extent permitted under the constitution for the fiscal 2004 – 2005 biennial budget, including a "sunset" provision which would have the effect of reducing the amortization period beginning July 1, 2005 (the beginning of fiscal year 2006) back to 14 years. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028.

9. System's Employees

Defined Benefit Plan

The System, as the employer of its staff, is a participating employer (i.e., a PLD) in the Consolidated Plan for Participating Local Districts administered by the Maine State Retirement System. As such, System employees are required by statute to contribute 6.5% of their annual covered salaries. The System is required to contribute at an actuarially established normal cost rate under the actuarial valuation of the Consolidated Plan and also was required to make the payments required to amortize its Initial Unpooled Unfunded Actuarial Liability (IUUAL), which the System paid in full in 2003. The normal cost rate was 2.8% of annual covered payroll for 2005, 2004, and 2003, respectively, and the employer contribution on behalf of its employees, equal to the required contribution, was $152,086, $160,022, and $534,672 for 2005, 2004, and 2003, respectively, including both normal cost and IUUAL payment in 2003. The actuarial assumptions used in the Consolidated Plan valuation are described in the actuarial assumptions and methods footnote to the required supplementary information.

Group Life Insurance Plan

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

The System was required to pay premiums for Basic coverage at the rate of $0.46 per $1,000 of coverage for the 2005, 2004, and 2003 fiscal years. The total premiums the System paid on behalf of its active employees were $27,221, $26,787, and $24,038 for 2005, 2004, and 2003, respectively.

The System, as a PLD, is also required to continue to pay the Basic Group Life Insurance premiums due for its retirees, based upon the reduced coverage for retired employees. The total premiums paid by the System on behalf of its retirees were $2,531, $2,381, and $1,908, for 2005, 2004, and 2003, respectively.

REQUIRED SUPPLEMENTAL SCHEDULE
SCHEDULE OF HISTORICAL PENSION INFORMATION
DEFINED BENEFIT PLAN

June 30, 2005 and 2004
(unaudited)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
June 30, 2005	$ 8,888,156,289	$ 11,689,732,025	$ 2,801,575,736	76.0%	$ 1,821,366,540	153.8%
June 30, 2004	8,273,559,503	11,068,596,692	2,795,037,189	74.7	1,764,751,029	158.4
June 30, 2003	7,787,205,499	10,470,578,120	2,683,372,621	74.4	1,719,311,023	156.1
June 30, 2002	7,612,509,160	9,889,494,007	2,276,984,847	77.0	1,681,423,896	135.4
June 30, 2001	7,389,558,862	9,425,021,636	2,035,462,774	78.4	1,580,530,753	128.8
June 30, 2000	7,027,525,443	8,842,716,327	1,815,190,884	79.5	1,515,172,430	119.8

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS

Year Ended:	Annual Required Contribution	Annual Contribution	Percentage Contributed
2005	$ 269,285,655	$ 282,292,459	104.8%
2004	259,147,805	290,572,267	112.1
2003	261,213,019	285,646,014	109.4
2002	252,503,429	415,551,283	164.6
2001	264,648,938	264,648,938	100.0
2000	246,312,125	250,312,125	101.6

See *Notes to Historical Plan Information*

See accompanying *Independent Auditors' Report*.

REQUIRED SUPPLEMENTAL SCHEDULE
SCHEDULE OF HISTORICAL PLAN INFORMATION
GROUP LIFE INSURANCE PLAN

June 30, 2005 and 2004
(unaudited)

SCHEDULE OF FUNDING PROGRESS

Dollars in Millions

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Liability	(b-a) Unfunded Actuarial Liability	(a/b) Funded Ratio
June 30, 2005	$ 41.8	$ 127.0	$ 85.2	32.9%
June 30, 2004	40.1	91.7	51.6	43.7
June 30, 2003	39.0	87.3	48.3	44.7
June 30, 2002	36.6	83.2	46.6	44.0
June 30, 2001	34.0	79.5	45.5	42.8
June 30, 2000	31.5	83.2	51.7	37.9

See *Notes to Historical Plan Information*

See *Accompanying Independent Auditors' Report.*

NOTES TO HISTORICAL PLAN INFORMATION
June 30, 2005 and 2004
(unaudited)

1. Basis of Presentation

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

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

The information in the historical plan information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 2005, is as follows:

Actuarial Cost Method

Costs are developed using the entry age normal cost method (based on a level percentage of covered payroll), except for the costs of the legislative plan, where the aggregate method is used. The aggregate method does not technically define an actuarial accrued liability. For purposes of the schedule of funding progress disclosure, in which all plans are combined, the accrued actuarial liability of approximately $7.4 million equals the actuarial value of assets. Under the entry age normal method, the accrued liability and the present value of future normal costs are determined by summing the individual entry age results for each participant. The normal cost is then determined in aggregate by spreading the present value of future normal costs as a level percentage of expected future covered payroll. Entry age is defined as the first day service is credited under the plan.

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

Asset Valuation Method

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

Amortization

The unfunded actuarial accrued liability of the state employee and teacher plan is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements (note 7 to the Financial Statements). The unfunded actuarial accrual liability credit of the judicial plan is amortized over a period of which 12 years remained at June 30, 2005.

The Initial Unpooled Unfunded Actuarial Liabilities (IUUALs) of PLDs are amortized over periods established for each PLD separately. During fiscal years 2005 and 2004, various PLDs contributed in total approximately $6,800 and $9,424,000, respectively, to reduce or pay in full their IUUALs. The Consolidated Plan has no Pooled Unfunded Actuarial Liability.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2005 are as follows:

Investment Return – 8% per annum, compounded annually.

Salary Increases – State employee and teacher plan, 5.5% to 9.5% per year; judicial and legislative plans, 5% per year; Consolidated Plan for PLDs, 4.5% to 9% per year.

NOTES TO HISTORICAL PLAN INFORMATION (continued)
June 30, 2005 and 2004
(unaudited)

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

Mortality Rates – For active State employee members, active participating local district members, non-disabled State employee retirees, nondisabled participating local district members, judges with retirement dates on or after July 1, 1998, UP 1994 Tables are used; for active teacher members and nondisabled teacher retirees with retirement dates on or after July 1, 1998, 85% of UP 1994 Tables are used; for nondisabled State employee retirees, nondisabled participating local district members, judges, with retirement dates before July 1, 1998, GAM 1971 Tables are used; for nondisabled teacher retirees with retirement dates before July 1, 1998, GAM 1971 Tables with ages set back two years are used; for all recipients of disability benefits with retirement dates on or after July 1, 1998, 1964 Commissioners Disability Table is used; and for all recipients of disability benefits with retirement dates before July 1, 1998, RPA 1994 Table for pre-1995 Disabilities is used.

Cost-of-Living Benefit Increases – 4% per annum.

3. Actuarial Methods and Assumptions – Legislative System

The historical plan information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 2005, is as follows:

Actuarial Cost Method

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

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

Asset Valuation Method

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

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2005 are as follows:

Investment Return – 8% per annum, compounded annually.

Salary Increases – 5% per year.

Mortality Rates – For legislators with retirement dates on or after July 1, 1998, UP 1994 Tables are used; for legislators with retirement dates before July 1, 1998, GAM 1971 Tables are used; for all recipients of disability benefits with retirement dates before July 1, 1998, 1964 Commissioners Disability Table is used; and for all recipients of disability benefits with retirement dates on or after July 1, 1998, RPA 1994 Table for pre1995 Disabilities is used.

Cost of Living Benefit Increases – 4% per annum.

NOTES TO HISTORICAL PLAN INFORMATION (continued)
June 30, 2005 and 2004
(unaudited)

4. Actuarial Methods and Assumptions – Group Life Insurance Plan

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

The information in the historical group life information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 2005, is as follows:

Actuarial Cost Method

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

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

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

Asset Valuation Method

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2005 are as follows:

Investment Return – 8% per annum, compounded annually.

Salary Increases – State employee and teacher plan, 5.5% to 9.5% per year; judicial and legislative plans, 5% per year; Consolidated Plan for PLDs, 4.5% to 9% per year.

Mortality Rates – For active State employee members, active participating local district members, non-disabled State employee retirees, nondisabled participating local district members, judges with retirement dates on or after July 1, 1998, UP 1994 Tables are used; for active teacher members and nondisabled teacher retirees with retirement dates on or after July 1, 1998, 85% of UP 1994 Tables are used; for nondisabled State employee retirees, nondisabled participating local district members, judges, with retirement dates before July 1, 1998, GAM 1971 Tables are used; for nondisabled teacher retirees with retirement dates before July 1, 1998, GAM 1971 Tables with ages set back two years are used; for all recipients of disability benefits with retirement dates on or after July 1, 1998, 1964 Commissioners Disability Table is used; and for all recipients of disability benefits with retirement dates before July 1, 1998, RPA 1994 Table for pre-1995 Disabilities is used.

Cost-of-Living Benefit Increases – N/A.

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

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

Form of Benefit Payment – Lump Sum.

INVESTMENT SECTION

[This page intentionally left blank.]

ENNISKNUPP

November 22, 2005

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

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

Investment Results. MSRS investment results, as presented in this report, fairly represent, in our opinion, the investment performance of MSRS assets. All measurements and comparisons have been made using standard performance evaluation methods, and results are presented in a manner consistent with the Performance Presentation Standards of the Association for Investment Management and Research.

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

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

Very truly yours,

Neeraj Baxi

Neeraj Baxi, CFA
Principal

G:\Maine\WP\LETTERS\Annual Report Letter Nov 2005.doc

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

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

DEFINED BENEFIT PLANS

INVESTMENT ACTIVITY

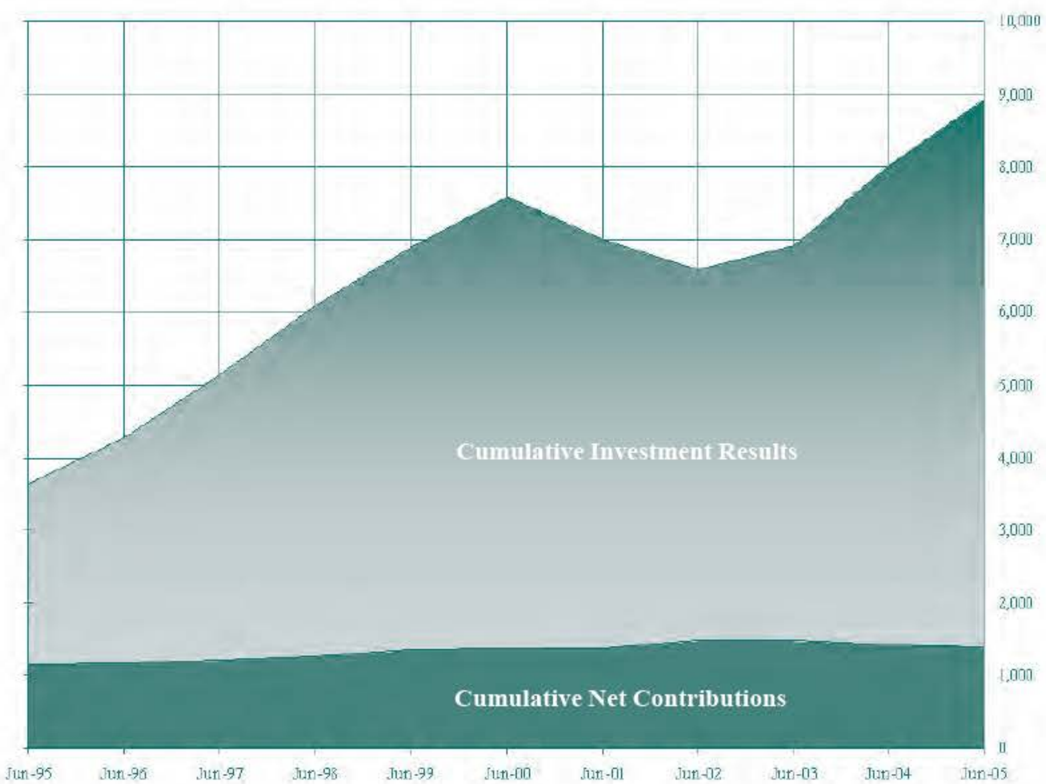
The table and graph below summarize portfolio activity for the ten years ended June 30, 2005. During this period, assets increased by approximately two and one half times from $3.6 billion to $8.9 billion. Approximately $5.0 billion of this increase is attributable to net investment gains, with the remainder attributable to contributions in excess of benefit payments over the period. In the year ended June 30, 2005, however, benefit payments exceeded contributions, and this is expected to continue in the future.

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

SUMMARY OF INVESTMENT ACTIVITY

(In Millions)

FY Ended June 30	Opening Market Value	Closing Market Value	Rate of Return
2005	8,021	8,921	11.80%
2004	6,919	8,021	16.60%
2003	6,574	6,919	5.30%
2002	7,001	6,574	-7.50%
2001	7,587	7,001	-7.80%
2000	6,885	7,587	9.70%
1999	6,104	6,885	11.20%
1998	5,141	6,104	17.80%
1997	4,273	5,141	18.80%
1996	3,645	4,273	16.60%
10-year period	3,645	8,921	8.80%



(In Millions)

INVESTMENT PORTFOLIO

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

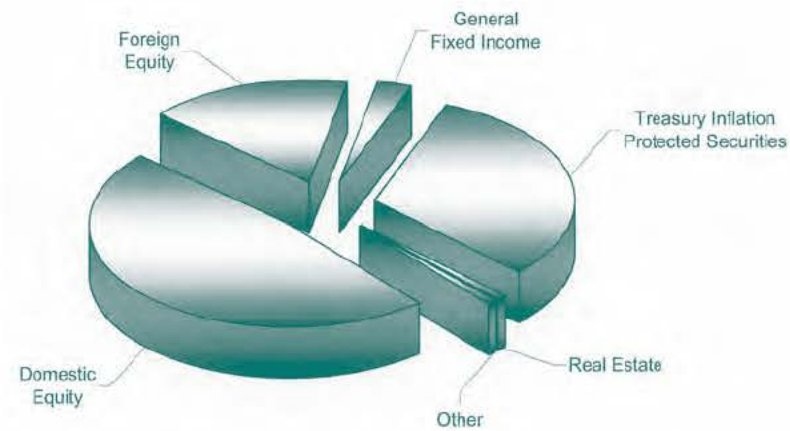
The System invests essentially all of the defined benefit plan assets in five major asset classes: publicly traded domestic stocks, publicly traded foreign stocks, publicly traded bonds, real estate, and Treasury Inflation Protected Securities (TIPS). MSRS also uses derivatives positions to emulate these asset classes. Currently, less than 1.0% of the assets are invested in assets outside of these five categories. The table and pie charts below display the actual allocations at June 30 for the years ended June 30, 2005 and 2004. MSRS assigns target allocations for each asset class, with minor variations permitted between actual allocations and the targets. The current strategic targets are 50% for domestic stocks, 15% for foreign stocks, 4.25% for general fixed income securities, 0.75% for real estate and 30% for TIPS.

The Board of Trustees believes a prudent investment strategy for a defined benefit plan requires accepting some level of investment risk. The Board believes that allocating 65% to 70% of assets to equities provides a prudent compromise between low risk and high return for the plans.

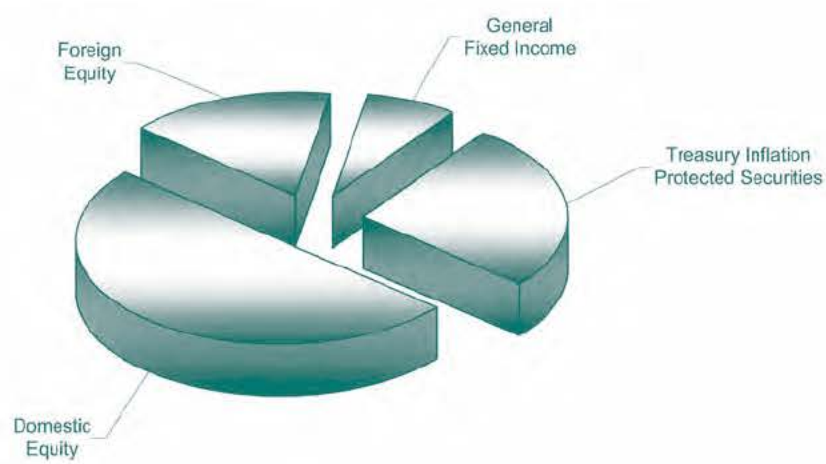
STRATEGIC ASSET ALLOCATION

Actual Allocations as of:	Domestic Equity	Foreign Equity	General Fixed Income	Treasury Inflation Protected Securities	Real Estate	Other
06/30/05	48%	17%	3%	31%	1%	1%
06/30/04	50%	16%	7%	26%	0%	0%

STRATEGIC ASSET ALLOCATION
At June 30, 2005



STRATEGIC ASSET ALLOCATION
At June 30, 2004



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

Because most of its benefit payments are not due for several decades into the future, the System has concluded that it is prudent to invest a substantial portion of its assets in equities. For the past ten years, the System has invested between 60% and 65% of its assets in equities. Over sufficiently long periods of time, equities have been shown to outperform bonds. (See Performance: Actual Returns vs. Benchmark Returns on pages 50-51). The System expects this relationship to hold in the future.

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

Approximately 56% of assets were invested in passively managed index funds and separate accounts at June 30, 2005. The Board of Trustees believes that index funds are a cost-effective way of investing in most of the world's capital markets. However, the System does make use of actively managed portfolios where it believes it has identified managers who can add value over an index fund, net of all costs. At June 30, 2004, approximately 80% of assets were invested in passively managed index funds. The decrease to 56% that occurred during FY 2005 was the result of replacing passively managed domestic and foreign equity index funds with actively managed accounts. Historically, the System's proportion of passively managed assets is between 50% and 60%.

The System uses a single firm to manage all of its passive investments. This enables the System to obtain attractive fees and also provides other cost savings on certain kinds of transactions. Since passively managed portfolios have extremely low risk of underperforming their benchmarks, the Board does not believe this represents an excessive concentration of risk.

DEFINED BENEFIT PLANS
INVESTMENT PORTFOLIO

	at 6/30/2005		at 6/30/2004	
	millions of dollars	% of assets	millions of dollars	% of assets
Active Equity				
Jacobs Levy Equity Management	805	9%	215	3%
Wellington Management Company	516	6%	459	6%
Peregrine Capital Management	0	0%	324	4%
Martin Currie and Company	0	0%	296	4%
T. Rowe Price	0	0%	230	3%
Pacific Investment Management (PIMCO)	792	9%	0	0%
Legg Mason	274	3%	0	0%
Capital Guardian	511	6%	0	0%
Grantham, Mayo, Van Oterloo (GMO)	424	5%	0	0%
Barclays Global Investors	533	6%	0	0%
Other	1	0%	1	0%
	3,855	43%	1,525	19%
Passive Equity				
Barclays Global Investors (Domestic)	1,835	21%	0	0%
Barclays Global Investors (Foreign)	223	2%	0	0%
State Street Global Advisors (Domestic)	0	0%	3,283	41%
State Street Global Advisors (Foreign)	0	0%	528	7%
	2,058	23%	3,811	48%
Passive General Fixed Income				
Barclays Global Investors	224	3%	0	0%
State Street Global Advisors	0	0%	585	7%
Other	3	0%	3	0%
	227	3%	588	7%
Passive Treasury Inflation Protected Securities				
Barclays Global Investors	2,673	30%	0	0%
State Street Global Advisors	0	0%	2,095	26%
	2,673	30%	2,095	26%
Real Estate				
Barclays Global Investors (Index REIT)	22	0%	0	0%
Principal	20	0%	0	0%
Prudential	20	0%	0	0%
	62	1%	0	0%
Other	47	1%	2	0%
Total Assets	8,921	100%	8,021	100%

DEFINED BENEFIT PLANS
LARGEST HOLDINGS
At June 30, 2005

Top Ten Common Stock Holdings	$ millions	% of Assets
General Electric	81	0.9%
Exxon Mobil	71	0.8%
CitiGroup	64	0.7%
Microsoft	58	0.6%
Johnson & Johnson	49	0.6%
Bank of America	46	0.5%
United Health Group	44	0.5%
Intel	42	0.5%
Cisco	41	0.5%
Pfizer	41	0.5%

Top Ten Bond Holdings	$ millions	% of Assets
TIPS 3.875% of 04/15/2029	995	11.2%
TIPS 3.625% of 04/15/2028	817	9.2%
TIPS 2.375% of 01/15/2025	742	8.3%
TIPS 3.375% of 04/15/2032	249	2.8%
Federal Republic of Germany 6.25% of 04/01/2030	12	0.1%
CMO NAAC Reperforming 6.5% due 12/25/2035	8	0.1%
CMO CWMBS Inc. Passthru due 07/25/2035	8	0.1%
Federal Republic of Germany 6.5% 04/07/2027	8	0.1%
CMO Structured Asset Secs Corp. 5% due 01/01/2034	7	0.1%
Government of France 4.0% due 04/25/2055	7	0.1%

A complete list of securities holdings is available upon request.

The System holds large positions in four Treasury Inflation Protected Securities (TIPS) issues. While the positions in these securities are large relative to other holdings, the Board does not believe they constitute an inappropriate concentration of risk, since they are marketable securities carrying the full faith and credit of the government of the United States. As explained earlier, long maturity TIPS have economic characteristics that mirror those of the System's long-term benefit liabilities. Therefore, the TIPS represent low risk assets in terms of funding the plans' benefit obligations.

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

SECURITIES LENDING

MSRS earns additional income on its investment portfolio by lending its securities. The System pays its custodian for managing the securities lending program. Information regarding the results of the securities lending program for the current and prior fiscal years may be found in the Financial Section starting on page 11.

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

INVESTMENT PERFORMANCE

The table on the following page displays the rates of return on the System's investment portfolio over the last ten years, and for the 3, 5, and 10-year periods ended June 30, 2005. Because the System's investment strategy has changed very little from year to year (aside from the substitution of TIPS for fixed income securities), these results are determined almost entirely by the behavior of the capital markets. Negative returns for the years ended June 30, 2001 and 2002 were the result of declines in domestic and foreign stock markets, partially offset by gains in the domestic bond market.

The table contains three new asset classes. Addition of the categories of Global Equity and Global Balanced is due to the fact that the Board retained two new managers during fiscal year 2005 whose investment mandates cross traditional asset class lines. The third added class is Real Estate.

Over the ten-year period, the average annual rate of return on the System's assets was 8.8%. MSRS experienced eight years of positive returns and two years of negative returns. These results are consistent with the long-term risk/return strategy that forms the basis of the System's policies. At 8.8%, the ten-year return exceeds the 8% investment return assumption utilized in the actuarial process throughout this period.

Because the Board of Trustees rarely changes its asset class allocation targets, most of the System's investment return is determined by the choice of targets, i.e., by the System's choice of investment strategy and, as mentioned above, the behavior of the capital markets in general. A minor portion of the investment return is determined by how well the investment managers perform their assignments. To measure this, the Board compares the return on each manager's portfolio to an appropriate benchmark. Over the ten years ended June 30, 2005, the return on the System's actual total portfolio slightly trailed the return on its total performance benchmark. Positive performance in four of the ten years was offset by negative performance in five of the ten years. The performance of the portfolio equaled that of the benchmark in one year. In terms of asset classes, negative performance in domestic equities over the ten years was offset by positive or equal performance in other categories.

The total return figures in the table below are net of all expenses that can be directly attributed to the investment program (see Expenses, page 52). The table reports time weighted rates of return based on the market value of the assets.

The Board of Trustees believes that the return information provided here complies with the CFA Institute Performance Presentation Standards, except where the explicitly described methods are not consistent with those standards.

DEFINED BENEFIT PLANS
PERFORMANCE: ACTUAL RETURNS vs. BENCHMARK RETURNS

	TOTAL FUND			DOMESTIC EQUITY			FOREIGN EQUITY			GLOBAL EQUITY		
	Actual Return	Benchmark Return	Performance	Actual Return	Benchmark Return	Performance	Actual Return	Benchmark Return	Performance	Actual Return	Benchmark Return	Performance
2005	11 8%	12 1%	-0 3%	7 9%	8 2%	-0 3%	15 7%	16 5%	-0 8%	-1 4%	-0 4%	-1 0%
2004	16 6%	15 9%	0 7%	21 3%	21 2%	0 1%	30 5%	32 0%	-1 5%			
2003	5 3%	4 3%	1 0%	0 9%	1 3%	-0 4%	-4 5%	-4 6%	0 1%			
2002	-7 5%	-6 8%	-0 7%	-17 4%	-16 6%	-0 9%	-9 5%	-8 4%	-1 1%			
2001	-7 8%	-7 8%	0 0%	-14 8%	-15 3%	0 6%	-24 0%	-24 1%	0 1%			
2000	9 7%	9 1%	0 6%	10 0%	9 5%	0 5%	19 0%	17 8%	1 1%			
1999	11 2%	12 7%	-1 5%	18 2%	19 6%	-1 3%	4 6%	9 2%	-4 7%			
1998	17 8%	18 7%	-0 9%	26 6%	28 9%	-2 2%	4 5%	2 2%	2 3%			
1997	18 8%	19 0%	-0 2%	27 5%	29 3%	-1 8%	16 1%	12 8%	3 3%			
1996	16 6%	16 2%	0 4%	25 1%	26 2%	-1 1%	15 8%	13 3%	2 5%			
3 years ended 2005	11 1%	10 7%	0 4%	9 7%	10 0%	-0 3%	13 0%	13 6%	-0 6%			
5 years ended 2005	3 2%	3 1%	0 1%	-1 5%	-1 3%	-0 2%	-0 2%	0 4%	-0 6%			
10 years ended 2005	8 8%	8 9%	-0 1%	9 3%	10 0%	-0 7%	5 7%	5 5%	0 2%			

Note: Returns for Global Equity, Global Balanced, and their benchmarks are for the period from January 1, 2005 to June 30, 2005 and are not annualized.

Benchmarks:

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

Domestic Equity: DJ Wilshire 5000

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

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

TABLE CONTINUED ON NEXT PAGE

DEFINED BENEFIT PLANS
PERFORMANCE: ACTUAL RETURNS vs. BENCHMARK RETURNS

	GLOBAL BALANCED			REAL ESTATE			GENERAL FIXED INCOME			TREASURY INFLATION PROTECTED SECURITIES		
	Actual Return	Benchmark Return	Performance	Actual Return	Benchmark Return	Performance	Actual Return	Benchmark Return	Performance	Actual Return	Benchmark Return	Performance
2005	3.0%	1.8%	1.2%	6.6%	6.6%	0.0%	6.8%	6.8%	0.0%	17.2%	17.0%	0.2%
2004							3.1%	1.0%	2.1%	4.5%	4.8%	-0.3%
2003							13.1%	11.0%	2.1%			
2002							7.3%	8.6%	-1.4%			
2001							9.6%	11.2%	-1.6%			
2000							5.2%	4.6%	0.6%			
1999							3.3%	3.1%	0.2%			
1998							10.5%	10.5%	-0.1%			
1997							8.7%	8.2%	0.6%			
1996							5.3%	5.0%	0.3%			
3 years ended 2005							5.8%	5.8%	0.0%			
5 years ended 2005							7.4%	7.4%	0.0%			
10 years ended 2005							7.3%	6.8%	0.4%			

Note: Returns for Global Equity, Global Balanced, and their benchmarks are for the period from January 1, 2005 to June 30, 2005 and are not annualized.

Benchmarks *(continued)*

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

Real Estate: DJ Wilshire Real Estate Securities Index since December 31, 2004

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

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

TABLE CONTINUED FROM PREVIOUS PAGE

INVESTMENT EXPENSES

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

Where the table displays an expense as a percentage of assets, the percentage is calculated with respect to the assets associated with the particular expense item. For example, Jacobs Levy's $1.97 million of management fees in 2005 was 0.39% of the average assets managed by Jacobs Levy. For managers that were not part of the portfolio for the entire year, the assets on which the percentage is based has been appropriately adjusted.

Expenses as a percentage of assets have been less than 0.25% of assets annually throughout the ten-year period ended June 30, 2005. This compares favorably to, for example, typical investment expenses of 1% or more annually for typical mutual funds.

INVESTMENT MANAGEMENT EXPENSES

Total for FY ended June 30	$ millions	% of assets
2005	15.3	0.17%
2004	12.0	0.16%
2003	9.6	0.14%
2002	10.4	0.15%
2001	10.8	0.15%
2000	12.2	0.17%
1999	12.1	0.19%
1998	10.6	0.19%
1997	10.7	0.23%
1996	8.8	0.22%

Detail for FY ended June 30, 2005	fees	% of Assets
Investment management fees	$15,308,771	0.17%
Active Equity		
Jacobs Levy Equity Management	$1,968,279	0.39%
Wellington Management Company	$2,353,845	0.48%
Peregrine Capital Management	$1,396,780	0.80%
Martin Currie and Company	$508,751	0.41%
T. Rowe Price	$406,453	0.33%
Pacific Investment Management (PIMCO)	$1,245,320	0.27%
Legg Mason	$656,267	0.41%
Capital Guardian	$1,279,739	0.43%
Grantham, Mayo, Van Oterloo (GMO)	$980,406	0.40%
Barclays Global Investors	$1,014,826	0.33%
Passive Equity		
Barclays Global Investors (Domestic)	$96,965	0.01%
Barclays Global Investors (Foreign)	$35,701	0.02%
State Street Global Advisors (Domestic)	$11,968	0.00%
State Street Global Advisors (Foreign)	$23,256	0.03%
Passive General Fixed Income		
Barclays Global Investors	$25,380	0.01%
State Street Global Advisors	$2,133	0.00%
Passive Treasury Inflation Protected Securities		
Barclays Global Investors	$119,529	0.00%
State Street Global Advisors	$7,637	0.00%
Real Estate		
Barclays Global Investors (Index REIT)	$9,442	0.08%
Principal	$11,399	0.91%
Other	$3,154,694	0.04%

DEFINED BENEFIT PLANS
BROKERAGE COMMISSIONS
Year Ended June 30, 2005

Broker	Commission ($ in thousands)	Shares Traded (in millions)	Commission per Share	Market Value Traded ($ in millions)
Investment Technology Group	$296.3	44.3	$0.01	$1,238.7
LiquidNet, Inc.	226.0	8.8	0.03	213.8
Credit Suisse First Boston	210.4	28.0	0.01	112.4
Citigroup	209.2	236.3	0.00	101.3
Merrill Lynch	180.3	60.3	0.00	110.1
Goldman Sachs	152.1	6.9	0.02	90.6
UBS	135.7	162.6	0.00	69.9
Morgan Stanley	128.9	7.8	0.02	106.1
Lehman Brothers, Inc.	126.3	5.9	0.02	59.4
Deutsche Bank	117.6	6.3	0.02	60.6
Top Ten Subtotal	$1,782.8	567.3	$0.00*	$2,162.9
Total All Remaining Brokers	$1,759.9	59.2	$0.03*	$866.2
Grand Total	$3,542.7	626.5	$0.01*	$3,029.2

* Represents the average

Commissions reported above are those paid directly by MSRS. The table does not include other transaction costs that the System may incur, nor does it include brokerage commissions incurred indirectly through its investments in commingled funds. Brokerage commissions and other transaction costs are excluded from the expense table on page 52. Those commissions and expenses are accounted for in the net income and total return figures reported elsewhere in this report.

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

GROUP LIFE INSURANCE PROGRAM

INVESTMENT ACTIVITIES

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

SUMMARY OF INVESTMENT ACTIVITIES

FY Ended June 30	Opening Fair Market Value	Closing Fair Market Value	Rate of Return
2005	41.8	42.9	2.7%
2004	41.5	41.8	0.7%
2003	39.3	41.5	5.5%
2002	36.6	39.3	7.5%
2001	34.4	36.6	9.5%
2000	32.9	34.4	3.8%
1999	29.7	32.9	3.9%
1998	28.0	29.7	6.1%
1997	28.3	28.0	6.1%
1996	26.9	28.3	5.2%
Ten years ending 2005	26.9	42.9	5.1%

The assets have been invested in a medium term, investment grade fixed income portfolio, managed by Pacific Investment Management Company (PIMCO) in a mutual fund. Prior to April 2005, the funds were managed by State Street Global Advisors in a commingled fund of a similar nature. Because the assets are invested in a mutual fund, they are not available for the System's own securities lending program. Any securities lending undertaken by the mutual fund is not covered in this report, although any results are reflected in the total return and gain/loss figures.

Over the ten-year period ended June 30, 2005, the actual return on the portfolio was slightly higher than the return on the performance benchmark as reflected by the table on the following page. A minor portion of investment return is determined by how well the investment manager performs its assignment. To measure this, MSRS compares the returns on the actual portfolio to an appropriate benchmark. Positive performance in seven of the ten years exceeded negative performance in the remaining three years. The table displays time weighted rates of return.

The fees paid by the portfolio are consistent with other holders of the institutional class of shares, as detailed in the fund's prospectus. Because the assets are invested in a mutual fund, there are no brokerage commissions paid directly by the System. Investment results reflect commissions and other transaction costs incurred by the mutual fund.

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

FY Ended June 30	Actual Return	Benchmark Return	Performance
2005	2.7%	2.1%	0.6%
2004	0.7%	0.5%	0.2%
2003	5.5%	4.9%	0.6%
2002	7.5%	7.0%	0.6%
2001	9.5%	9.3%	0.2%
2000	3.8%	5.5%	-1.7%
1999	3.9%	4.7%	-0.8%
1998	6.1%	5.3%	0.8%
1997	6.1%	5.3%	0.8%
1996	5.2%	5.4%	-0.2%
3 years ended 2005	2.9%	2.5%	0.5%
5 years ended 2005	5.1%	4.7%	0.4%
10 years ended 2005	5.1%	5.0%	0.1%

Benchmarks:

Merrill Lynch 1 to 3 year Treasury Index prior to January 1, 2000

Lehman Brothers 1 to 3 year Govt. Bond Index from January 1, 2000 through March 31, 2005

Merrill Lynch 1 to 3 year Treasury Index beginning April 1, 2005

ACTUARIAL SECTION

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

Actuarial valuations presented in this FY 2005 Comprehensive Annual Financial Report are for the year ended June 30, 2004. The valuations are used to establish employer contribution rates. Four valuations are presented:

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

State and Teacher, Legislative and Judicial Plans – Results of plan valuations prepared as of June 30 of an even-numbered year are implemented as employer contribution rates in the State's biennial budget that covers the two-year period beginning July 1st of the following year of the valuations. For example, the results of the June 30, 2004 valuations established the employer contribution rates for the FY 2006-2007 biennium which began July 1, 2005. The State of Maine makes the employer contribution for all non-grant funded employees who are members under the State Employee and Teacher plan and the Legislative and Judicial plans. Valuation results as of June 30 of odd-numbered years, such as the June 30, 2003 valuation, while comprising important information, are not used to set State employer contribution rates.

Consolidated Plan for Participating Local Districts (PLD) – The Consolidated Plan valuation is prepared each year, reporting results as of June 30th. These results are then implemented in PLD budgets covering a twelve month period that begins as of July 1st one year later. For example, the valuation results for the period ending June 30, 2004 established the participating employer rates for the twelve month period beginning July 1, 2005. Each participating local district that is in the Consolidated Plan makes the employer contribution required by the Consolidated Plan valuation for the plan(s) covering its employee members.

JUNE 30, 2004
ACTUARIAL VALUATION

STATE EMPLOYEE
AND TEACHER PLAN

A MILLIMAN GLOBAL FIRM
Milliman USA
Consultants and Actuaries

80 Lamberton Road
Windsor, CT 06095-2126
Tel 1-860-687-2110
Fax 1-860-687-2111
www.milliman.com

February 2, 2005

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

Dear Members of the Board:

At your request, we have conducted our annual actuarial valuation of the State Employee and Teacher Plan of the Maine State Retirement System. The results of the valuation are contained in the following report.

In performing this valuation, Milliman used assumptions and methods that meet the parameters set by Government Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for *Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The actuarial assumptions have been recommended by the actuary and adopted by the Board of Trustees based on Milliman's most recent review of the System's experience completed during Fiscal Year 1998. We believe the assumptions used, in the aggregate, reflect our best estimate of anticipated future experience of the plan. The results of this report are dependent upon future experience conforming to these assumptions. It is certain that actual experience will not conform exactly to these assumptions. Actual amounts will differ from projected amounts to the extent actual experience differs from expected experience. The Board of Trustees has the final decision regarding the appropriateness of the assumptions.

In preparing our report we relied, without audit, on information (some oral and some written) supplied by the Retirement System. This information includes, but is not limited to, plan provisions, employee census data and financial information. We did not audit this data. However, we compared the census data and financial information with the previous year's information and reviewed the results for reasonableness. We found the data to be reasonably consistent and comparable with data used in the prior valuation. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We understand this report is considered a public document and, as such, may be subject to disclosure to third parties. However, we do not intend to benefit, and assume no liability to, any third party who receives the report in this fashion. Any distribution of this report must be in its entirety including this cover letter, unless prior written consent from Milliman is obtained.

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 applicable Guides to Professional Conduct, Amplifying Opinions, and Supporting Recommendations and Interpretations of the American Academy of Actuaries.

Sincerely,

Milliman, Inc.

I, Theresa Leatherbury, am a consulting actuary for Milliman, Inc. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

Theresa Leatherbury

Theresa Leatherbury, F.S.A.
Principal

I, Althea Schwartz, am a consulting actuary for Milliman, Inc. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

Althea Schwartz

Althea Schwartz, F.S.A.
Principal

SECTION I
BOARD SUMMARY

OVERVIEW

This report presents the results of the June 30, 2004 actuarial valuation of the State Employee and Teacher Plan of the Maine State Retirement System (MSRS). The primary purposes of performing the annual actuarial valuation are to:

1) Determine the contributions that will be paid by the State effective July 1, 2005 (fiscal year 2006), and effective July 1, 2006 (fiscal year 2007);
2) Measure and disclose, as of the valuation date, the financial condition of the Plan;
3) Indicate trends in the financial progress of the Plan;
4) Provide specific information and documentation required by the Government Accounting Standards Board (GASB).

In this section of the report, we present a summary of the above information in the form of:

- The actuary's comments;
- The prior year's experience of the Plan's assets, liabilities, contributions, and membership;
- A series of graphs highlighting key trends experienced by the Plan; and
- A tabular summary, intended for quick reference purposes, of all principal results from this year's valuation, compared to the prior year.

ACTUARY'S COMMENTS

As of the June 30, 2004 actuarial valuation, the Plan's unfunded actuarial liability was $2,989 million. This is a slight increase from last year's unfunded actuarial liability of $2,921 million. During the year ended June 30, 2004, the Plan's assets earned 16.6% on a market value basis. This favorable return followed 3 years of market performance below our 8% target. Due to the Plan's asset-smoothing technique, the return on the actuarial asset value was 6.6%, reflecting prior years' market losses. This return is below the assumed rate of return of 8.0%. The result is a small actuarial loss on investments of $83 million. The actuarial loss on investments is mostly offset by a $57 million actuarial gain on plan liabilities. The Plan's funded ratio (actuarial assets divided by actuarial liability) increased to 68.3% as of June 30, 2004 from 67.4% as of June 30, 2003.

In FY 2003, the Legislature established a 25-year amortization period effective July 1, 2003. As a result of this lengthened amortization period, the actuarially determined contribution rate established for FY 2004 by the June 30, 2002 valuation decreased from 19.32% to 15.92%. The effect of this longer amortization period carried into FY 2005, resulting in a lower employer contribution rate in FY 2005 than would have been required had the shorter amortization period not been changed by the Legislature. The actuarially determined contribution rate for FY 2005 was 17.26%. Without the enactment by the Legislature to lengthen the amortization period, the contribution rate would have been 21.43%. The Legislature also provided, in the same enactment, that at July 1, 2005 (FY 2006) the amortization period would revert to the prior shorter period, at the same year thereof that FY 2006 would have been had the shorter period not been lengthened for FY 2004 and FY 2005. Therefore, at July 1, 2005 (FY 2006) there will be 14 years remaining in the amortization period. This valuation reflects the reversion to the shorter amortization period. The State contribution rate for FY 2006 is 23.26%. The increase in contribution rate is due to the reinstatement of the shorter amortization period.

Overall, the results this year were as expected. The plan experienced a small asset loss that was mostly offset by a small liability gain. The increase in the contribution rate for FY 2006 reflects the shorter amortization period. It is always important to note that the financing of any retirement plan is a long-term proposition. Annual fluctuations, both up and down, are to be expected and should not by themselves be cause for either concern or optimism. The overall financial condition of the Plan is healthy and there are procedures, assumptions and methods in place that in our opinion adequately and appropriately finance the emerging long-term liabilities of the Plan.

The balance of this section summarizes Plan trends, and provides the principal details of this year's experience.

BOARD SUMMARY (continued)

PRIOR YEAR EXPERIENCE

ASSETS

The actuarial value of assets is calculated on the total invested assets of the System. This consists of assets attributable to the State Employee and Teacher Plan, the Judicial Plan, the Legislative Plan and the Consolidated and Non-Consolidated Participating Local District Plans.

There are two relevant measures of the plans' assets: (i) the market value and (ii) the actuarial value. The market value is a snapshot of the asset value as of June 30, 2004.

The actuarial value is a smoothed asset value that recognizes 33% of the difference between the expected actuarial value and the market value of assets. The expected actuarial value equals the prior year's actuarial value adjusted with contributions, payments and investment earnings of 8.0%. This method tempers the volatile fluctuations in market value.

The actuarial value of assets for all of the System's plans as of June 30, 2004 exceeds the market value by $220 million. The actuarial value of assets is higher because there are still investment losses from prior years that have not yet been recognized because of the smoothing methodology. Some of these "stored" or "unrecognized" losses were offset by the FY 2004 market value gain. It may take market returns above 8% for two or more years in a row before all of the "stored" losses are offset.

For the plan year ended June 30, 2004, the assets earned 16.6% on a market value basis and 6.6% on an actuarial value basis. We compare these returns to our assumption of 8.0%. On a market value basis, there was a gain of $589 million and on an actuarial value basis, there was a loss of $110 million. The specific changes between the prior year amounts and this year's are presented below.

ALL PLANS OF SYSTEM

Item (In Millions)	Market Value	Actuarial Value
June 30, 2003 value	$ 6,936	$ 7,787
Employer Contributions	291	291
Member Contributions	132	132
Benefit Payments	(448)	(448)
Expected Investment Earnings (8%)	554	622
Expected Value June 30, 2004	$ 7,465	$ 8,384
Gain (Loss) on Investments	589	(110)
June 30, 2004 value	$ 8,054	$ 8,274

BOARD SUMMARY (continued)

Market value, actuarial value and asset gain (or loss) are allocated to the separate plans. For the State Employee and Teacher Plan, the market value of assets at June 30, 2004 was $6,281 million and the corresponding actuarial value was $6,453 million. The Plan's share of the $110 million loss on the actuarial assets was $83 million. The specific changes for the State Employee and Teacher Plan are presented below.

STATE EMPLOYEE AND TEACHER PLAN		
Item (In Millions)	**Market Value**	**Actuarial Value**
June 30, 2003 value	$ 5,382	$ 6,042
Employer Contributions	272	272
Member Contributions	111	111
Benefit Payments	(373)	(373)
Expected Investment Earnings (8%)	430	484
Expected Value June 30, 2004	$ 5,822	$ 6,536
Gain (Loss) on Investments	459	(83)
June 30, 2004 value	$ 6,281	$ 6,453

LIABILITIES

Three different measures of liabilities are calculated for the State Employee and Teacher Plan: a total present value of future obligations, an actuarial liability, and an accrued benefit liability. The actuarial liability is used to determine the Plan's contribution rate and the GASB disclosures. Plan experience is expressed by changes in the actuarial liability. During the plan year ending in 2004, the actuarial liability experienced a gain of $57 million for funding purposes, which is 0.6% of the total actuarial liability. We will continue to monitor gains and losses to assure that no significant new patterns of liability gains and losses emerge unexpectedly.

LIABILITIES (In Millions)	TOTAL VALUE	ACTUARIAL	ACCRUED BENEFIT
June 30, 2003	$10,438	$8,963	$7,293
June 30, 2004	$10,925	$9,442	$7,764

BOARD SUMMARY (continued)

UNFUNDED LIABILITIES AND FUNDING RATIOS

When the liabilities of an actuarially funded retirement plan are greater than the plan's assets, the plan is said to have an unfunded liability. This is the case with the State Employee and Teacher Plan. The unfunded liability is measured in two ways: (i) unfunded actuarial liability, which compares the actuarial liability to the actuarial asset value, and (ii) unfunded accrued benefit liability, which compares the accrued benefit liability to the market value of assets. Here we show the June 30, 2003 and June 30, 2004 unfunded liability/(surplus) amounts for the Plan, as well as the corresponding funding ratios for each (assets divided by liabilities).

(IN MILLIONS)	ACTUARIAL	ACCRUED BENEFIT
6/30/2003 Net (Surplus) Unfunded	$ 2,921	$ 1,911
Funding Ratio	67.4%	73.8%
6/30/2004 Net (Surplus) Unfunded	$ 2,989	$ 1,483
Funding Ratio	68.3%	80.9%

CONTRIBUTIONS

In Section IV, we show the various contribution rates by the plans within the State Employee and Teacher Plan. Below we present the State contribution rate for all of these plans combined, and compare it to the rate developed in the June 30, 2003 actuarial valuation.

In summary, the overall State contribution rate increased by 6.00% of payroll. This is mostly due to the shortening of the amortization period. The actuarial loss on investments and the actuarial gain on liabilities also minimally affected the overall contribution rate. The small increase in the contribution rate due to payroll growth reflects the difference between the actual aggregate payroll increase and the assumed 5.5% increase used in the valuation. For actuarial purposes, we assume the unfunded liability payment will increase 5.5% per year. Since aggregate payroll growth in FY 2004 was less than 5.5%, the unfunded liability dollar payment increases when expressed as a percentage of payroll.

Because of the State's biennial budgeting practice and the way in which retirement contributions are incorporated into it, this valuation will set rates for the next biennium (fiscal year 2006 and fiscal year 2007).

RATE AS PERCENT OF COVERED PAYROLL	
June 30, 2003 State Contribution Rate	17.26%
Increase / (Decrease) due to:	
Investments	0.31%
Liabilities	(0.21%)
Payroll Growth	0.28%
Change in Amortization Period	5.62%
June 30, 2004 State Contribution Rate	23.26%

BOARD SUMMARY (continued)

MEMBERSHIP

There are three types of plan participants: (i) current active members; (ii) terminated members who retain a right to a deferred "vested" benefit; and (iii) benefit recipients, who may be retired former members, concurrent beneficiaries of living retired members, disabled members or beneficiaries of deceased active, retired or disabled members. In Appendix A, we present extensive details on membership statistics. Below, we compare totals in each group between June 30, 2003 and 2004.

As shown below, there was an overall increase in participation during the year of 1.5%.

	6/30/2004	6/30/2003	CHANGE
Active Members	42,816	42,862	0.1%
Terminated "Vested" Members	4,693	4,179	12.3%
Benefit Recipients	24,388	23,768	2.6%
TOTAL	71,897	70,809	1.5%

TRENDS

One of the best ways to measure or evaluate the financial condition of a retirement plan is to examine the historical trends that are evolving. Below, we present three charts which present 10 years of trend information on the assets and liabilities of the State Employee and Teacher Plan, annual cash flows in and out of the State's plans as a whole, and the State's overall contribution rate to the State Employee and Teacher Plan. Our comments on each follow.

Chart A: ASSETS / LIABILITIES - State & Teacher Only

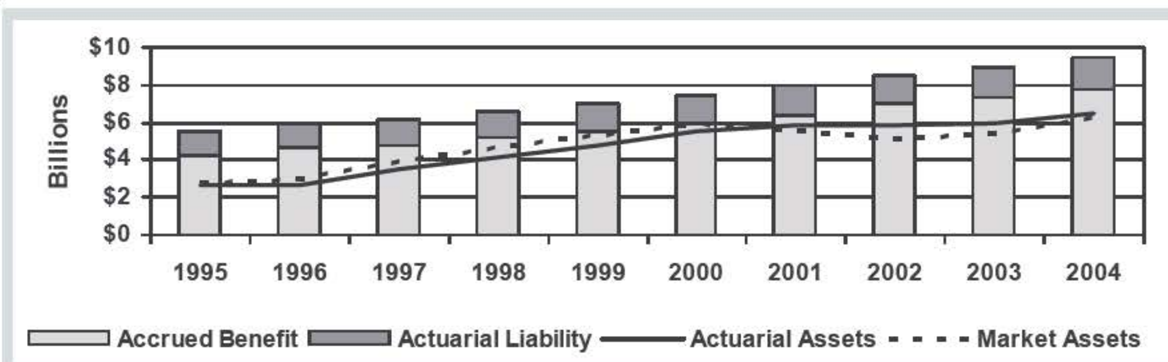
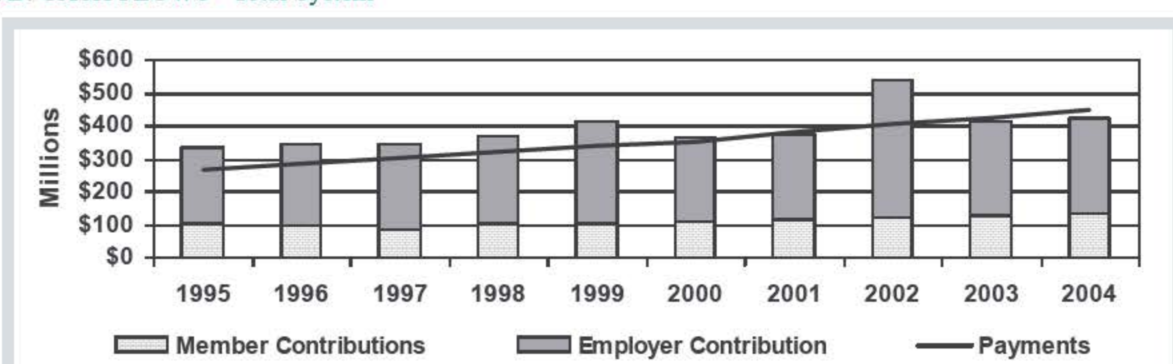


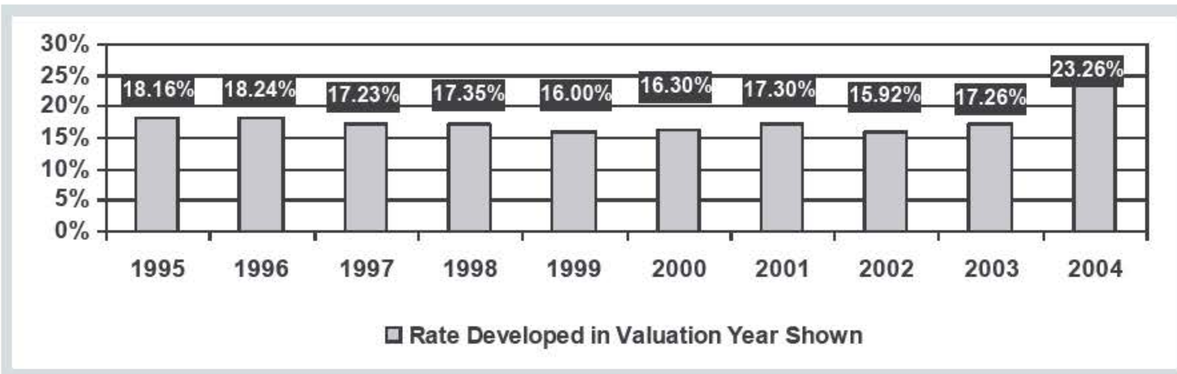
Chart B: CASH FLOWS - Total System



BOARD SUMMARY (continued)

TRENDS *(continued)*

Chart C: STATE CONTRIBUTION RATE - State & Teacher Only



COMMENTS

Chart A depicts the historical investment performance. The liabilities have grown as expected over the period but the assets have remained relatively level.

Chart B presents an emerging trend being faced by many retirement systems due to the aging of the baby boomer generation. Payments to retirees are on the increase, while cash into plans from employer and employee contributions is stable or declining. This is not unanticipated, and essentially is the reason for funding and investment strategies that seek to build plan assets in earlier years when contributions being paid in exceed benefit payments out.

Chart C looks at changes in the State's overall contribution rate for the State Employee and Teacher Plan. It shows the State's commitment to pay off the unfunded actuarial liability. In years when investment performance helped reduce the unfunded actuarial liability and the State's economy and budget were in favorable condition, the State responded by shortening the amortization period. When the lower than expected investment return created increases in the unfunded actuarial liability and the economy and budget presented challenges, the State re-lengthened the amortization period for the 2004-2005 biennium. The contribution rate determined by the 2004 valuation reflects that the amortization period will revert to the shorter period at July 1, 2005 (FY 2006).

BOARD SUMMARY (continued)

TOTAL STATE EMPLOYEE AND TEACHER PLAN SUMMARY OF PRINCIPAL RESULTS Valuation As Of →	6/30/2004	6/30/2003	% change
PARTICIPANT COUNTS			
Actives	42,816	42,862	-0.1%
Retired Members	16,667	16,267	2.5%
Beneficiaries of Retirees	4,844	4,756	1.8%
Survivors of Deceased Members	883	843	4.7%
Disabled Members	1,994	1,902	4.8%
Deferred "Vested" Members	4,693	4,179	12.3%
TOTAL	71,897	70,809	1.5%
Annual Salaries of Active Members	$1,464,608,355	$1,434,596,605	2.1%
Annual Payments to Benefit Recipients	$374,579,605	$350,388,824	6.9%
ASSETS & LIABILITIES			
Total Actuarial Liability	$9,442,389,399	$8,963,272,498	5.3%
Assets /Actuarial (Smoothed)	6,452,570,244	6,041,952,157	6.8%
Unfunded Actuarial Liability	$2,989,819,155	$2,921,320,341	2.3%
Funding Ratio	68.34%	67.41%	N/A
Present Value of Accrued Benefits	$7,763,787,479	$7,292,512,668	6.5%
Assets/Market Value	6,280,951,942	5,381,673,439	16.7%
Unfunded PVAB	$1,482,835,537	$1,910,839,229	-22.4%
Accrued Benefit Funding Ratio	80.90%	73.80%	N/A
CONTRIBUTIONS AS % OF PAYROLL			
	Fiscal Year 2006	Fiscal Year 2005	
Normal Cost Contribution	6.17%	6.17%	
Unfunded Actuarial Liability Contribution	17.09	11.09	
Total State Contribution	23.26%	17.26%	

BOARD SUMMARY (continued)

TEACHERS

SUMMARY OF PRINCIPAL RESULTS

Valuation As Of →	6/30/2004	6/30/2003	% change
PARTICIPANT COUNTS			
Actives	28,205	28,329	-0.4%
Retired Members	9,327	9,044	3.1%
Beneficiaries of Retirees	2,026	1,963	3.2%
Survivors of Deceased Members	322	301	7.0%
Disabled Members	781	751	4.0%
Deferred "Vested" Members	3,157	2,692	17.3%
TOTAL	43,818	43,080	1.7%
Annual Salaries of Active Members	$939,762,058	$913,142,237	2.9%
Annual Payments to Benefit Recipients	$209,908,431	$195,641,297	7.3%
ASSETS & LIABILITIES			
Total Actuarial Liability	$6,072,362,895	$5,737,908,352	5.8%
Assets/Actuarial (Smoothed)	4,044,459,568	3,754,519,672	7.7%
Unfunded Actuarial Liability	$2,027,903,327	$1,983,388,680	2.2%
Funding Ratio	66.60%	65.43%	N/A
Present Value of Accrued Benefits	$4,876,744,316	$4,557,125,703	7.0%
Assets/Market Value	3,936,889,521	3,344,216,947	17.7%
Unfunded PVAB	$939,854,795	$1,212,908,756	-22.5%
Accrued Benefit Funding Ratio	80.73%	73.38%	N/A
CONTRIBUTIONS AS % OF PAYROLL			
	Fiscal Year 2006	Fiscal Year 2005	
Normal Cost Contribution	6.04%	6.04%	
Unfunded Actuarial Liability Contribution	18.08	11.83	
Total State Contribution	24.12%	17.87%	

BOARD SUMMARY (continued)

TOTAL STATE EMPLOYEES (Regular and Special Plans)

SUMMARY OF PRINCIPAL RESULTS

Valuation As Of →	6/30/2004	6/30/2003	% change
PARTICIPANT COUNTS			
Actives	14,611	14,533	0.5%
Retired Members	7,340	7,223	1.6%
Beneficiaries of Retirees	2,818	2,793	0.9%
Survivors of Deceased Members	561	542	3.5%
Disabled Members	1,213	1,151	5.4%
Deferred "Vested" Members	1,536	1,487	3.3%
TOTAL	28,079	27,729	1.3%
Annual Salaries of Active Members	$524,846,297	$521,454,368	0.7%
Annual Payments to Benefit Recipients	$164,671,174	$154,747,527	6.4%
ASSETS & LIABILITIES			
Total Actuarial Liability	$ 3,370,026,504	$ 3,225,364,146	4.5%
Assets/Actuarial (Smoothed)	2,408,110,676	2,287,432,485	5.3%
Unfunded Actuarial Liability	$ 961,915,828	$ 937,931,661	2.6%
Funding Ratio	71.46%	70.92%	N/A
Present Value of Accrued Benefits	$ 2,887,043,163	$ 2,735,386,965	5.5%
Assets/Market Value	2,344,062,421	2,037,456,492	15.0%
Unfunded PVAB	$ 542,980,742	$ 697,930,473	-22.2%
Accrued Benefit Funding Ratio	81.19%	74.49%	N/A
CONTRIBUTIONS AS % OF PAYROLL			
	Fiscal Year 2006	Fiscal Year 2005	
Normal Cost Contribution	6.40%	6.40%	
Unfunded Actuarial Liability Contribution	15.33	9.80	
Total State Contribution	21.73%	16.20%	

BOARD SUMMARY (continued)

STATE EMPLOYEE REGULAR PLAN

SUMMARY OF PRINCIPAL RESULTS

Valuation As Of →	6/30/2004	6/30/2003	% change
PARTICIPANT COUNTS			
Actives	12,715	12,611	.8%
Retired Members	6,616	6,522	1.4%
Beneficiaries of Retirees	2,531	2,515	0.6%
Survivors of Deceased Members	558	539	3.5%
Disabled Members	1,161	1,118	3.8%
Deferred "Vested" Members	1,536	1,487	3.3%
TOTAL	25,117	24,792	1.3%
Annual Salaries of Active Members	$ 444,899,467	$ 440,628,719	1.0%
Annual Payments to Benefit Recipients	$ 142,770,879	$ 134,469,725	6.2%
ASSETS & LIABILITIES			
Total Actuarial Liability	$ 2,856,852,953	$ 2,729,464,467	4.7%
Assets/Actuarial (Smoothed)	2,084,433,001	1,981,118,251	5.2%
Unfunded Actuarial Liability	$ 772,419,952	$ 748,346,216	3.2%
Funding Ratio	72.96%	72.58%	N/A
Present Value of Accrued Benefits	$ 2,424,750,063	$ 2,297,868,032	5.5%
Assets/Market Value	2,028,993,566	1,764,616,999	15.0%
Unfunded PVAB	$ 395,756,497	$ 533,251,033	-25.8%
Accrued Benefit Funding Ratio	83.68%	76.79%	N/A
CONTRIBUTIONS AS % OF PAYROLL			
	Fiscal Year 2006	Fiscal Year 2005	
Normal Cost Contribution	6.04%	6.04%	
Unfunded Actuarial Liability Contribution	14.55	9.25	
Total State Contribution	20.59%	15.29%	

BOARD SUMMARY (continued)

STATE EMPLOYEE SPECIAL PLANS (Composite) SUMMARY OF PRINCIPAL RESULTS			
Valuation As Of →	6/30/2004	6/30/2003	% change
PARTICIPANT COUNTS			
Actives	1,896	1,922	-1.4%
Retired Members	724	701	3.3%
Beneficiaries of Retirees	287	278	3.2%
Survivors of Deceased Members	3	3	0.0%
Disabled Members	52	33	57.6%
Deferred "Vested" Members	0	0	0.0%
TOTAL	2,962	2,937	0.9%
Annual Salaries of Active Members	$ 79,946,830	$ 80,825,649	-1.1%
Annual Payments to Benefit Recipients	$ 21,900,295	$ 20,277,802	8.0%
ASSETS & LIABILITIES			
Total Actuarial Liability	$ 513,173,551	$ 495,899,679	3.5%
Assets/Actuarial (Smoothed)	323,677,675	306,314,234	5.7%
Unfunded Actuarial Liability	$ 189,495,876	$ 189,585,445	0.0%
Funding Ratio	63.07%	61.77%	N/A
Present Value of Accrued Benefits	$ 462,293,100	$ 437,518,933	5.7%
Assets/Market Value	315,068,855	272,839,493	15.5%
Unfunded PVAB	$ 147,224,245	$ 164,679,440	-10.6%
Accrued Benefit Funding Ratio	68.15%	62.36%	N/A
CONTRIBUTIONS AS % OF PAYROLL			
	Fiscal Year 2006	Fiscal Year 2005	
Normal Cost Contribution	8.25%	8.34%	
Unfunded Actuarial Liability Contribution	19.86	12.78	
Total State Contribution	28.11%	21.12%	

SECTION II
ASSETS

The purpose of an actuarial valuation is to assess the funded status of a pension plan at a certain date and to establish the plan's funding requirements. On the asset side of a plan's funded status, the relevant measure is net assets available for benefits. "Assets" includes the System's investment portfolio committed for investment management to outside professionals, buildings and land owned by the System outside of the investment portfolio, and cash managed by the System outside of the investment portfolio.

The investment portfolio is by far the largest of these assets in dollar value, so much so that its value is often used, in contexts other than the actuarial valuation, as a proxy for total assets. However, for purposes of evaluating fairly the relationship of plan assets to plan liabilities, the value of all assets is included.

The value of plan assets for actuarial valuation purposes must be established and disclosed on a market value basis. Thereafter, for purposes of establishing rational plan funding requirements, the market value may be, and in the System's case is, smoothed. Market value represents a "snap-shot" or "cash-out" value which provides a basis for measuring investment performance from one year to the next. Market value, however, can fluctuate widely, particularly in the short term. As a result, market value is usually not suitable for long range planning.

In an ongoing pension plan, the long range is the important perspective. Actuarial value, or "carrying value" is market value that has been smoothed and is the actuary's best estimate of long-term asset value. It provides a more useful evaluation of the fund's ongoing ability to meet its obligations. The actuarial smoothing methodology employed in the valuation of the System's plans is explained later in this section.

In this section we present the following information on assets:

- Disclosure of the market value of plan assets measured at June 30, 2004 and June 30, 2003;
- Statement of the changes during the year in the market value of assets;
- Development of the actuarial value of assets by applying the smoothing methodology;
- Allocation of the actuarial value of assets among the System's plans; and
- A statement of the return on plan assets for the year, on both a market value basis and an actuarial value basis.

Disclosure of Plan Market Value Of Assets

STATEMENT OF ASSETS AT MARKET VALUE (IN MILLIONS)

	June 30, 2004	June 30, 2003
Net Value of Investment Portfolio	$ 8,035	$ 6,917
Buildings, land	5	5
Cash external to portfolio	14	14
Net Assets Available for Benefits	$ 8,054	$ 6,936

ASSETS (continued)

Changes in Asset Value (market value based) in Valuation Year:

The components of asset value change are:

- Contributions received from members and employers;
- Benefits paid out;
- Investment Income/(Loss) (realized and unrealized).

The specific changes during 2004 are presented below:

CHANGES IN MARKET VALUES		
Plan Assets/Market Value – June 30, 2003	$	6,936,201,398
Member Contributions Received		132,254,631
Employer Contributions Received		290,572,258
Benefits Paid Out		(448,400,887)
Investment Income/(Loss)		1,142,881,151
Plan Assets/Market Value – June 30, 2004	$	8,053,508,551

ASSETS (continued)

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

The Actuarial Value of Assets represents a "smoothed" value developed by the actuary to reduce the volatility in rates caused by the investment markets, particularly over short time periods. Because the System's plans are regarded as virtually perpetual in nature, it is appropriate to manage their funding with strategies designed to place short-term events within the longer perspective. For the System, the actuarial value of assets at a given valuation date equals the Expected Actuarial Value at that date plus 33% of the difference between the Expected Actuarial Value and the Market Value of Assets at that date. The Expected Actuarial Value is the previous year's actuarial asset value adjusted by contributions, payments and investment earnings of 8.0%. The following table illustrates the calculation of the Actuarial Value of Assets for the June 30, 2004 valuation.

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS AS OF JUNE 30, 2004

1.	Actuarial Value of Assets at June 30, 2003	$ 7,787,205,499
2.	Amount in (1) with interest to June 30, 2004 at 8.00% per year	8,410,181,939
3.	Employer & member contributions for the Plan Year ended June 30, 2004	422,826,889
4.	Interest on contributions assuming payments made uniformly throughout the year to June 30, 2004 at 8.00% per year	16,913,076
5.	Disbursements from the Trust during the period June 30, 2003 through June 30, 2004	448,400,887
6.	Interest on disbursements to June 30, 2004 at 8.00% per year	17,936,035
7.	Expected Actuarial Value of Assets at June 30, 2004 = (2) + (3) + (4) - (5) - (6)	8,383,584,982
8.	Actual Market Value of Assets at June 30, 2004	8,053,508,551
9.	Difference Between (8) and (7)	(330,076,431)
10.	Actuarial Value of Assets at June 30, 2004 = (7) + 33% of (9)	$8,273,559,503

ASSETS (continued)

ALLOCATION OF ACTUARIAL VALUE OF ASSETS:

In the investment portfolio, assets for all of the System's 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 a smoothing factor which is then applied to the market value of assets attributable to each of the plans. The smoothing factor derived in this valuation is 1.0273 ($8,273,559,503 ÷ $8,053,508,551). 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, 2004

	Market Value	Actuarial Value
Teachers	$ 3,936,889,522	$ 4,044,459,568
State (Regular and Special)	2,344,062,420	2,408,110,676
Judges	38,168,105	39,210,995
Legislators	6,645,889	6,827,478
Participating Local Districts (Consolidated and Non Consolidated)	1,727,742,615	1,774,950,786
Total Fund	$ 8,053,508,551	$ 8,273,559,503

INVESTMENT PERFORMANCE:

The Market Value of Assets (MVA) returned 16.6% during 2004. This is significantly higher than the plan's assumed return of 8%. This year's return was an improvement over the 2003 return of 5.3%. Year to year market volatility is to be expected.

On an actuarial value of assets basis, the return at June 30, 2004 was 6.6%. This return is less than the return on a market value basis because of the ongoing recognition in the actuarial value of losses in prior years not then fully recognized because of smoothing. As of June 30, 2004, these accumulated losses amounted to $220 million. This is a decrease in the accumulated losses of $851 million as of June 30, 2003.

SECTION III
LIABILITIES

In this section we present detailed information on liabilities of the State Employee and Teacher Plan including:

- Disclosure of Plan liabilities as measured at June 30, 2004 and June 30, 2003;
- Statement of changes in these liabilities during the year; and
- A projection of future liabilities.

DISCLOSURE

This report discloses three types of liabilities. The disclosure of each liability serves a specific purpose depending on the nature of the liability and the purpose for which the liability information is used.

- Total Future Obligations: Used for analyzing the financial outlook of the Plan, this represents the amount of money needed today to fully pay off all future benefits and expenses of the Plan, assuming participants continue to accrue benefits.

- Actuarial Liabilities: Used for funding calculations and GASB disclosures, this liability is calculated by taking the Total Obligations above and subtracting the present value of future Member Contributions and future Employer Normal Costs under an acceptable actuarial funding method. The method employed for the State Employee and Teacher Plan is 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 fund, 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 table below discloses each of these liabilities for the current and immediately prior State Employee and Teacher Plan valuations. With respect to the actuarial liability and accrued liability disclosures, a subtraction of the appropriate value of assets yields a **net surplus** or an **unfunded liability**.

LIABILITIES/NET (SURPLUS) UNFUNDED	6/30/2004	6/30/2003
Total Obligations		
Active Participant Benefits	$ 6,537,464,996	$ 6,376,031,676
Retiree and Inactive Benefits	4,387,963,456	4,062,300,865
Total Obligations	**$ 10,925,428,452**	**$ 10,438,332,541**
Market Value of Assets	6,280,951,942	5,381,673,439
Future Member Contributions	826,793,567	822,225,055
Future State Contributions	3,817,682,943	4,234,434,047
Total Resources	**$ 10,925,428,452**	**$ 10,438,332,541**
Actuarial Liability		
Total Liabilities	$ 10,925,428,452	$ 10,438,332,541
Present Value of Future Normal Costs Under Entry Age Method	656,245,486	652,834,988
Present Value Of Future Member Contributions	826,793,567	822,225,055
Actuarial Liability	**$ 9,442,389,399**	**$ 8,963,272,498**
Actuarial Value of Assets	6,452,570,244	6,041,952,157
Net (Surplus) Unfunded	**$ 2,989,819,155**	**$ 2,921,320,341**
Accrued Liability		
Total Liabilities	$ 10,925,428,452	$ 10,438,332,541
Less Present Value of Future Benefit Accruals	(3,161,640,973)	(3,145,819,873)
Accrued Liability	**$ 7,763,787,479**	**$ 7,292,512,668**
Market Value of Assets	6,280,951,942	5,381,673,439
Net (Surplus) Unfunded	**$ 1,482,835,537**	**$ 1,910,839,229**

LIABILITIES (continued)

CHANGES IN LIABILITIES

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

- Benefits accrued since the last valuation;
- 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;
- New hires since the last valuation;
- Plan amendments increasing benefits;
- A change in actuarial or investment assumptions; and
- A change in the actuarial funding method.

Unfunded liabilities or surpluses will change because of all the above, and also because of changes in expected fund assets resulting from:

- Employer contributions different than expected;
- Investment earnings different than expected; and
- 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 the key changes in liabilities since the last valuation.

	$ IN MILLIONS		
	TOTAL OBLIGATION	ACTUARIAL LIABILITY	ACCRUED LIABILITY
Liabilities 6/30/2003	$ 10,438	$ 8,963	$ 7,293
Liabilities 6/30/2004	$ 10,925	$ 9,442	$ 7,764
Liability Increase (Decrease)	$ 487	$ 479	$ 471
Change due to:			
Plan Amendment	$ 0	$ 0	$ 0
Assumption Change	$ 0	$ 0	$ 0
Actuarial (Gain)/Loss	N/A	$ (57)	N/A
Benefits Accumulated and Other Sources	$ 487	$ 536	$ 471

ACTUARIAL LIABILITY
AS OF JUNE 30, 2004

	TOTAL PLAN	TEACHERS	STATE REGULAR	SPECIAL PLANS
1. Actuarial Liabilities for:				
a. Active Members	$ 5,054,425,943	$ 3,514,300,592	$ 1,297,995,255	$ 242,130,096
b. Retired, Disabled and Beneficiary Members	4,167,609,287	2,414,709,095	1,481,856,737	271,043,455
c. Vested Deferred and Inactive Status Members	220,354,169	143,353,208	77,000,961	0
2. Total Actuarial Liability (1(a) + 1(b) + 1(c))	$ 9,442,389,399	$ 6,072,362,895	$ 2,856,852,953	$ 513,173,551
3. Actuarial Value of Assets	6,452,570,244	4,044,459,568	2,084,433,001	323,677,675
4. Unfunded Actuarial Liability (2 – 3)	$ 2,989,819,155	$ 2,027,903,327	$ 772,419,952	$ 189,495,876

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 properly fund the plan. Typically, the actuarial process will utilize a funding approach that will result in a pattern of contributions that is both stable and predictable.

For the State Employee and Teacher Plan, the funding approach employed is the Entry Age Normal Actuarial Cost Method. Under this method there are two components to the total contribution, a normal cost and, given the Plan's unfunded actuarial liability, an amortization payment. A normal cost is determined as a percent of compensation for a typical new entrant. Each year's normal cost represents the cost to fund that portion of the total future obligations that has been allocated to the current year, based upon the actuarial cost method in use.

The amortization payment, on the other hand, is not calculated for individual participants but calculated for the Plan as a whole, and represents an annual installment to fund the unfunded actuarial liability (UAL) of the Plan. The UAL is the excess of the actuarial liability over the actuarial value of assets. The unfunded actuarial liability amount represents the amount of funds that would have been accumulated by the valuation date, had all prior normal cost contributions been made, and all actuarial assumptions been realized.

In Appendix B we describe more fully this technical topic.

The table below presents and compares the actuarially determined contributions for the State/Teacher Plan for this valuation and the prior one, and includes a calculation of the average annual normal cost rate per participant for each year.

ACTUARIALLY DETERMINED CONTRIBUTION	7/1/2004	7/1/2003
Entry Age Normal Cost	6.17%	6.17%
Amortization Payment	17.09%	11.09%
Actuarially Determined Contribution	23.26%	17.26%

The following pages display the contribution rates developed for each of the member/plan groups within the Plan.

TABLE IV-1
STATE EMPLOYER CONTRIBUTION RATES
FISCAL YEAR 2006 - ENTRY AGE NORMAL

Valuation Date June 30	Total State	Teachers	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 Percent of Payroll	6.17%	6.04%	6.04%	17.84%	9.04%	7.34%	9.15%	6.89%
Unfunded Actuarial Liability Contribution as Percent of Payroll	17.09	18.08	14.55	42.92	21.75	17.66	22.01	16.58
Total Contributions as Percent of Payroll	23.26%	24.12%	20.59%	60.76%	30.79%	25.00%	31.16%	23.47%

TABLE IV-2
DERIVATION OF UNFUNDED ACTUARIAL LIABILITY RATES

	Valuation Date June 30	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	7,058,601,043	3,286,939,346	248,318,438	49,048,301	25,126,738	70,345,254	187,049,332
2.	Normal Cost Rate	6.04%	6.04%	17.84%	9.04%	7.34%	9.15%	6.89%
3.	Present Value of Future Payroll	7,204,077,051	3,141,609,882	117,678	2,161,672	2,314,601	138,938,069	265,121,651
4.	Present Value of Future Normal Cost (2) x (3)	435,126,254	189,753,237	20,994	195,415	169,892	12,712,833	18,266,882
5.	Present Value of Future Member Contributions	551,111,894	240,333,156	10,179	186,985	200,213	12,018,143	22,932,997
6.	Actuarial Liability: (1) – (4) – (5)	6,072,362,895	2,856,852,953	248,287,265	48,665,901	24,756,633	45,614,278	145,849,453
7.	Actuarial Value of Assets	4,044,459,568	2,084,433,001	219,936,016	44,838,769	22,384,354	(6,417,218)	42,935,734
8.	Unfunded Actuarial Liability: (6) – (7)	2,027,903,327	772,419,952	28,351,249	3,827,132	2,372,279	52,031,496	102,913,719
9.	Estimated Payroll	939,762,058	444,899,467	5,533,844	1,474,194	1,125,432	19,801,350	52,012,010
10.	Amortization Factor	11.9361	11.9361	11.9361	11.9361	11.9361	11.9361	11.9361
11.	Unfunded Actuarial Liability Rate: (8)/(9)/(10)	18.08%	14.55%	42.92%	21.75%	17.66%	22.01%	16.58%

SECTION V
ACCOUNTING STATEMENT INFORMATION

Two types of liabilities are disclosed for accounting purposes:

- **Statement No. 35 of the Financial Accounting Standards Board (FASB)** requires the Plans to disclose certain information regarding its funded status.

- **Statement No. 25 of the Governmental 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 liability as of the valuation date. The liability is determined as if contributions stopped and the 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 FASB-35 liability is compared to the market value of assets to determine the funding ratio.

The GASB-25 actuarial accrued liability is the same as the actuarial liability amount calculated for funding purposes. The GASB-25 liability is compared to the actuarial value of assets to determine the funding ratio.

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, and otherwise act in accordance with the actuarial assumptions. Liabilities are discounted at the assumed valuation interest rate of 8% per annum.

FASB Statement No. 35 specifies that a comparison of the present value of accrued (accumulated) benefits to the market value of the assets as of the valuation date must be provided. GASB Statement No. 25 requires the actuarial accrued liability to be compared with the actuarial value of assets for funding purposes. The relevant amounts as of June 30, 2004 are exhibited in Table V-1, Table V-2, and Table V-3. As directed by FASB-35, the liabilities shown in Section A of Table V-1 and Table V-2 do not include any projection for future service and salary. Finally, Table V-4 reconciles the FASB-35 liabilities determined as of the prior valuation, June 30, 2003, to the liabilities as of June 30, 2004.

ACCOUNTING STATEMENT INFORMATION (continued)

TABLE V-1
ACCOUNTING STATEMENT INFORMATION
STATE EMPLOYEE AND TEACHER PLAN TOTAL

	2004	2003
A. FASB No. 35 Basis		
1. Present Value of Benefits Accrued to Date:		
a. Members Currently Receiving Payments	$ 4,167,609,287	$ 3,878,586,652
b. Former Vested Members	220,354,169	183,714,213
c. Active Members	3,375,824,023	3,230,211,803
2. Total Present Value of Accrued Benefits (1(a) + 1(b) + 1(c))	$ 7,763,787,479	$ 7,292,512,668
3. Assets at Market Value	6,280,951,942	5,381,673,439
4. Unfunded Value of Benefits (2) – (3)	$ 1,482,835,537	$ 1,910,839,229
5. Ratio of Assets to Value of Benefits (3)/(2)	80.90%	73.80%
B. GASB No. 25 Basis		
1. Actuarial accrued liabilities for retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 4,387,963,456	$ 4,062,300,865
2. Actuarial accrued liabilities for current employees	5,054,425,943	4,900,971,633
3. Total actuarial accrued liability (1) + (2)	$ 9,442,389,399	$ 8,963,272,498
4. Net actuarial assets available for benefits	6,452,570,244	6,041,952,157
5. Unfunded actuarial accrued liability (3) – (4)	$ 2,989,819,155	$ 2,921,320,341

TABLE V-2
ACCOUNTING STATEMENT INFORMATION - FASB NO. 35
AS OF JUNE 30, 2004

	TOTAL SYSTEM	TEACHERS	STATE REGULAR	STATE SPECIAL
1. Present Value of Benefits Accrued to Date:				
a. Members Currently Receiving Payments	$ 4,167,609,287	$ 2,414,709,095	$ 1,481,856,737	$ 271,043,455
b. Former Vested Members	220,354,169	143,353,208	77,000,961	0
c. Active Members	3,375,824,023	2,318,682,013	865,892,365	191,249,645
2. Total Present Value of Accrued Benefits (1(a) + 1(b) + 1(c))	$ 7,763,787,479	$ 4,876,744,316	$ 2,424,750,063	$ 462,293,100
3. Assets at Market Value	6,280,951,942	3,936,889,521	2,028,993,566	315,068,855
4. Unfunded Value of Accrued Benefits (2) – (3)	$ 1,482,835,537	$ 939,854,795	$ 395,756,497	$ 147,224,245
5. Ratio of Assets to Value of Accrued Benefits (3)/(2)	80.90%	80.73%	83.68%	70.02%

TABLE V-3
ACCOUNTING STATEMENT INFORMATION - GASB NO. 25
AS OF JUNE 30, 2004

	TOTAL SYSTEM	TEACHERS	STATE REGULAR	STATE SPECIAL
1. Actuarial Accrued Liability:				
a. Members Currently Receiving Payments	$ 4,167,609,287	$ 2,414,709,095	$ 1,481,856,737	$ 271,043,455
b. Former Vested Members	220,354,169	143,353,208	77,000,961	0
c. Active Members	5,054,425,943	3,514,300,592	1,297,995,255	242,130,096
2. Total Actuarial Accrued Liability (1(a) + 1(b) + 1(c))	$ 9,442,389,399	$ 6,072,362,895	$ 2,856,852,953	$ 513,173,551
3. Actuarial Value of Assets	6,452,570,244	4,044,459,568	2,084,433,001	323,677,675
4. Unfunded Actuarial Accrued Liability (2 – 3)	$ 2,989,819,155	$ 2,027,903,327	$ 772,419,952	$ 189,495,876
5. Funded Ratio (3/2)	68.34%	66.60%	72.96%	63.07%
6. Annual Payroll	$ 1,464,608,355	$ 939,762,058	$ 444,899,467	$ 79,946,830
7. UAAL as % of Payroll (4/6)	204.14%	215.79%	173.62%	237.03%

ACCOUNTING STATEMENT INFORMATION (continued)

TABLE V-4
STATEMENT OF CHANGES IN TOTAL ACTUARIAL PRESENT VALUE OF ALL ACCRUED BENEFITS FOR FASB NO. 35
(IN MILLIONS)

Actuarial Present Value of Accrued Benefits at June 30, 2003	$7,293
Increase (Decrease) During years attributable to:	
Passage of Time (Interest Accrual)	568
Benefits Paid – FY 2004	(373)
Benefits Accrued, Other Gains/Losses	276
Plan Amendment	0
Net Increase (Decrease)	471
Actuarial Present Value of Accrued Benefits at June 30, 2004	$ 7,764

APPENDIX A
MEMBERSHIP INFORMATION

MAINE STATE RETIREMENT SYSTEM
ACTIVE MEMBER DATA AS OF JUNE 30, 2004

TEACHERS	
Count	28,205
Average Current Age	45.3
Average Service	13.9
Average Valuation Pay	$ 33,319
STATE REGULAR	
Count	12,715
Average Current Age	46.2
Average Service	13.0
Average Valuation Pay	$ 34,990
FOREST RANGERS (CLOSED PLAN)	
Count	24
Average Current Age	49.3
Average Service	25.7
Average Valuation Pay	$ 46,893
INLAND FISHERIES & WILDLIFE OFFICERS (CLOSED PLAN)	
Count	21
Average Current Age	52.3
Average Service	28.8
Average Valuation Pay	$ 49,423
PRISON EMPLOYEES (CLOSED PLAN)	
Count	32
Average Current Age	51.5
Average Service	24.9
Average Valuation Pay	$ 46,069

MEMBERSHIP INFORMATION (continued)

MAINE STATE RETIREMENT SYSTEM
ACTIVE MEMBER DATA AS OF JUNE 30, 2004
(continued)

STATE POLICE (CLOSED PLAN)	
Count	62
Average Current Age	48.3
Average Service	23.7
Average Valuation Pay	$ 67,293
MARINE RESOURCES OFFICERS (CLOSED PLAN)	
Count	6
Average Current Age	51.5
Average Service	26.3
Average Valuation Pay	$ 53,966
25 & OUT PLAN	
Count	389
Average Current Age	37.0
Average Service	10.6
Average Valuation Pay	$ 50,903
1998 SPECIAL PLAN	
Count	1,362
Average Current Age	42.8
Average Service	9.9
Average Valuation Pay	$ 38,188
STATE TOTALS (EXCLUDES TEACHERS)	
Count	14,611
Average Current Age	45.7
Average Service	12.8
Average Valuation Pay	$35,921

MEMBERSHIP INFORMATION (continued)

MAINE STATE RETIREMENT SYSTEM
NON-ACTIVE MEMBER DATA AS OF JUNE 30, 2004
TEACHERS

	Count	Total Annual Benefit	Average Annual Benefit
Retired	9,327	$ 176,590,668	$ 18,933
Retired – Concurrent Beneficiaries	1,252	$ 5,545,437	$ 4,429
Disabilities/1122	4	$ 83,274	$ 20,819
Disabilities/3 and 3-A	777	$ 16,312,288	$ 20,994
Beneficiaries	774	$ 9,701,758	$ 12,535
Pre-Retirement Death Benefits	322	$ 1,675,006	$ 5,202
Terminated Vested	3,157	$ 18,213,749	$ 5,769

MAINE STATE RETIREMENT SYSTEM
NON-ACTIVE MEMBER DATA AS OF JUNE 30, 2004
STATE REGULAR

	Count	Total Annual Benefit	Average Annual Benefit
Retired	6,605	$ 102,795,155	$ 15,563
Retired – Concurrent Beneficiaries	1,119	$ 4,525,016	$ 4,044
Disabilities/1122	8	$ 115,348	$ 14,419
Disabilities/3 and 3-A	1,153	$ 18,149,153	$ 15,741
Beneficiaries	1,407	$ 13,989,998	$ 9,943
Pre-Retirement Death Benefits	558	$ 2,847,411	$ 5,103
Terminated Vested	1,536	$ 11,003,352	$ 7,164

MEMBERSHIP INFORMATION (continued)

MAINE STATE RETIREMENT SYSTEM
NON-ACTIVE MEMBER DATA AS OF JUNE 30, 2004
SPECIAL PLANS

	Count	Total Annual Benefit	Average Annual Benefit
Retired	734	$ 18,806,758	$ 25,622
Retired – Concurrent Beneficiaries	153	$ 687,715	$ 4,495
Disabilities/1122	3	$ 46,570	$ 15,523
Disabilities/3 and 3-A	49	$ 915,169	$ 18,677
Beneficiaries	139	$ 1,704,762	$ 12,264
Pre-Retirement Death Benefits	3	$ 57,672	$ 19,224
Terminated Vested	0	$ 0	$ 0

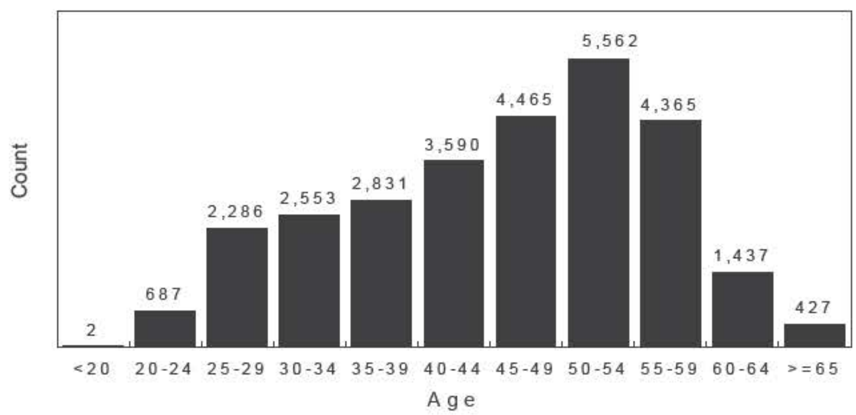
MEMBERSHIP INFORMATION (continued)

MAINE STATE RETIREMENT SYSTEM
DISTRIBUTION OF ACTIVE MEMBERS
AS OF JUNE 30, 2004

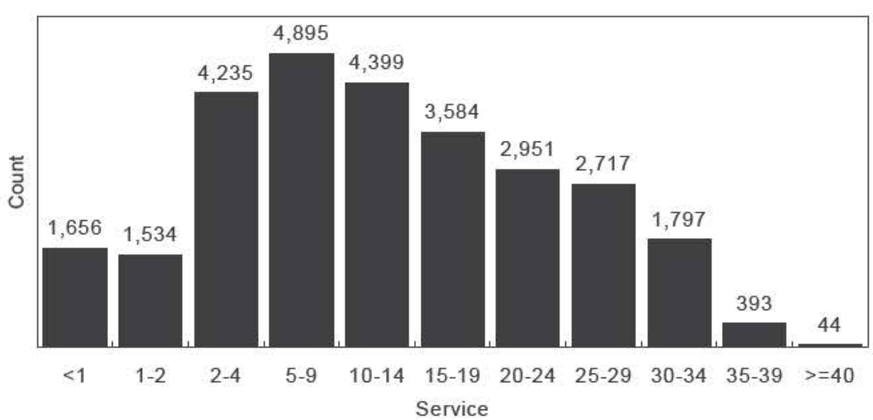
TEACHERS

Age	Years of Service: Under 1	1 TO 2	2 TO 4	5 TO 9	10 TO 14	15 TO 19	20 TO 24	25 TO 29	30 TO 34	35 TO 39	40 & UP	Total
Under 20	2											2
20 TO 24	252	183	224	28								687
25 TO 29	325	311	915	716	19							2,286
30 TO 34	248	203	504	965	631	2						2,553
35 TO 39	194	172	561	590	1,025	286	3					2,831
40 TO 44	204	199	627	656	568	872	462	2				3,590
45 TO 49	166	189	568	766	703	613	969	486	5			4,465
50 TO 54	129	130	420	626	771	831	674	1,429	546	6		5,562
55 TO 59	83	83	260	345	500	695	570	554	1,076	199		4,365
60 TO 64	33	48	91	130	137	236	225	202	147	169	19	1,437
65 & UP	20	16	65	73	45	49	48	44	23	19	25	427
Total	1,656	1,534	4,235	4,895	4,399	3,584	2,951	2,717	1,797	393	44	28,205

Age Distribution



Service Distribution



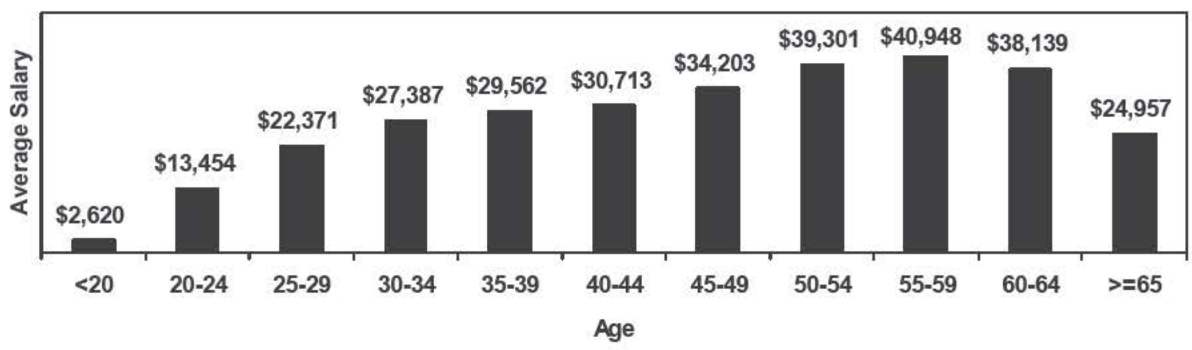
MEMBERSHIP INFORMATION (continued)

MAINE STATE RETIREMENT SYSTEM
DISTRIBUTION OF ACTIVE MEMBERS
AS OF JUNE 30, 2004

TEACHERS

	Average Salary Years of Service											
Age	Under 1	1 TO 2	2 TO 4	5 TO 9	10 TO 14	15 TO 19	20 TO 24	25 TO 29	30 TO 34	35 TO 39	40 & UP	Total
Under 20	2,620											$2,620
20 TO 24	10,114	15,683	14,987	16,680								$13,454
25 TO 29	13,769	19,476	23,456	26,104	23,933							$22,371
30 TO 34	15,940	20,401	25,535	29,349	32,601	30,157						$27,387
35 TO 39	14,664	18,984	22,100	29,764	36,239	36,390	23,086					$29,562
40 TO 44	12,040	15,797	21,474	26,661	35,130	39,837	40,945	49,123				$30,713
45 TO 49	15,315	16,676	21,376	26,218	33,416	40,785	44,545	47,121	48,113			$34,203
50 TO 54	17,666	21,746	25,106	28,419	33,986	40,297	44,125	48,050	49,010	49,437		$39,301
55 TO 59	17,853	23,124	24,139	29,465	34,278	38,860	43,506	47,012	50,116	50,144		$40,948
60 TO 64	10,584	10,782	19,232	28,025	34,123	36,412	43,009	44,867	48,922	49,509	51,493	$38,139
65 & UP	5,609	5,258	11,142	14,826	27,926	29,828	32,389	33,265	39,744	45,328	45,679	$24,957
Total	$13,918	$18,238	$22,429	$27,639	$34,301	$39,274	$43,348	$47,197	$49,544	$49,628	$48,190	$33,319

Average Salary Distribution



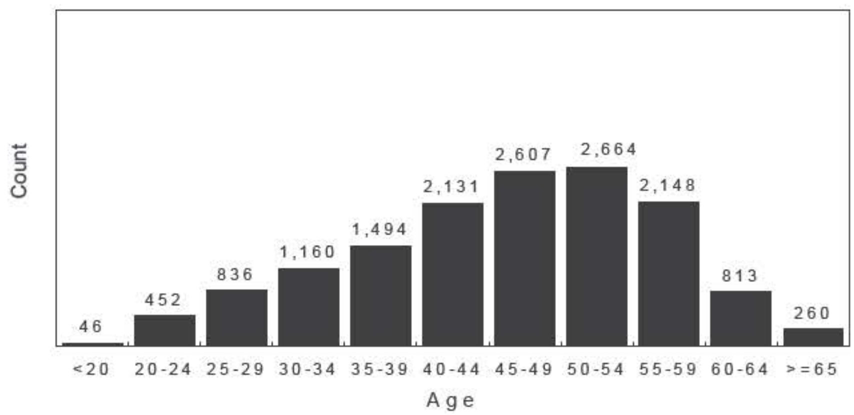
MEMBERSHIP INFORMATION (continued)

MAINE STATE RETIREMENT SYSTEM
DISTRIBUTION OF ACTIVE MEMBERS
AS OF JUNE 30, 2004

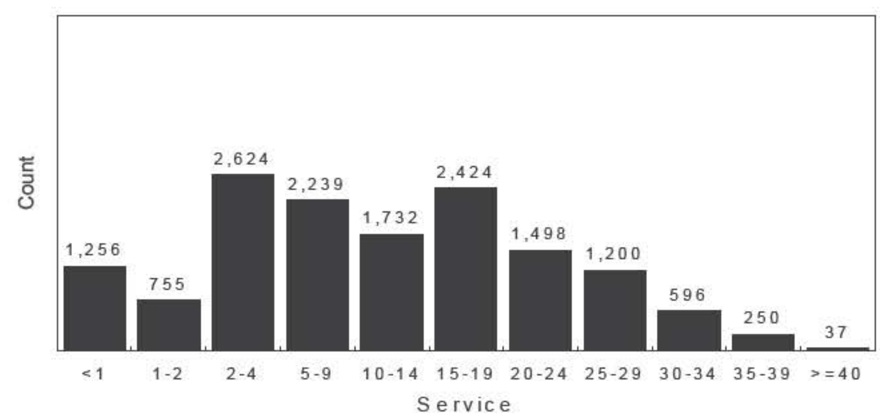
STATE

Age	Under 1	1 TO 2	2 TO 4	5 TO 9	10 TO 14	15 TO 19	20 TO 24	25 TO 29	30 TO 34	35 TO 39	40 & UP	Total
	Years of Service State											
Under 20	34	10	2									46
20 TO 24	219	98	129	6								452
25 TO 29	185	119	359	170	3							836
30 TO 34	169	102	389	355	129	16						1,160
35 TO 39	126	77	364	330	293	296	8					1,494
40 TO 44	160	91	370	347	321	554	252	36				2,131
45 TO 49	122	99	379	363	325	529	387	380	23			2,607
50 TO 54	120	83	305	302	277	495	398	415	248	21		2,664
55 TO 59	84	51	215	225	252	324	305	269	259	161	3	2,148
60 TO 64	26	18	91	110	98	163	118	68	46	53	22	813
65 & UP	11	7	21	31	34	47	30	32	20	15	12	260
Total	1,256	755	2,624	2,239	1,732	2,424	1,498	1,200	596	250	37	14,611

Age Distribution



Service Distribution



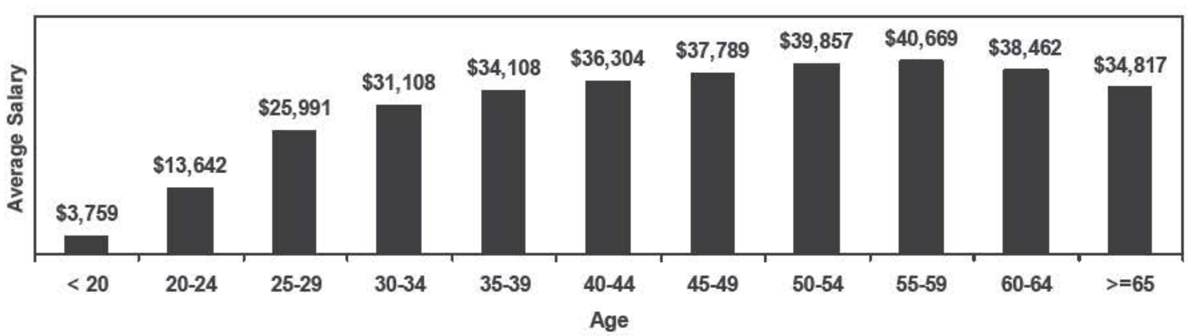
MEMBERSHIP INFORMATION (continued)

MAINE STATE RETIREMENT SYSTEM
DISTRIBUTION OF ACTIVE MEMBERS
AS OF JUNE 30, 2004

STATE

	Average Salary Years of Service											
Age	Under 1	1 TO 2	2 TO 4	5 TO 9	10 TO 14	15 TO 19	20 TO 24	25 TO 29	30 TO 34	35 TO 39	40 & UP	Total
Under 20	2,304	8,614	4,230									$3,759
20 TO 24	7,119	19,724	19,637	23,476								$13,642
25 TO 29	11,945	28,275	29,532	32,266	22,159							$25,991
30 TO 34	13,582	31,823	29,749	37,933	37,973	37,891						$31,108
35 TO 39	12,314	29,480	31,678	36,493	40,780	38,265	35,938					$34,108
40 TO 44	13,306	29,411	31,712	36,891	40,676	42,063	40,899	37,724				$36,304
45 TO 49	14,035	32,987	30,714	36,699	37,860	42,498	43,555	42,060	41,288			$37,789
50 TO 54	14,115	32,447	32,880	36,878	41,898	41,628	45,057	45,672	42,753	44,041		$39,857
55 TO 59	16,080	36,019	32,558	37,204	38,950	40,955	44,113	44,778	48,239	47,241	38,253	$40,669
60 TO 64	14,019	29,413	30,355	34,897	38,327	38,949	40,350	47,631	47,195	49,584	39,588	$38,462
65 & UP	6,450	34,440	22,708	32,400	33,850	32,257	39,765	39,540	41,441	37,415	61,999	$34,817
Total	$11,955	$29,328	$30,445	$36,449	$39,609	$41,030	$43,252	$44,037	$45,379	$46,880	$46,748	$35,921

Average Salary Distribution

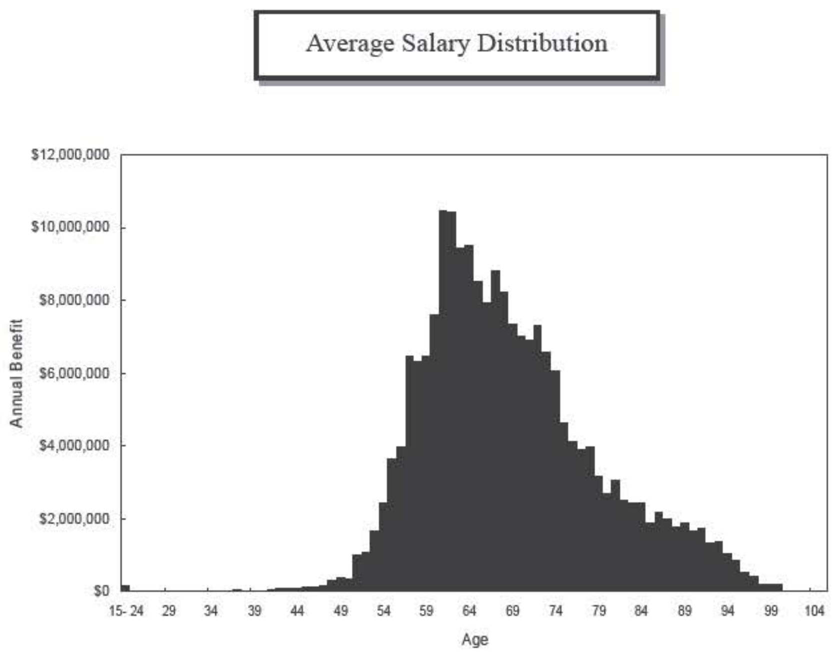


MEMBERSHIP INFORMATION (continued)

MAINE STATE RETIREMENT SYSTEM
DISTRIBUTION OF RETIREES, DISABLED MEMBERS, BENEFICIARIES AND SURVIVORS
AS OF JUNE 30, 2004

TEACHERS

Age	Count	Annual Benefit	Age	Count	Annual Benefit
Under 25	55	$190,421	65	452	$8,533,385
25	3	21,595	66	424	7,929,641
26	2	13,195	67	491	8,809,930
27	3	6,163	68	454	8,257,691
28	1	8,197	69	414	7,361,883
29	2	12,371	70	437	7,025,400
30	2	21,150	71	401	6,898,626
31	1	3,611	72	425	7,327,928
32	3	14,422	73	401	6,567,171
33	4	19,631	74	387	6,074,170
34	2	19,025	75	324	4,637,354
35	9	43,841	76	288	4,099,441
36	3	38,094	77	264	3,893,176
37	7	65,136	78	287	3,972,814
38	5	48,490	79	238	3,141,748
39	6	18,654	80	209	2,714,019
40	5	22,395	81	230	3,054,588
41	5	64,296	82	192	2,540,242
42	7	97,519	83	197	2,420,453
43	9	92,351	84	193	2,462,743
44	10	100,174	85	158	1,908,759
45	13	149,963	86	162	2,161,751
46	11	146,949	87	143	1,987,051
47	14	173,098	88	140	1,754,511
48	18	305,539	89	138	1,894,947
49	23	374,024	90	117	1,657,930
50	27	356,454	91	131	1,710,847
51	54	1,019,250	92	98	1,331,385
52	61	1,088,045	93	93	1,372,795
53	102	1,663,262	94	73	1,061,736
54	138	2,414,915	95	67	829,012
55	192	3,665,634	96	40	534,932
56	213	3,948,371	97	27	418,588
57	325	6,455,866	98	18	221,202
58	315	6,299,572	99	20	206,730
59	300	6,448,477	100	16	206,257
60	379	7,624,740	101	3	28,962
61	507	10,452,483	102	2	7,720
62	494	10,418,032	103	0	0
63	494	9,430,498	104	0	0
64	477	9,516,380	over 104	1	18,633
			Total	12,456	$209,908,431



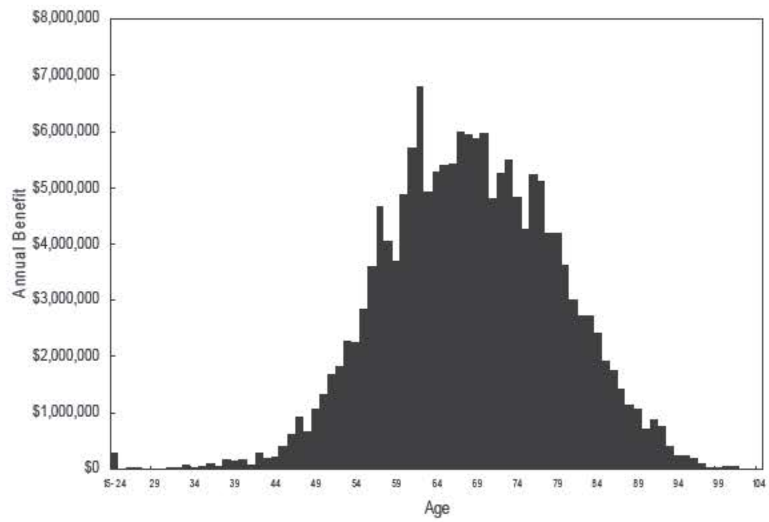
MEMBERSHIP INFORMATION (continued)

MAINE STATE RETIREMENT SYSTEM
DISTRIBUTION OF RETIREES, DISABLED MEMBERS,
BENEFICIARIES AND SURVIVORS
As of JUNE 30, 2004

STATE

Age	Count	Annual Benefit	Age	Count	Annual Benefit
Under 25	71	$273,503	65	357	$5,381,846
25	1	7,555	66	363	5,417,930
26	5	27,209	67	393	5,992,076
27	2	12,127	68	398	5,952,839
28	3	6,766	69	397	5,877,975
29	3	10,828	70	429	5,975,016
30	2	5,099	71	361	4,813,284
31	2	21,068	72	398	5,240,167
32	5	28,973	73	384	5,491,440
33	10	59,928	74	365	4,817,289
34	3	25,189	75	342	4,257,477
35	10	35,710	76	395	5,220,148
36	10	89,628	77	379	5,106,982
37	7	49,963	78	342	4,198,335
38	20	171,832	79	344	4,188,550
39	15	138,421	80	314	3,613,250
40	15	160,365	81	266	2,998,996
41	15	75,945	82	259	2,735,346
42	29	284,810	83	252	2,740,503
43	19	185,386	84	228	2,434,225
44	20	220,766	85	192	1,911,914
45	31	389,935	86	175	1,740,063
46	48	617,094	87	145	1,432,180
47	72	901,632	88	123	1,145,905
48	52	653,086	89	122	1,084,051
49	69	1,071,018	90	76	707,456
50	89	1,337,843	91	80	895,824
51	101	1,671,305	92	83	744,385
52	112	1,823,678	93	50	393,027
53	145	2,257,108	94	27	235,131
54	135	2,243,571	95	28	225,972
55	175	2,852,064	96	17	190,726
56	198	3,599,021	97	11	94,446
57	264	4,667,553	98	7	33,403
58	229	4,031,708	99	4	14,455
59	191	3,694,506	100	5	42,955
60	285	4,869,246	101	2	39,657
61	318	5,715,892	102	0	0
62	381	6,796,455	103	2	6,031
63	305	4,924,782	104	1	3,500
64	349	5,267,851	over 104	0	0
			Total	11,932	$164,671,174

Average Benefit Distribution



APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

ACTUARIAL ASSUMPTIONS

		STATE EMPLOYEES	TEACHERS
1.	Rate of Investment Return	8.0%	8.0%
2.	Cost-of-Living Increases in Benefits	4.0%	4.0%
3.	Rates of Salary Increase (% at Selected Ages)	Age	State Employees and Teachers
		20	9.5
		25	8.3
		30	7.2
		35	6.7
		40	6.2
		45	5.7
		50	5.5
		55	5.5
		60	5.5
		65	5.5

The above rates include a 5½% across-the-board increase at each age.
Calculations have been adjusted to account for the 5% per year/10% over three-years cap on final pay.

	AGE	STATE EMPLOYEES SERVICE			TEACHERS SERVICE		
		0-1	1-2	2+	0-1	1-2	2+
4. Rates of Termination (% at Selected Ages) *	20	25.0	17.5	18.8	33.0	24.0	18.8
	25	25.0	17.5	12.5	27.5	24.0	12.5
	30	25.0	17.5	10.0	27.5	24.0	10.4
	35	25.0	17.5	7.5	27.5	24.0	8.3
	40	25.0	17.5	5.0	27.5	24.0	6.1
	45	25.0	17.5	5.0	27.5	24.0	4.0
	50	25.0	17.5	5.0	27.5	24.0	4.0
	55	20.0	17.5	5.0	27.5	24.0	4.0

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

ACTUARIAL ASSUMPTIONS AND METHODS
(continued)

5. Rates of Mortality for Active Healthy Lives and post-7/1/1998 Retired Healthy Lives at selected Ages (number of deaths per 10,000 members)*

	STATE EMPLOYEES		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 pre-7/1/1998 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	2
25	6	3	6	3
30	8	5	7	4
35	11	7	10	6
40	16	9	14	8
45	29	14	23	12
50	53	22	42	18
55	85	33	71	27
60	131	55	109	44
65	213	96	174	77
70	361	165	292	129

7. Rates of Mortality for Future Disabled Lives and post-7/1/98 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

ACTUARIAL ASSUMPTIONS AND METHODS
(continued)

8. Rates of Mortality for pre-7/1/98 Retired Disabled Lives at Selected Ages (number of deaths per 10,000 members)

AGE	STATE EMPLOYEES MALE	STATE EMPLOYEES FEMALE	TEACHERS MALE	TEACHERS FEMALE
25	391	528	391	528
30	315	467	315	467
35	321	326	321	326
40	332	215	332	215
45	349	191	349	191
50	376	207	376	207
55	420	240	420	240
60	488	288	488	288
65	595	366	595	366
70	763	487	763	487

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

AGE	STATE EMPLOYEES*	TEACHERS
45	35	25
50	57	25
55	150	113
59	180	183
60	350	350
61	350	350
62	350	350
63	350	350
64	350	350
65	350	350
70	1000	1000

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

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

AGE	STATE EMPLOYEES	TEACHERS
25	6.8	4.6
30	7.6	5.0
35	10.2	5.0
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.*

ACTUARIAL ASSUMPTIONS AND METHODS
(continued)

11.	Family Composition Assumptions	80% of active members are married and have two children born when the member is 24 and 28; children are dependent until age 18; female spouse is three years younger than male spouse; member has no dependent parents; unmarried members have beneficiaries entitled to benefits worth 80% as much as those of married members' beneficiaries.
12.	Vacation/Sick Leave Credits	For members who had 10 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.

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 System's normal cost, contributions are required to fund the System'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 System's assets. The actuarial liability includes projections of future member pay increases and future service credits and should not be confused with the Accrued Benefit Liability.

The unfunded actuarial liability is amortized by annual payments. The payments are determined so that they will be a level percentage of pay, assuming payroll increases 5.5% per year. The UAL measured as of June 30, 2004 is amortized over a 14 year period. This establishes the UAL rates for the biennial budget for FY's 06 and 07.

2. Asset Valuation Method

For purposes of this June 30, 2004 actuarial valuation, assets are valued at an "actuarial value" as described in Part II.

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.

Contribution requirements for special groups:

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

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

1998 Special Plan employees which include state prison employees, airplane pilots, forest rangers, liquor inspectors, 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 capital 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 System, average final compensation is the average annual rate of earnable compensation for the three years of creditable service (not necessarily consecutive) which produce the highest such average.

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 10 years of service at July 1, 1993. For members for whom sick and vacation pay is includible in earnable compensation, these payments are included in applying the caps described in the preceding paragraph.

4. Creditable Service

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

SUMMARY OF PLAN PROVISIONS (continued)

5. Service Retirement Benefits

A. Regular Plan (State Employees and Teachers)

Eligibility for members with at least 10 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 10 years of creditable service and at least normal retirement age.

Eligibility for members not in active service at retirement, but in active service on or after October 1, 1999: at least 5 years of creditable service and at least normal retirement age.

Benefit – 1/50 of average final compensation multiplied by years of membership service up to 25 years of prior service, reduced by approximately 2 1/4% for each year retirement age is less than age 60.

Form of payment – life annuity.

Eligibility for members with less than 10 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 10 years of creditable service and at least normal retirement age.

Eligibility for members not in active service at retirement, but in active service on or after October 1, 1999: at least 5 years of creditable service and at least normal retirement age.

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

Form of payment – life annuity.

B. Special Plans (State employees)

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.

SUMMARY OF PLAN PROVISIONS (continued)

Benefit – ½ 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.

Forest rangers employed before 9/1/84:

Eligibility – age 50 with 25 years of creditable service as a forest ranger.

Benefit – ½ 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.

Airplane pilots employed before 9/1/84:

Eligibility – age 55 and 25 years of creditable service as an airplane pilot.

Benefit – greater of (1) ½ 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.

Liquor inspectors employed before 9/1/84:

Eligibility – age 55 and 25 years of creditable service as a liquor inspector.

Benefit – ½ of average final compensation plus 2% for each year of service earned after qualification for retirement. If greater, the pro-rated portion of the benefit for service before July 1, 1976 is based on annual pay instead of average final pay.

Form of payment – life annuity.

State prison employees employed before 9/1/84:

Eligibility – age 50 and 20 years of creditable service as a prison employee.

Benefit – ½ of average final compensation plus 2% for each year of service earned after qualification for retirement.

Form of payment – life annuity.

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.

SUMMARY OF PLAN PROVISIONS (continued)

2002 entrants: Capital security officers, and oil and hazardous materials emergency response workers.

Eligibility – 10 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.

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

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

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

Form of payment – payment begins on termination of service and ceases on cessation of disability or after five or two years, depending on disability plan, unless the member is unable to engage in any substantially gainful activity; in which case payments cease on the earlier of 10 years following normal retirement age or date the service retirement benefit equals or exceeds the disability benefit.

Conversion to service retirement – during the period of disability, average final compensation is increased with cost-of-living adjustments and service is credited. On the date when service benefits reach a level of 66 2/3% of average final compensation or 10 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.

SUMMARY OF PLAN PROVISIONS (continued)

7. No Age Disability Retirement Benefits

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

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

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

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

8. Pre-Retirement Ordinary Death Benefits

Eligibility – death while active, inactive eligible to retire, or disabled.

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

9. Pre-Retirement Accidental Death Benefits

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

Benefit – if the member leaves no dependent children, 2/3 of the member's average final compensation to the surviving spouse until death.

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

SUMMARY OF PLAN PROVISIONS (continued)

10. Refund of Contributions

Eligibility – termination of service without retirement or death.

Benefit – member's accumulated contributions with interest.

11. Cost-of-Living Adjustments

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

12. Methods of Payment of Service Retirement Benefits

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

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

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

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

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

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

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

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

Option 8: Option 4 with pop-up*.

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

JUNE 30, 2004
ACTUARIAL VALUATION

LEGISLATIVE
RETIREMENT SYSTEM

A MILLIMAN GLOBAL FIRM
Milliman USA
Consultants and Actuaries

80 Lamberton Road
Windsor, CT 06095-2126
Tel 1-860-687-2110
Fax 1-860-687-2111
www.milliman.com

February 3, 2005

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

Re: Maine Legislative Retirement System

Dear Members of the Board:

At your request, we have produced this report containing the full results of the June 30, 2004 actuarial valuation of the Maine Legislative Retirement System.

In performing this valuation, Milliman used assumptions and methods that meet the parameters set by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The actuarial assumptions used in this valuation have been recommended by the actuary and adopted by the Board of Trustees based upon the most recent review of the System's experience completed in 1998. We believe that the assumptions used, in the aggregate, represent our best estimate of anticipated future experience of the plan. The results of this report are dependent upon future experience conforming to these assumptions. It is certain that actual experience will not conform exactly to these assumptions. Actual amounts will differ from projected amounts to the extent actual experience differs from expected experience. The Board of Trustees has the final decision regarding the appropriateness of the assumptions.

In preparing our report we relied, without audit, on information (some oral and some written) supplied by the Retirement System. This information includes, but is not limited to, plan provisions, employee census data and financial information. The Retirement System reported actual salary for the 2004 fiscal year, which was a short legislative session. We adjusted salary to a comparable long-session year by increasing the 2003 salary by the salary scale assumption.

We did not audit this data. However, we reviewed the census data for reasonableness, and for consistency with the prior year's data. We found the data to be reasonably consistent and comparable with data used in the prior valuation. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

The results contained in this report are only applicable to the 2006 fiscal year. Future years results may differ significantly.

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 applicable Guides to Professional Conduct, Amplifying Opinions, and Supporting Recommendations and Interpretations of the American Academy of Actuaries.

Sincerely,

Milliman, Inc.

I, Theresa Leatherbury, am a consulting actuary for Milliman, Inc. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

Theresa Leatherbury

Theresa Leatherbury, FSA
Principal

I, Althea Schwartz, am a consulting actuary for Milliman, Inc. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

Althea Schwartz

Althea Schwartz, FSA
Principal

INTRODUCTION

This report presents the results, as of June 30, 2004, of the actuarial valuation of the Maine Legislative Retirement System. Schedule A, following this introduction, contains the cost results, assets, liabilities, and accounting disclosure information. Schedule B presents a summary of plan provisions and Schedule C presents a description of actuarial assumptions and methods used in determining costs, including a description of the funding method.

SCHEDULE A

A. PARTICIPANT DATA:

Number of:		
Active Members		176
Retired Members		75
Beneficiaries of Retired Members		14
Survivors of Deceased Members		3
Disabled Members		0
Vested Deferred Members		52
Inactive Non-Vested Members		107
Total		427
Active Payroll	$	2,102,999
Annual Benefits for Retired Members, Beneficiaries, Survivors and Disabled Members	$	212,259

B. COST RESULTS:

Employer Normal Cost [1]	0.00%
Unfunded Actuarial Liability	*N/A*
Total Cost	0.00%

[1] **Employer Normal Cost includes Retirement Benefits, Disability, and Survivor Benefit costs.**

C. ACCOUNTING INFORMATION:

1. GASB Disclosure

a. Actuarial Accrued Liability *		
- Retirees and beneficiaries currently receiving benefits and terminated vested employees not yet receiving benefits	$	2,203,021
- Current employees		
-- Accumulated employee contributions including allocated investment earnings	$	1,359,835
-- Employer-financed vested	$	0
-- Employer-financed nonvested	$	3,264,622
- Total Actuarial Accrued Liability (AAL) *	$	6,827,478
b. Actuarial Value of Assets (AVA)	$	6,827,478
c. Unfunded Actuarial Accrued Liability	$	0

* The Aggregate actuarial funding method, used for this plan, does not, technically, define an AAL. For purposes of GASB No. 25 disclosure, in which all plans are combined, we have shown an Accrued Actuarial Liability exactly equal to the Actuarial Value of Assets.

2. OTHER ACCOUNTING INFORMATION:

a. Market Value of Assets	$	6,645,888
b. Unfunded Accrued Liability, (not less than $0)		0
c. Amortization Period		N/A

SCHEDULE B
SUMMARY OF PLAN PROVISIONS

1. Membership

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

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

2. Member Contributions

Members are required to contribute 7.65% of earnable compensation.

3. Average Final Compensation

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

4. Creditable Service

Creditable service includes the following:

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

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

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

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

5. Service Retirement Benefits

Eligibility for members with at least 10 years of creditable service on July 1, 1993:

Eligibility for members in active service and inactive members: 25 years of creditable service.

Eligibility alternative for members in active service: attainment of age 60.

Eligibility for members not in active service at retirement, and not in active service on or after October 1, 1999: attainment of age 60 and 10 years of creditable service.

Eligibility for members not in active service at retirement, but in active service on or after October 1, 1999: attainment of age 60 and 5 years of creditable service.

Eligibility for members with less than 10 years of creditable service on July 1, 1993:

Eligibility for members in active service and inactive members: 25 years of creditable service.

Eligibility alternative for members in active service: attainment of age 62.

SUMMARY OF PLAN PROVISIONS (continued)

Eligibility for members not in active service at retirement, and not in active service on or after October 1, 1999: attainment of age 62 with 10 years of creditable service.

Eligibility for members not in active service at retirement, but in active service on or after October 1, 1999: attainment of age 62 and 5 years of creditable service.

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

Benefit - 1/50 of average final compensation multiplied by years of creditable service, reduced for retirement before age 60 at the rate of approximately 2 1/4 for each year retirement age is less than age 60, for members with at least 10 years creditable service on July 1, 1993; reduced for retirement before age 62 at the rate of 6% for each year retirement age is less than age 62, for members with less than 10 years creditable service on July 1, 1993; minimum benefit $100 per month if at least 10 years of creditable service.

Form of payment - life annuity.

6. Disability Retirement Benefits Other Than No Age Benefits

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

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

Form of payment - payment begins on termination of service and ceases on cessation of disability or after 5 years, unless the member is unable to engage in any substantially gainful activity; in which case payments cease on the earlier of 10 years following normal retirement age or date the service retirement benefit equals or exceeds the disability benefit.

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

7. No Age Disability Retirement Benefits

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

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

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

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

SUMMARY OF PLAN PROVISIONS (continued)

8. Pre-Retirement Ordinary Death Benefits

Eligibility - death while active, inactive eligible to retire or disabled.

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

9. Pre-Retirement Accidental Death Benefits

Eligibility - death while active or disabled resulting from injury received in the line of duty.

Benefit - if the member leaves no dependent children, 2/3 of the member's average final compensation to the surviving spouse until death.

- If the member is survived by a spouse who has the care of dependent child(ren) of the member, the surviving spouse shall receive an annual sum equal to the member's average final compensation. When there is no longer any dependent child, the surviving spouse shall receive 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 amount equal to the member's average final compensation. Benefits will cease when the last dependent child no longer meets the definition of "dependent child".

10. Refund of Contributions

Eligibility - termination of service without retirement or death.

Benefit - member's accumulated contributions with interest.

11. Cost-of-Living Adjustments

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

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

Members on service retirement who did not have at least 10 years creditable service on July 1, 1993 are not eligible to receive a cost-of-living adjustment until 12 months after their normal retirement age.

SUMMARY OF PLAN PROVISIONS (continued)

12. Methods of Payment of Service Retirement Benefits

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

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

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

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

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

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

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

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

Option 8: Option 4 with pop-up*.

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

SCHEDULE C
SUMMARY OF ACTUARIAL ASSUMPTIONS

ACTUARIAL ASSUMPTIONS

1. Annual Rate of Investment Return: 8%
2. Annual Rate of Salary Increase: 5%
3. Annual Cost-of-Living Increase: 4%
4. Normal Retirement Age: Age 60 for members with at least 10 years creditable service on July 1, 1993.

   Age 62 for members with less than 10 years creditable service on July 1, 1993.

5. Probabilities of employment termination at selected ages due to:

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

6. Rate of Healthy Life Mortality at Selected Ages:

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

SUMMARY OF ACTUARIAL ASSUMPTIONS (continued)

7. Rates of Disabled Life Mortality at Selected Ages:

	Currently Active Employees		Currently Retired Employees	
Age	**Male**	**Female**	**Male**	**Female**
25	.0092	.0072	.0391	.0528
30	.0112	.0089	.0315	.0467
35	.0134	.0109	.0321	.0326
40	.0160	.0126	.0332	.0215
45	.0193	.0144	.0349	.0191
50	.0236	.0165	.0376	.0207
55	.0295	.0191	.0420	.0240

ACTUARIAL METHODS

1. Funding Method

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

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

2. Asset Valuation Method

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

JUNE 30, 2004
ACTUARIAL VALUATION

JUDICIAL
RETIREMENT SYSTEM

A MILLIMAN GLOBAL FIRM
Milliman USA
Consultants and Actuaries

80 Lamberton Road
Windsor, CT 06095-2126
Tel 1-860-687-2110
Fax 1-860-687-2111
www.milliman.com

February 3, 2005

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

Re: Maine Judicial Retirement System

Dear Members of the Board:

At your request, we have produced this report containing the full results of the June 30, 2004 actuarial valuation of the Maine Judicial Retirement System.

In performing this valuation, Milliman used assumptions and methods that meet the parameters set by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.* The actuarial assumptions used in this valuation have been recommended by the actuary and adopted by the Board of Trustees based upon the most recent review of the System's experience completed in 1998. We believe that the assumptions used, in the aggregate, represent our best estimate of anticipated future experience of the plan. The results of this report are dependent upon future experience conforming to these assumptions. It is certain that actual experience will not conform exactly to these assumptions. Actual amounts will differ from projected amounts to the extent actual experience differs from expected experience. The Board of Trustees has the final decision regarding the appropriateness of the assumptions.

In preparing our report we relied, without audit, on information (some oral and some written) supplied by the Retirement System. This information includes, but is not limited to, plan provisions, employee census data and financial information. We did not audit this data. However, we reviewed the census data for reasonableness, and for consistency with the prior year's data. We found the data to be reasonably consistent and comparable with data used in the prior valuation. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

The results contained in this report are only applicable to the 2006 fiscal year. Future years results may differ significantly.

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 applicable Guides to Professional Conduct, Amplifying Opinions, and Supporting Recommendations and Interpretations of the American Academy of Actuaries.

Sincerely,

Milliman, Inc.

I, Theresa Leatherbury, am a consulting actuary for Milliman, Inc. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

Theresa Leatherbury

Theresa Leatherbury, FSA
Principal

I, Althea Schwartz, am a consulting actuary for Milliman, Inc. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

Althea Schwartz

Althea Schwartz, FSA
Principal

INTRODUCTION

This report presents the results, as of June 30, 2004, of the actuarial valuation of the Maine Judicial Retirement System. Schedule A, following this introduction, contains the cost results, assets, liabilities, and accounting disclosure information. Schedule B presents a summary of plan provisions and Schedule C presents a description of actuarial assumptions and methods used in determining costs, including a description of the funding method.

SCHEDULE A

A. PARTICIPANT DATA:

Number of:	
Active Members	56
Retired Members	28
Beneficiaries of Retired Members	12
Survivors of Deceased Members	0
Disabled Members	1
Vested Deferred Members	1
Inactive Non-Vested Members	1
Total	99
Active Payroll	$ 5,550,873
Annual Benefits for Retired Members, Beneficiaries, Survivors and Disabled Members	$ 1,993,183

B. COST RESULTS:

Employer Normal Cost [1]	20.04%
Unfunded Actuarial Liability	-4.85%
Total Cost	15.19%

[1] **Employer Normal Cost includes Retirement Benefits, Disability, and Survivor Benefit costs.**

C. ACCOUNTING INFORMATION:

1. GASB Disclosure

a. Actuarial Accrued Liability		
- Retirees and beneficiaries currently receiving benefits and terminated vested employees not yet receiving benefits	$	18,534,194
- Current employees		
-- Accumulated employee contributions including allocated investment earnings	$	5,600,058
-- Employer-financed vested	$	8,694,458
-- Employer-financed nonvested	$	3,560,021
- Total Actuarial Accrued Liability (AAL)	$	36,388,731
b. Actuarial Value of Assets (AVA)	$	39,210,995
c. Unfunded Actuarial Accrued Liability	$	(2,822,264)

2. Other Accounting Information:

a. Market Value of Assets	$	38,168,105
b. Unfunded Accrued Liability, (not less than $0)		0
c. Amortization Period		13

SCHEDULE B
SUMMARY OF PLAN PROVISIONS

Retirement on or After December 1, 1984

1. Membership

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

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

2. Member Contributions

Members are required to contribute 7.65% of earnable compensation.

3. Average Final Compensation

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

4. Creditable Service

Creditable service includes the following:

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

b. all judicial service before December 1, 1984;

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

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

5. Service Retirement Benefits

Eligibility for members with at least 10 years of creditable service on July 1, 1993:

Eligibility for members in active service and inactive members: 25 years of creditable service.

Eligibility alternative for members in active service: attainment of age 70 with at least one year of service immediately before retirement.

Eligibility for members not in active service at retirement, and not in active service on or after October 1, 1999: attainment of age 60 and 10 years of creditable service.

Eligibility for members not in active service at retirement, but in active service on or after October 1, 1999: attainment of age 60 and 5 years of creditable service.

Eligibility for members with less than 10 years of creditable service on July 1, 1993:

Eligibility for members in active service and inactive members: 25 years of creditable service.

Eligibility alternative for members in active service: attainment of age 70 with at least one year of service immediately before retirement.

SUMMARY OF PLAN PROVISIONS (continued)

Eligibility for members not in active service at retirement, and not in active service on or after October 1, 1999: attainment of age 62 with 10 years of creditable service.

Eligibility for members not in active service at retirement, but in active service on or after October 1, 1999: attainment of age 62 and 5 years of creditable service.

Benefit - sum of (1) For service after November 30, 1984 and before July 1, 1998 and creditable service allowed under Section 1302(3), 2% of average final compensation multiplied by years of service; for service on or after July 1, 1998, 3% of average final compensation multiplied by years of service, and (2) for judicial service prior to December 1, 1984, 75% of November 30, 1984 salary for the position held at retirement, prorated for prior service less than 10 years.

The benefit is reduced for retirement before age 60 at the rate of approximately 2 1/4% for each year retirement age is less than 60, for members with at least 10 years creditable service on July 1, 1993; reduced for retirement before age 62 by 6% for each year the member's age is less than age 62, if less than 10 years creditable service on July 1, 1993.

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

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

Form of payment - life annuity; except, for a judge in service and age 50 before December 1, 1984, 50% joint and survivor annuity to surviving spouse.

6. Disability Retirement Benefits Other Than No-Age Benefits

Conditions - disabled as defined in the Judicial Retirement System statutes, prior to Normal Retirement Age; employed as a judge prior to October 16, 1992 and did not elect No Age Disability.

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

Form of payment - payment begins on termination of service and ceases on cessation of disability or after 2 years, unless the member is unable to engage in any substantially gainful activity; in which case payments cease on the earlier of attainment of age 70 and date the service retirement benefit exceeds the disability benefit.

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

7. No-Age Disability Retirement Benefits

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

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

SUMMARY OF PLAN PROVISIONS (continued)

Form of payment - payment begins on termination of service and ceases on cessation of disability or after 2 years, unless the member is unable to engage in any substantially gainful activity; in which case payments cease on the date the service retirement benefit exceeds the disability benefit.

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

8. Pre-Retirement Ordinary Death Benefits

Eligibility - death while active, inactive eligible to retire or disabled.

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

Minimum benefit - for a judge in service prior to 12/1/84, 1/2 of the judge's retirement benefit determined on date of death, payable to the spouse and/or dependent children.

9. Pre-Retirement Accidental Death Benefits

Eligibility - death while active or disabled resulting from injury received in the line of duty.

Benefit - if the member leaves no dependent children, 2/3 of the member's average final compensation to the surviving spouse until death.

- If the member is survived by a spouse who has the care of dependent child(ren) of the member, the surviving spouse shall receive an annual sum equal to the member's average final compensation. When there is no longer any dependent child, the surviving spouse shall receive 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 amount equal to the member's average final compensation. Benefits will cease when the last dependent child no longer meets the definition of "dependent child".

10. Refund of Contributions

Eligibility - termination of service without retirement or death.

Benefit - member's accumulated contributions with interest.

11. Cost-of-Living Adjustments

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

SUMMARY OF PLAN PROVISIONS (continued)

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

Members on service retirement who did not have at least 10 years creditable service on July 1, 1993 are not eligible to receive a cost-of-living adjustment until 12 months after the member reaches normal retirement age.

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

12. Methods of Payment of Service Retirement Benefits

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

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

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

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

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

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

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

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

Option 8: Option 4 with pop-up*.

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

SUMMARY OF PLAN PROVISIONS (continued)

RETIREMENT PRIOR TO DECEMBER 1, 1984

1. Currently Effective Annual Salary

For determination of benefit payments, currently effective annual salary is the salary on 6/30/84 for the position last held, increased by 6% per year each July 1, beginning 7/1/84.

2. Regular Retirement Benefits

Eligibility - attainment of age 70 with 7 years of service, or attainment of age 65 with 12 years of service, or attainment of age 60 with 20 years of service.

Benefit - 3/4 of currently effective annual salary.

3. Disability Benefits

3/4 of currently effective annual salary.

4. Survivor Benefits

3/8 of currently effective annual salary, payable to the surviving spouse or dependent children.

SCHEDULE C
ACTUARIAL ASSUMPTIONS AND METHODS

ACTUARIAL ASSUMPTIONS

1. Annual Rate of Investment Return: 8%
2. Annual Rate of Salary Increase: 4%
3. Annual Cost-of-Living Increase: 4%
4. Normal Retirement: Age 60 for members with at least 10 years creditable service on July 1, 1993.

   Age 62 for members with less than 10 years creditable service on July 1, 1993.

5. Probabilities of employment termination at selected ages due to:

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

6. Rates of Healthy Life Mortality at Selected Ages:

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

ACTUARIAL ASSUMPTIONS AND METHODS (continued)

7. Rates of Disabled Life Mortality at Selected Ages

	Currently Active Employees		Currently Retired Employees	
Age	Male	Female	Male	Female
25	.0092	.0072	.0391	.0528
30	.0112	.0089	.0315	.0467
35	.0134	.0109	.0321	.0326
40	.0160	.0126	.0332	.0215
45	.0193	.0144	.0349	.0191
50	.0236	.0165	.0376	.0207
55	.0295	.0191	.0420	.0240

ACTUARIAL METHODS

1. Funding Method

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

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

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

The unfunded liability is amortized by annual payments over a 13-year period from June 30, 2004. The payments are determined so that they will be a level percentage of pay, assuming total pay increases 4% per year.

2. Asset Valuation Method

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

[This page intentionally left blank.]

JUNE 30, 2004
ACTUARIAL VALUATION

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS

A MILLIMAN GLOBAL FIRM
Milliman USA
Consultants and Actuaries

400 E. Pratt Street, Suite 606
Baltimore, MD 21202-3116
Tel 1-410-468-0420
Fax 1-410-468-0420

8000 Towers Crescent Drive, Suite 1000
Vienna, VA 22182-2700
Tel 1-703-917-0143
Fax 1-703-827-9266
www.milliman.com

March 17, 2005

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

Dear Members of the Board:

At your request, we have conducted an actuarial valuation of the Consolidated Plan for Participating Local Districts of the Maine State Retirement System as of June 30, 2004. The results of the valuation are contained in the following report.

In performing this valuation, Milliman used assumptions and methods that meet the parameters set by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The actuarial assumptions used in this valuation were recommended by the actuary and adopted by the Board of Trustees based on Milliman's review of the Plan's experience completed in Fiscal Year 2002. These assumptions are described in Appendix D. We believe the assumptions used, in the aggregate, reflect our best estimate of anticipated future experience of the plan. The results of this report are dependent upon future experience conforming to these assumptions. It is certain that actual experience will not conform exactly to these assumptions. Actual amounts will differ from projected amounts to the extent actual experience differs from expected experience. The Board of Trustees has the final decision regarding the appropriateness of the assumptions. The results contained in this report are only applicable to the 2006 fiscal year. Results for future years may differ significantly.

In preparing our report we relied, without audit, on information (some oral and some written) supplied by the Retirement System. This information includes, but is not limited to, plan provisions, employee census data and financial information. We did not audit this data. However, we compared the census data and financial information with the previous year's information and reviewed the results for reasonableness. We found the data to be reasonably consistent and comparable with data used in the prior valuation. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We understand this report is considered a public document and, as such, may be subject to disclosure to third parties. However, we do not intend to benefit, and assume no liability to, any third party who receives the report in this fashion. Any distribution of this report must be in its entirety including this cover letter, unless prior written consent from Milliman, Inc. - is obtained.

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 applicable Guides to Professional Conduct, Amplifying Opinions, and Supporting Recommendations and Interpretations of the American Academy of Actuaries.

Sincerely,

Milliman, Inc.

I, Althea Schwartz, am a consulting actuary for Milliman, Inc.. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

Althea Schwartz

Althea Schwartz, F.S.A.
Principal and Consulting Actuary

I, Theresa Leatherbury, am a consulting actuary for Milliman, Inc.. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

Theresa Leatherbury

Theresa Leatherbury, F.S.A.
Principal and Consulting Actuary

SECTION I
BOARD SUMMARY

OVERVIEW

As of June 30, 2004, there were 237 participating local districts in the Consolidated Plan for Participating Local Districts (PLDs) of the Maine State Retirement System. This report presents the results of our June 30, 2004, actuarial valuation for this Plan. Comments on the findings of our valuation are presented below. Following our comments are detailed tables of the June 30, 2004 results for the Regular Plans and Special Plans that comprise the Consolidated Plan.

Several PLDs paid off their IUUALs in the period covered by this valuation. Since IUUAL balances in the course of being paid are assets of the Plan, their reduction or elimination affects funding ratios but does not otherwise affect valuation results.

For the eighth year in a row, the Pooled Unfunded Actuarial Liability (PUAL) is negative (that is, the Plan's pooled assets exceed its pooled liabilities). The negative PUAL is translated into a reduction in the normal cost rates otherwise payable. The amount of the reduction varies by plan.

When the 1999 actuarial valuation for the Plan indicated a net employer contribution rate less than zero, the Board, based on our recommendation and its own policy decisions, reduced slightly the then-existing rates and initiated a study to develop a funding methodology that would help manage the volatility associated with a well- or fully-funded plan and to address policy concerns related to employer contribution rates at or near zero.

The Board decided on a methodology that establishes a fixed employer contribution rate if the Plan's funded status (the ratio of actuarial assets to actuarial accrued liability) remains within a given range ("base rate"). The base rate is 3% of payroll and the range of funded status is 90% to 130%. If the funded status falls outside of this range, the employer contribution rate will be incrementally adjusted, but will never be less than a given minimum rate, unless the Board identifies compelling circumstances dictating otherwise. The factor for incremental adjustments when funded status falls outside the range is 10% of the difference between the calculated rate and the rate then in effect. The minimum base rate is 1% of payroll.

The "base rate" represents the aggregate of the rates of the various plans within the Consolidated Plan. The rates for the various plans reflect the payroll-weighted normal cost and pooled UAL contributions under each plan. As neither limit of the range is crossed in this current valuation, the base rate of 3% (which is the same as that set in the 2000 valuation and unchanged in the 2001, 2002 and 2003 valuations) is in effect. The resulting rates for each plan in the Consolidated Plan are shown in Section IV of this report.

In the following sections of the report we present detailed results on Plan Assets (Section II), Plan Liabilities (Section III), and Plan Contributions (Section IV). This report also contains four Appendices. Appendix A displays a list of the 237 PLDs that have entered the Plan and each PLD's benefit plan elections. Appendix B presents membership data and profiles and Appendix C provides a summary of benefit provisions of the plans within the Plan. Finally, an outline of all actuarial assumptions and procedures used in our valuation is contained in Appendix D.

BOARD SUMMARY (continued)

VALUATION COMMENTS

ASSETS

There are two relevant measures of the Plan's assets: (i) the market value and (ii) the actuarial value. The market value is a snapshot of the asset value as of June 30, 2004.

The actuarial value is a smoothed asset value that recognizes 33% of the difference between the expected actuarial value and the market value of assets. The expected actuarial value equals the prior year's actuarial value adjusted with contributions, payments and investment earnings of 8.0%. This method tempers the volatile fluctuations in market value.

As of June 30, 2004, the market value of assets allocated to the Consolidated Plan was $1,590 million as compared to $1,382 million as of June 30, 2003.

On an actuarial basis, Plan's assets were $1,633 million on June 30, 2004, as compared to $1,552 million as of June 30, 2003.

For the plan year ending June 30, 2004, the assets earned 16.6% on a market value basis and 6.6% on an actuarial value basis. Even though the return on a market value basis exceeded the actuarial assumption of 8%, the return on an actuarial basis was less than the assumption of 8.0%. These returns resulted in an actuarial gain on investments of $123 million on a market value basis and an actuarial loss of $17 million on an actuarial value basis.

The components of the changes in market value and actuarial value, in millions, are:

ACTUARIAL		MARKET
+ 45	Employer and member contributions	+ 45
- 70	Payment of benefits and expenses	- 70
+ 123	Investment return per 8.0% assumption	+ 110
- 17	Investment (loss)/gain	+ 123
81	Total change in assets	208

Section II of this report presents more detailed information on Plan assets.

LIABILITIES

Throughout this report we discuss two types of liabilities: (1) actuarial accrued liabilities and (2) accrued benefit liabilities. In Section III, we discuss in detail the different uses and definitions of these terms.

Actuarial accrued liability

In general, actuarial accrued liabilities are calculated for purposes of determining future contributions. Since actuarial funding methods are used to determine costs for future retirement benefits, actuarial accrued liabilities will include expected future increases in pay and service credits. The unfunded actuarial accrued liability (or surplus) equals the actuarial accrued liability minus the actuarial value of assets.

As of June 30, 2004, the total actuarial liability for the Plan was $1,492 million, as compared to $1,408 million as of June 30, 2003. Comparing this to the actuarial value of assets of $1,633 million produces an unfunded actuarial liability (surplus) of ($141) million. An additional $12 million is owed to the Plan by those PLDs having IUUALs (described in detail on page III-1). Thus the Plan has a pooled surplus of $153 million as of June 30, 2004. As of June 30, 2003 the pooled surplus was $166 million.

BOARD SUMMARY (continued)

The components of the increase in the unfunded actuarial liability (or decrease in the surplus), in millions, are as follows:

Pooled Unfunded Actuarial Liability, June 30, 2003	$	(166)
decrease expected		(8)
increase due to lower than expected investment return		17
increase due to other (losses)		4
Pooled Unfunded Actuarial Liability, June 30, 2004	$	(153)

The unexpected increase in unfunded actuarial liabilities from "other (losses)" of $4 million is attributable to the difference between assumed and actual rates of pay increases, retirements, terminations and deaths.

Accrued benefit liability

The second type of liability presented in this report is the accrued benefit liability. This represents the liabilities for all benefits to be paid in the future, based on members' earnings and service credits as of the valuation date. The difference between this liability and the market value of plan assets represents the unfunded accrued benefit liability. As of June 30, 2004, the unfunded accrued benefit liability equals zero.

More detailed information on plan liabilities is presented in Section III.

CONTRIBUTIONS

In Section IV of this report, we present detailed information on the development of Plan employer contribution rates, calculated as of June 30, 2004.

Employer contributions to the Plan consist of:

- a "normal cost contribution", for the portion of projected liabilities attributable to service of members during the year following the valuation date, and
- a "pooled unfunded actuarial liability contribution", for a payment to amortize the excess of actuarial accrued liabilities over assets on hand and receivables from PLDs entering the Plan with IUUALs.

The normal cost varies by plan and is shown in detail in Table IV-1.

The Pooled UAL (PUAL) rate for all employees changed from -7.0% of payroll as of June 30, 2003, to -6.2% of payroll as of June 30, 2004. The primary components of this change are shown below.

Pooled UAL Rate as of June 30, 2003	-7.0%
investment loss (due to lower than expected investment returns)	0.7%
other (gains)/losses	0.1%
Pooled UAL Rate as of June 30, 2004	-6.2%

BOARD SUMMARY (continued)

The PUAL rate, as calculated on the previous page, would normally be reflected in the FY 2006 contribution rates. The PUAL rate is allocated to the individual plans and is used to offset the individual plans' normal costs to develop the ultimate rate for each plan. Because of the Board's policy decision to establish contribution rates that fluctuate only when the funded status falls outside of the 90% - 130% corridor, the rates summarized in Table IV-1 are based on the PUAL rate as developed in the 1999 valuation.

Employees also contribute to the plans. Employee contribution rates are detailed in Appendix C-1.

MEMBERS AND BENEFIT RECIPIENTS

There are three types of plan participants: (i) current active members; (ii) terminated members who retain a right to a deferred "vested" benefit; and (iii) benefit recipients, who may be retired former members, concurrent beneficiaries of living retired members, disabled members or beneficiaries of deceased active, retired or disabled members. Appendix B of this report presents more detail regarding members and benefit recipients. Below, we compare totals in each group between June 30, 2003 and 2004.

	6/30/2004	6/30/2003	CHANGE
Active Members	8,859	8,720	1.6%
Terminated "Vested" Members	776	686	13.1%
Benefit Recipients	6,554	6,483	1.1%
Total	16,189	15,889	1.9%
Annual Payroll for actives (in millions)	$288	$276	4.3%

SUMMARY OF PRINCIPAL RESULTS
TOTAL

		June 30, 2004		June 30, 2003	
1.	**Participant Data**				
	Number of:				
	Active Members		8,859		8,720
	Retired Members		5,025		4,920
	Beneficiaries of Retired Members		951		955
	Survivors of Deceased Members		230		220
	Disabled Members		348		388
	Vested Deferred Members		776		686
	Total Membership		16,189		15,889
	Annual Salaries of Active Members	$	287,585,984	$	276,384,548
	Annual Retirement Allowances for Retired Members, Beneficiaries, Survivors and Disabled Members	$	69,907,181	$	66,065,496
2.	**Assets and Liabilities**				
	Funding Liability				
	Actuarial Accrued Liability	$	1,491,666,798	$	1,407,728,801
	Actuarial Value of Assets		1,663,016,411		1,551,942,311
	Unfunded Actuarial Liability	$	(141,349,613)	$	(144,213,510)
	Unpooled Portion (IUUAL)		11,504,426		21,634,300
	Pooled Portion (PUAL)	$	(152,854,039)	$	(165,847,810)
	Actuarial Liability Funding Ratio		111%		110%
	FASB Accounting Liability				
	Accrued Benefit Liability	$	1,254,872,006	$	1,183,539,319
	Market Value of Assets		1,589,583,253		1,382,342,410
	Unfunded Accrued Benefit Liability	$	0	$	0
	Accrued Benefit Funding Ratio		127%		117%

SUMMARY OF PRINCIPAL RESULTS
REGULAR PLANS AC, AN, & BC

			June 30, 2004		June 30, 2003
1.	**Participant Data**				
	Number of:				
	Active Members		6,980		6,913
	Retired Members		3,513		3,468
	Beneficiaries of Retired Members		755		764
	Survivors of Deceased Members		210		202
	Disabled Members		310		305
	Vested Deferred Members		750		668
	Total Membership		12,518		12,320
	Annual Salaries of Active Members	$	205,200,987	$	200,827,248
	Annual Retirement Allowances for Retired Members, Beneficiaries, Survivors and Disabled Members	$	40,114,212	$	37,557,169
2.	**Assets and Liabilities**				
	Funding Liability				
	Actuarial Accrued Liability	$	869,204,644	$	821,214,867
	Actuarial Value of Assets		979,774,502		930,317,501
	Unfunded Actuarial Liability	$	(110,569,858)	$	(109,102,634)
	Unpooled Portion (IUUAL)		9,814,104		13,887,535
	Pooled Portion (PUAL)	$	(120,383,963)	$	(122,990,169)
	Actuarial Liability Funding Ratio		113%		113%
	FASB Accounting Liability				
	Accrued Benefit Liability	$	713,821,880	$	670,246,140
	Market Value of Assets		953,715,548		828,650,219
	Unfunded Accrued Benefit Liability	$	0	$	0
	Accrued Benefit Funding Ratio		134%		124%

SUMMARY OF PRINCIPAL RESULTS
SPECIAL PLANS 1C-4C & 1N-4N

			June 30, 2004		June 30, 2003
1.	**Participant Data**				
	Number of:				
	Active Members		1,879		1,807
	Retired Members		1,512		1,452
	Beneficiaries of Retired Members		196		191
	Survivors of Deceased Members		20		18
	Disabled Members		38		83
	Vested Deferred Members		26		18
	Total Membership		3,671		3,569
	Annual Salaries of Active Members	$	82,384,997	$	75,557,300
	Annual Benefits to Recipients	$	29,792,969	$	28,508,327
2.	**Assets and Liabilities**				
	Funding Liability				
	Actuarial Accrued Liability	$	622,462,154	$	586,513,934
	Actuarial Value of Assets		653,241,908		621,624,810
	Unfunded Actuarial Liability	$	(30,779,754)	$	(35,110,876)
	Unpooled Portion (IUUAL)		1,690,322		7,746,765
	Pooled Portion (PUAL)	$	(32,470,077)	$	(42,857,641)
	Actuarial Liability Funding Ratio		105%		106%
	FASB Accounting Liability				
	Accrued Benefit Liability	$	541,050,126	$	513,293,179
	Market Value of Assets		635,867,705		553,692,191
	Unfunded Accrued Benefit Liability	$	0	$	0
	Accrued Benefit Funding Ratio		118%		108%

SECTION II
ASSETS

The purpose of an actuarial valuation is to assess the funded status of a pension plan at a certain date and to establish the plan's funding requirements. On the asset side of a plan's funded status, the relevant measure is net assets available for benefits. "Assets" includes the System's investment portfolio committed for investment management to outside professionals, buildings and land owned by the System outside of the investment portfolio, and cash managed by the System outside of the investment portfolio.

The investment portfolio is by far the largest of these assets in dollar value, so much so that its value is often used, in contexts other than the actuarial valuation, as a proxy for total assets. However, for purposes of evaluating fairly the relationship of plan assets to plan liabilities, the value of all assets is included.

The value of plan assets for actuarial valuation purposes must be established and disclosed on a market value basis. Thereafter, for purposes of establishing rational plan funding requirements, the market value may be, and in the System's case is, smoothed. Market value represents a "snap-shot" or "cash-out" value which provides a basis for measuring investment performance from one year to the next. Market value, however, can fluctuate widely, particularly in the short term. As a result, market value is usually not suitable for long range planning.

In an ongoing pension plan, the long range is the important perspective. Actuarial value, or "carrying value" is market value that has been smoothed and is the actuary's best estimate of long-term asset value. It provides a more useful evaluation of the fund's ongoing ability to meet its obligations. The actuarial smoothing methodology employed in the valuation of the System's plans is explained later in this section.

In this section we present the following information on assets:

- Disclosure of the market value of plan assets for the System measured at June 30, 2004 and June 30, 2003;
- Statement of the changes during the year in the System's market value of assets;
- Development of the System's actuarial value of assets by applying the smoothing methodology;
- Allocation of the actuarial value of assets among the System's plans; and
- A statement of the return on plan assets for the year, on both a market value basis and an actuarial value basis.

ASSETS (continued)

STATEMENT OF SYSTEM ASSETS AT MARKET VALUE (In Millions)		
	June 30,	
	2004	2003
Net Value of Investment Portfolio	$ 8,035	$ 6,917
Buildings, land	5	5
Cash external to portfolio	14	14
Net Assets Available for Benefits	$ 8,054	$ 6,936

Changes in Asset Value (market value based) in Valuation Year:

The components of asset value change are:

- Contributions received from members and employers;
- Benefits paid out;
- Investment Income/(Loss) (realized and unrealized).

The specific changes during 2004 are presented below:

CHANGES IN MARKET VALUES		
Plan Assets/Market Value – June 30, 2003	$	6,936,201,398
Member Contributions Received		132,254,631
Employer Contributions Received		290,572,258
Benefits Paid Out		(448,400,887)
Investment Income/(Loss)		1,142,881,151
Plan Assets/Market Value – June 30, 2004	$	8,053,508,551

ASSETS (continued)

Development of the Actuarial Value of Assets:

The Actuarial Value of Assets represents a "smoothed" value developed by the actuary to reduce the volatility in the investment markets, particularly over short time periods. Because the System's plans are regarded as virtually perpetual in nature, it is appropriate to manage their funding with strategies designed to place short-term events within the longer perspective. For the System, the actuarial value of assets at a given valuation date equals the Expected Actuarial Value at that date plus 33% of the difference between the Expected Actuarial Value and the Market Value of Assets at that date. The Expected Actuarial Value is the previous year's actuarial asset value adjusted by contributions, payments and investment earnings of 8.0%. The following table illustrates the calculation of the Actuarial Value of Assets for the June 30, 2004 valuation.

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS AS OF JUNE 30, 2004

1.	Actuarial Value of Assets at June 30, 2003	$7,787,205,499
2.	Amount in (1) with interest to June 30, 2004 at 8.00% per year	8,410,181,939
3.	Employer & member contributions for the Plan Year ended June 30, 2004	422,826,889
4.	Interest on contributions assuming payments made uniformly throughout the year to June 30, 2004 at 8.00% per year	16,913,076
5.	Disbursements from the Trust during the period June 30, 2003 through June 30, 2004	448,400,887
6.	Interest on disbursements to June 30, 2004 at 8.00% per year	17,936,035
7.	Expected Actuarial Value of Assets at June 30, 2004 = (2) + (3) + (4) - (5) - (6)	8,383,584,981
8.	Actual Market Value of Assets at June 30, 2004	8,053,508,551
9.	Difference Between (8) and (7)	(330,076,431)
10.	Actuarial Value of Assets at June 30, 2004 = (7) + 33% of (9)	$8,273,559,503

ASSETS (continued)

Allocation of Market Value and Actuarial Value of Assets:

In the investment portfolio, assets for all of the System's 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 a smoothing factor which is then applied to the market value of assets attributable to each of the plans. The smoothing factor derived in this valuation is 1.02732 ($8,273,559,503 ÷ $8,053,508,551). The allocation of actuarial value of assets to each of the System's plans is shown in the following chart.

ALLOCATION OF MARKET VALUE AND ACTUARIAL VALUE OF ASSETS AS OF JUNE 30, 2004

	Market Value	Actuarial Value
Teachers	$ 3,936,889,522	$ 4,044,459,568
State (Regular and Special)	2,344,062,420	2,408,110,676
Judges	38,168,105	39,210,995
Legislators	6,645,888	6,827,478
Consolidated Plan	1,589,583,253	1,633,016,411
Non-Consolidated Participating Local Districts	138,159,362	141,934,375
Total Assets	$ 8,053,508,551	$ 8,273,559,503

Investment Performance:

The Market Value of Assets (MVA) returned 16.6% during 2004. This is higher than the plan's assumed return of 8.00%. This year's return was an improvement over the 2003 return of 5.30%.

On an actuarial value of assets basis, the return at June 30, 2004 was 6.6%. This return is less than the return on a market value basis because of the ongoing recognition in the actuarial value of losses in prior years not then fully recognized because of smoothing. As of June 30, 2004, these accumulated losses amounted to $220 million. This is a decrease in the accumulated losses of $851 million as of June 30, 2003.

SECTION III
LIABILITIES

Actuarial Liabilities

A fundamental principle in financing the liabilities of a retirement program is that the cost of its benefits should be related to the period in which benefits are earned, rather than to the period of benefit distribution. There are several methods currently used by actuaries to realize this principle.

The method used for this valuation is referred to as the "entry age normal actuarial cost method." Under this method, a level-percent-of-pay employer cost is determined for each plan that, along with member contributions, will pay for projected benefits at retirement for a new entrant into the plan. This cost is assumed applicable to all active plan members. The level-percent-of-pay is called the normal cost rate, and the product of that rate and payroll is the normal cost.

The actuarial liability is that portion of the total benefit obligation that will not be paid by future employer normal cost contributions and member contributions. If this liability is greater than the actuarial value of plan assets as of the same date, the difference is referred to as the unfunded actuarial liability.

Upon entering the Consolidated Plan, each PLD established its individual actuarial liability. Each PLD with an Initial Unpooled Unfunded Actuarial Liability (IUUAL) will pay this liability on a scheduled basis in addition to making the Normal Cost Contribution required by the plan(s) in which it participates. Each PLD with negative IUUALs (i.e., positive balance) will use this balance to pay part or all of its employer contribution. In each year's valuation for the Consolidated Plan, we calculate the Pooled Unfunded Actuarial Liability (PUAL) of the Regular and of the Special Plans under the Plan, and adjust the employer contribution rates accordingly. Benefit improvements, actuarial gains and losses, and changes in actuarial assumptions and methodologies, if any, will have an effect on the total actuarial liabilities of the Regular and of the Special Plans under the Plan and on the portions of these that are unfunded. In Table III-1 we have summarized the actuarial liabilities as of June 30, 2004.

Accounting Statement Information

Statement No. 35 of the Financial Accounting Standards Board requires that every pension plan disclose certain information regarding the status of the plan.

As directed by the above referenced accounting statements, the liabilities shown in Table III-2, Accrued Benefit Liabilities, do not include any projections for future creditable service and pay increases.

The Governmental Accounting Standards Board (GASB) released a new pronouncement (Statement No. 25) which replaced the disclosures formerly required by Statement No. 5. The figures shown in Table III-1 are suitable for the new Statement No. 25 disclosures.

Both types of present values of benefits are determined assuming that the plan is ongoing and members continue to terminate employment, retire, etc., in accordance with the actuarial assumptions.

All PLDs that enter the Consolidated Plan cease to be individual sponsors of a "Single-Employer Defined Benefit Pension Plan" and instead become participants in a "Cost-Sharing Multiple-Employer Defined Benefit Pension Plan". As such, the disclosures made by individual PLDs should reflect the assets and liabilities of the Regular and/or Special Plan(s) under the Consolidated Plan in which a PLD participates and not those of the PLD itself.

LIABILITIES (continued)

TABLE III-1
ACTUARIAL LIABILITIES

	REGULAR PLANS	SPECIAL PLANS	TOTAL
1. Present Value of Benefits	$ 1,061,859,910	$ 734,021,428	$ 1,795,881,338
2. Present Value of Future Contributions			
a. Employer Normal Cost	103,460,537	66,017,425	169,477,962
b. Employee Contributions	89,194,729	45,541,849	134,736,578
3. Actuarial Accrued Liability (1) - (2)	$ 869,204,644	$ 622,462,154	$ 1,491,666,798
4. Actuarial Value of Assets			
a. Total Invested Assets	$ 1,018,057,524	$ 674,989,639	$ 1,693,047,162
b. IUUAL Surpluses in Individual PLD Accounts	38,283,021	21,747,730	60,030,751
c. Valuation Assets (a)-(b)	$ 979,774,502	$ 653,241,909	$ 1,633,016,411
5. Unfunded Actuarial Accrued Liability			
a. Total Unfunded Liability (3) - (4c)	$ (110,569,858)	$ (30,779,755)	$ (141,349,613)
b. Individual PLD Unpooled Liability (IUUAL)	9,814,104	1,690,322	11,504,426
c. Pooled Unfunded Actuarial Liability (a) - (b)	$ (120,383,963)	$ (32,470,077)	$ (152,854,039)
6. Amortization over 15 Years	$ (14,064,369)	$ (3,793,455)	$ (17,857,824)
7. Payroll	$ 205,200,987	$ 82,384,997	$ 287,585,984
8. Pooled Unfunded Actuarial Liability Contribution Rate	-6.9%	-4.6%	-6.2%

TABLE III-2
ACCRUED BENEFIT LIABILITY

	REGULAR PLANS	SPECIAL PLANS	TOTAL
1. Present Value of Accrued Benefits			
a. Vested Inactive Members	$ 24,777,175	$ 763,127	$ 25,540,302
b. Retired Members, Beneficiaries Disabled Members and Survivors	390,080,373	356,853,832	746,934,205
c. Active Members	298,964,332	183,433,167	482,397,499
d. Total	$ 713,821,880	$ 541,050,126	$ 1,254,872,006
2. Market Value of Assets	953,715,548	635,867,705	1,589,583,253
3. Unfunded Accrued Benefit Liability (1) - (2)	$ 0	$ 0	$ 0
4. Accrued Benefit Funding Ratio (2)/(1)	134%	118%	127%

SECTION IV
CONTRIBUTIONS

General Comments

Under established procedures, employer contribution rates based on this June 30, 2004 actuarial valuation are used to determine Fiscal Year 2006 contributions. In this context, the term "employer contribution rate" means the percentage that is applied by each PLD to its active member payroll to determine the PLD's actual employer contribution amount.

In addition to the applicable employer contribution rate, each individual PLD will make a dollar payment (or receive a dollar credit) based on its IUUAL to be added to (or subtracted from) the amount derived by applying the employer contribution rate to the participant payroll.

Employees are required to contribute to the plans. Employee contribution rates are detailed in Appendix C-1.

Description of Rate Components

The Entry Age Normal funding method was used to develop the employer contribution rates in this section. Under this funding method, as with most other actuarial funding methods, a total contribution rate is determined which consists of two elements: the normal cost rate and the pooled unfunded actuarial liability rate.

Normal Cost Rate

For each of the Regular and Special Plans in the Consolidated Plan, an individual entry age normal cost rate is determined for a typical new entrant. This rate equals the value, as of age at entry into the plan, of the typical member's projected future benefits (including retirement, disability and death benefits), minus the value of future member contributions, divided by the value, also as of the member's entry age, of the member's expected future salary. The normal cost rate is determined separately for each Regular and each Special Plan and is applicable to all active members of each of the plans.

Pooled Unfunded Actuarial Liability Rate

The unfunded actuarial liability under the Entry Age Normal method equals the present value, at time of valuation, of future benefits less the present value of future normal costs, future member contributions, future IUUAL payments and current assets. Under the Consolidated Plan, a Pooled Unfunded Actuarial Liability Rate is calculated for the Regular Plans as a group and for the Special Plans as a group. The rate for each group is then allocated to each plan within the Regular Plans and to those within the Special Plans, respectively, on the basis of total normal cost plus employee contributions for each such plan. That is, those plans which constitute a larger portion of the overall liability will pay a larger portion of the pooled UAL rate or receive a larger credit if the rate is negative.

IUUAL Payments/(Credits)

In addition to employer contributions required under the Consolidated Plan, each individual PLD in the Consolidated Plan that came into the Plan with liabilities in excess of assets will make payments on its IUUAL until it is fully paid off. Where IUUAL payments are due, each PLD makes payment of a specific dollar amount. Where a PLD had, at the time of entry into the Consolidated Plan, surplus assets, the PLD uses a portion of the surplus toward payment of its employer contributions to the Consolidated Plan. Credit transactions, also of specific dollar amounts, are accomplished by MSRS accounting entries.

CONTRIBUTIONS (continued)

Employer Contribution Rate Summary

In Table IV-1 we present employer contribution rates applicable for determining the Fiscal Year 2006 contributions to the Plan, using the cost methods described above. These were developed using actuarial assumptions and methods described in Appendix D.

New Entrant/Re-Entrant Rate

While the above description of the employer rate components and calculation applies to all PLDs' rates, there is an additional rate-calculation step for PLDs that join the Consolidated Plan after the three-year "window period" that was in place at the outset of the Plan and for PLDs that rejoin the Plan, having previously withdrawn from it.

An entity that becomes a PLD, having not before been one, and joins the Consolidated Plan (as all such new PLDs must) is required to pay a new entrant rate to the Plan, as is a PLD that existed when the Plan was established but that did not then join the Plan (a so-called "withdrawn" PLD), and thereafter does so. The new entrant rate is calculated as the higher of the difference between the Normal Cost and the Total Rate, and the Total Rate. The Normal Cost and the Total Rate are those in effect at the time the PLD enters the Plan, for the plan or plans that the PLD adopts. The new entrant rate must be paid for a period of three years, after which the PLD henceforth pays the then-applicable Total Rate.

A PLD that joined the Consolidated Plan, subsequently becomes a "withdrawn" PLD, and later rejoins the Plan may be required to pay a "new" entrant rate (more properly called a re-entrant rate in these circumstances). The rate is calculated as stated above and is in effect for the rejoining PLD for the difference between the number of years that the PLD previously participated in the Consolidated Plan prior to withdrawal and three years. At the end of the established period, the PLD henceforth pays the then-applicable Total Rate.

The new entrant/re-entrant rate takes into account the fact that in the first three years of the Consolidated Plan's existence, then-existing PLDs who joined the Plan paid a Normal Cost rate that could only be an estimated rate until the population of plan participants at the end of the three-year period was established. The population having been established, the Normal Cost rate could be actuarially calculated. The actuarial Normal Cost rate proved to be lower than the estimated rate, which meant that those PLDs had made higher employer contributions than were necessary during the three-year period, thereby increasing the Plan's assets. Later-joining PLDs benefit in terms of the employer contribution rate from the higher Plan assets that resulted from the earlier-joining PLDs' larger-than-necessary contributions. The new entrant/re-entrant rate is intended to create equivalence, if not perfect equality, among all PLDs as to the degree to which they participate in building Plan assets.

The new entrant/re-entrant rate is in addition to any IUUAL payment required from the PLD.

TABLE IV-1
EMPLOYER CONTRIBUTION RATES*
FISCAL YEAR 2006

	NORMAL COST**	POOLED UNFUNDED ACTUARIAL LIABILITY REGULAR PLANS	POOLED UNFUNDED ACTUARIAL LIABILITY SPECIAL PLANS	TOTAL RATES
Plans with COLA				
Regular Employees Plan AC	7.9%	-5.1%		2.8%
Regular Employees Plan BC	5.3%	-3.6%		1.7%
Special Plan 1C	16.8%		-10.3%	6.5%
Special Plan 2C	9.6%		-5.6%	4.0%
Special Plan 3C	12.6%		-7.3%	5.3%
Special Plan 4C	7.9%		-4.4%	3.5%
Plans with No COLA				
Regular Employees Plan AN	4.1%	-2.6%		1.5%
Special Plan 1N	9.2%		-5.6%	3.6%
Special Plan 2N	4.9%		-2.7%	2.2%
Special Plan 3N	6.5%		-3.6%	2.9%
Special Plan 4N	3.6%		-1.7%	1.9%

* IUUAL payments are made in addition to these costs and IUUAL credits are taken against these costs.
** Includes costs of ancillary benefits.

APPENDIX A
PARTICIPATING LOCAL DISTRICT PLAN ELECTIONS

PLD Name	PLD #	Regular Plan	Special Plan	Special Plan	COLA	Entry Date
Androscoggin County	67	A[1]	1	2	Yes	7/1/1994
Androscoggin Valley Council of Governments	231	A			Yes	7/1/1996
Aroostook County	106	A			Yes	7/1/1994
Auburn Housing Authority	145	A			Yes	7/1/1994
Auburn Lewiston Airport	256	A			Yes	7/1/1996
Auburn Public Library	43	A			FO	7/1/1996
Auburn Water and Sewer District	52	A			Yes	7/1/1994
Augusta Sanitary District	64	A			Yes	7/1/1994
Augusta Water District	34	A			Yes	7/1/1994
Bangor Housing Authority	288	A			Yes	7/1/1994
Bangor Public Library	22	A			Yes	7/1/1996
Bangor Water District	59	B[2]			Yes	7/1/1996
Bath Water District	19	A			Yes	7/1/1994
Belfast Water District	132	A			Yes	7/1/1995
Berwick Sewer District	207	A			Yes	7/1/1994
Boothbay Region Water District	298	A	2		Yes	1/1/2002
Brewer Housing Authority	248	A			Yes	7/1/1994
Bridgton Water District	253	A			No	7/1/1996
Brunswick Fire and Police	292	A	1	2	FO	7/1/1997
Brunswick Public Library	273	A			FO	7/1/1995
Brunswick Sewer District	72	A			Yes	7/1/1996
Caribou Police and Fire	208	A	1	2	No	7/1/1996
Carrabasett Valley	277	A			FO	7/1/1994
Cheverus High School	203	A	2		No	7/1/1996
City of Augusta	23	A	1	2	Yes	7/1/1994
City of Bangor	20	A	1	2	Yes	7/1/1996
City of Bath	73	A	2	3	Yes	7/1/1996
City of Belfast	35	A	2		Yes	7/1/1996
City of Biddeford	158	A	3[3]		No	7/1/1996
City of Brewer	63	A[4]	2		Yes	7/1/1996
City of Calais	36	A			FO	7/1/1996
City of Ellsworth	13	A	4		Yes	7/1/1995
City of Gardiner	24	A	3		No	7/1/1996
City of Hallowell	160	A			Yes	7/1/1996
City of Lewiston	48	A	1	2	Yes	7/1/1996
City of Old Town	111	A	2		No	7/1/1995
City of Portland	2	A	1	2	Yes	7/1/1995
City of Rockland	18	A	3[5]	2[6]	Yes	7/1/1995
City of Saco	192	A	2		No	7/1/1995
City of South Portland	9	A	2		Yes	7/1/1995
Coastal Counties Workforce, Inc.	301	A[7]			Yes	7/1/2003
Community School District #12	252	A			Yes	7/1/1996
Community School District #915	233	A			Yes	7/1/1995
Corinna Sewer District	251	A			No	7/1/1996
Cumberland County	5	A			Yes	7/1/1996
Dover - Foxcroft Water District	137	A			Yes	7/1/1994

PARTICIPATING LOCAL DISTRICT PLAN ELECTIONS
(continued)

PLD Name	PLD #	Regular Plan	Special Plan	Special Plan	COLA	Entry Date
Eagle Lake Water & Sewer District	274	A			Yes	7/1/1996
Erskine Academy	249	A			No	7/1/1994
Falmouth Memorial Library	58	A			Yes	7/1/1996
Farmington Village Corporation	118	A			No	7/1/1994
Fort Fairfield Housing Authority	275	A			Yes	7/1/2002
Fort Fairfield Utilities District	131	A			Yes	7/1/1996
Gardiner Water District	221	A			No	7/1/1994
Gould Academy	205	A			No	7/1/1996
Hampden Water District	183	A			Yes	7/1/1996
Hancock County	56	A			Yes	7/1/1994
Houlton Water District	26	A			Yes	7/1/1995
Indian Township Tribal Government	244	A			No	7/1/1996
Jackman Utility District	294	A			Yes	7/1/1996
Kennebec County	47	A			Yes	7/1/1995
Kennebec Sanitary Treatment District	220	A			FO	7/1/1995
Kennebec Water District	31	A			Yes	7/1/1996
Kennebunk Light and Power Company	62	A			Yes	7/1/1994
Kennebunk Sewer District	201	A			FO	7/1/1994
Kennebunk, Kennebunkport & Wells Water Dist.	255	A			FO	7/1/1996
Kittery Water District	12	A			Yes	7/1/1994
Lewiston Auburn Water Pollution Control Auth.	163	A			FO	7/1/1996
Lewiston Auburn 9-1-1	291	A			Yes	7/1/1994
Lewiston Housing Authority	154	A			Yes	7/1/1994
Lincoln & Sagadahoc Multi County Jail Auth.	304	A	2		Yes	7/1/2004
Lincoln Academy	134	A			Yes	7/1/1994
Lincoln County	95	A			Yes	7/1/2004
Lincoln County Sheriffs	302	A	2[7]		Yes	7/1/2003
Lincoln Sanitary District	219	A			Yes	7/1/1994
Lincoln Water District	92	A			Yes	7/1/1995
Lisbon Water Department	243	A			No	7/1/1996
Livermore Falls Water District	32	A			Yes	7/1/1994
Lubec Water and Electric District	88	A			Yes	7/1/1996
Madawaska Water District	236	A			Yes	7/1/1994
MADSEC	297	A			Yes	7/1/1999
Maine County Commissioners Association	225	A			No	7/1/1996
Maine International Trade Center	293	A			Yes	7/1/1998
Maine Maritime Academy	38	A	2		Yes	7/1/1996
Maine Municipal Bond Bank	93	A			Yes	7/1/1995
Maine Principals' Association	105	A			Yes	7/1/1994
Maine School Management Association	239	A			Yes	7/1/1994
Maine State Retirement Agency	290	A			Yes	7/1/1994
Maine Turnpike Authority	49	A			Yes	7/1/1994
Maine Veterans Home	271	A			Yes	7/1/1994
Mars Hill Utility District	283	A			Yes	7/1/1994
Mechanic Falls Sanitary District	282	A			FO	7/1/1994
Milo Water District	238	A			No	7/1/1996
Mount Desert Water District	300	A[7]			Yes	7/1/2003

PARTICIPATING LOCAL DISTRICT PLAN ELECTIONS
(continued)

PLD Name	PLD #	Regular Plan	Special Plan	Special Plan	COLA	Entry Date
Mt. Desert Island Region School District	120	A			Yes	7/1/1996
Norway Water District	136	A			FO	7/1/1995
Old Town Housing Authority	262	A			FO	7/1/1994
Old Town Water District	79	A			No	7/1/1994
Oxford County	57	A	2[3]		Yes	7/1/1994
Paris Utility District	159	A			Yes	7/1/1995
Penobscot County	11	A			Yes	7/1/1994
Penquis Cap Inc.	237	A			No	7/1/1995
Piscataquis County	121	A			Yes	7/1/1994
Pleasant Point Passamaquoddy	165	A			Yes	7/1/1996
Portland Housing Authority	185	A			Yes	7/1/1994
Portland Public Library	41	A			Yes	7/1/1995
Richmond Utilities District	242	A			No	7/1/1994
Rumford Fire and Police	60	A	3	4	Yes	7/1/1995
Rumford Mexico Sewerage District	247	A			Yes	7/1/1996
Rumford Water District	65	A			Yes	7/1/1995
Sagadahoc County	96	A	2	3[8]	Yes	7/1/2002
Sanford Housing Authority	152	A			Yes	7/1/1996
Sanford Sewerage District	89	A			No	7/1/1994
Sanford Water District	170	A			No	7/1/1996
School Administrative District No. 9	119	A			Yes	7/1/1995
School Administrative District No. 13	223	A			Yes	7/1/1996
School Administrative District No. 16	190	A			No	7/1/1994
School Administrative District No. 21	211	A			FO	7/1/1996
School Administrative District No. 29	168	A			Yes	7/1/1996
School Administrative District No. 31	50	A			FO	7/1/1994
School Administrative District No. 41	143	A			Yes	7/1/1996
School Administrative District No. 49	189	A			No	7/1/1995
School Administrative District No. 51	198	A			No	7/1/1996
School Administrative District No. 53	129	A			No	7/1/1996
School Administrative District No. 54	115	A			Yes	7/1/1996
School Administrative District No. 60	187	A			No	7/1/1994
School Administrative District No. 67	126	A			Yes	7/1/1996
School Administrative District No. 71	128	A			No	7/1/1996
Searsport Water District	124	A			No	7/1/1996
Somerset County	101	A			Yes	7/1/1994
South Berwick Sewer District	299	A[7]			Yes	7/1/2003
South Berwick Water	171	A	2		Yes	7/1/1996
South Penobscot Vocational School Region 4	269	A			No	7/1/1996
South Portland Housing Authority	206	A			Yes	7/1/1996
Town of Baileyville	69	A	3		Yes	7/1/1996
Town of Bar Harbor	15	A	4		Yes	7/1/1995
Town of Berwick	108	A			No	7/1/1996
Town of Bethel	246	A			Yes	7/1/1996
Town of Boothbay Harbor	146	A	2[9]		FO	7/1/1996
Town of Brunswick	42	A			FO	7/1/1995
Town of Bucksport	130	A	4[10]		No	7/1/1995

PARTICIPATING LOCAL DISTRICT PLAN ELECTIONS
(continued)

PLD Name	PLD #	Regular Plan	Special Plan	Special Plan	COLA	Entry Date
Town of Camden	8	A			Yes	7/1/1994
Town of Chesterville	295	A[11]			Yes	7/1/1999
Town of China	235	A			No	7/1/1996
Town of Corinna	217	A			Yes	7/1/1996
Town of Cumberland	216	B[12]			Yes	7/1/1995
Town of Dexter	97	A			Yes	7/1/1996
Town of Dover Foxcroft	167	A			No	7/1/1995
Town of Durham	234	A			No	7/1/1996
Town of East Millinocket	54	A	2		Yes	7/1/1996
Town of Easton	240	A			Yes	7/1/1994
Town of Eliot	180	A	4		Yes	7/1/1994
Town of Fairfield	260	A	3		Yes	7/1/1995
Town of Falmouth	87	A			Yes	7/1/1996
Town of Farmington	100	A	1	2	Yes	7/1/1995
Town of Fayette	296	A			Yes	7/1/1999
Town of Fort Fairfield	17	A			Yes	7/1/2000
Town of Freeport	142	A	2[7]		Yes	7/1/2003
Town of Frenchville	98	A			No	7/1/1996
Town of Fryeburg	149	A			No	7/1/1996
Town of Glenburn	174	A			Yes	7/1/1994
Town of Gorham	133	A	2	4	Yes	7/1/1996
Town of Greenville	112	A			Yes	7/1/1996
Town of Hampden	151	A			No	7/1/1996
Town of Harpswell	270	A			Yes	7/1/1994
Town of Harrison	280	B[13]			Yes	7/1/1994
Town of Hermon	150	A			No	7/1/1996
Town of Hodgdon	215	A			No	7/1/1996
Town of Houlton	10	A	4[14]		Yes	7/1/1996
Town of Jay	45	A			Yes	7/1/1994
Town of Kennebunk	84	A	2		Yes	7/1/1996
Town of Kennebunkport	188	A	1		No	7/1/1996
Town of Kittery	14	A	1	2	Yes	7/1/1995
Town of Lebanon	181	A			Yes	7/1/1996
Town of Lincoln	76	A	3		No	7/1/1996
Town of Linneus	214	A			No	7/1/1996
Town of Lisbon	103	A	2		Yes	7/1/1996
Town of Livermore Falls	109	A			No	7/1/1996
Town of Lovell	276	A			Yes	7/1/1996
Town of Lubec	228	A			No	7/1/1996
Town of Madawaska	82	A			Yes	7/1/1996
Town of Mapleton	265	A			Yes	7/1/1996
Town of Mars Hill	227	A			Yes	7/1/1996
Town of Mechanic Falls	114	A			Yes	7/1/1994
Town of Medway	194	A			Yes	7/1/1996
Town of Mexico	74	A[15]			Yes	7/1/1996
Town of Milford	186	A			No	7/1/1996
Town of Millinocket	3	A	3	4	Yes	7/1/1996

PARTICIPATING LOCAL DISTRICT PLAN ELECTIONS
(continued)

PLD Name	PLD #	Regular Plan	Special Plan	Special Plan	COLA	Entry Date
Town of Monson	184	A			No	7/1/1996
Town of Mount Desert	16	A			Yes	7/1/1996
Town of New Gloucester	210	A			No	7/1/1995
Town of North Berwick	254	A	1		No	7/1/1996
Town of Norway	125	A			FO	7/1/1996
Town of Old Orchard Beach	140	A	2		Yes	7/1/2003
Town of Oqunquit	303	A	1		Yes	7/1/2004
Town of Orland	166	A			No	7/1/1996
Town of Orono	61	A	4		FO	7/1/1996
Town of Orrington	209	A			No	7/1/1995
Town of Otisfield	193	A			FO	7/1/1996
Town of Oxford	200	A			No	7/1/1996
Town of Paris	127	A			Yes	7/1/1996
Town of Phippsburg	202	A			Yes	7/1/1996
Town of Pittsfield	110	A			No	7/1/1996
Town of Princeton	258	A			No	7/1/1996
Town of Rockport	161	A			No	7/1/1996
Town of Rumford	90	A			Yes	7/1/1995
Town of Sabattus	175	A			No	7/1/1996
Town of Sanford	83	A	1[16]		FO	7/1/1995
Town of Scarborough	147	A	2		Yes	7/1/1996
Town of Searsport	117	A			No	7/1/1996
Town of Skowhegan	80	A	3		Yes	7/1/1996
Town of South Berwick	141	A			FO	7/1/1996
Town of St. Agatha	30	A			No	7/1/1996
Town of Topsham	81	A	2	3	Yes	7/1/1996
Town of Van Buren	182	A			Yes	7/1/1995
Town of Vassalboro	153	A			Yes	7/1/1996
Town of Waldoboro	195	A	3		Yes	7/1/1995
Town of Washburn	230	A			No	7/1/1994
Town of Wells	107	A	3		Yes	7/1/1995
Town of Winslow	144	A[17]			Yes	7/1/1996
Town of Winthrop	179	A			FO	7/1/1994
Town of Yarmouth	116	A	2		Yes	7/1/1996
Town of York	28	A	2		Yes	7/1/1994
Tri Community Sanitary Landfill	267	A			Yes	7/1/1996
Van Buren Housing Authority	229	A			Yes	7/1/1995
Veazie Police	305	A	3		Yes	7/1/2004
Waldo County	46	A			Yes	7/1/1994
Waldo County Technical Center	224	A			No	7/1/1996
Washington County	40	A			Yes	7/1/1996
Waterville Fire and Police	66	A	3		No	7/1/1996
Waterville Sewerage District	222	A			Yes	7/1/1994
Wells Ogunquit CSD	266	A			FO	7/1/1995
Westbrook Housing Authority	259	A			Yes	7/1/1996
Winter Harbor Utility District	250	A			Yes	7/1/1995
Yarmouth Water District	278	A			Yes	7/1/1994

PARTICIPATING LOCAL DISTRICT PLAN ELECTIONS
(continued)

PLD Name	PLD #	Regular Plan	Special Plan	Special Plan	COLA	Entry Date
York County	37	A	2		Yes	7/1/1996
York Sewer District	139	A			No	7/1/1994
York Water District	39	A			Yes	7/1/1996

Notes:

FO = Future Service COLA only, that is, for benefits attributable to service rendered after the Future Service COLA date.

[1] Employees hired prior to July 1, 1997 and who are members of the System are covered under Special Plan #1. Corrections Officers and Law Enforcement Officers hired on or after July 1, 1997, will be covered under Special Plan #2. All other employees hired on or after July 1, 1997, will be covered under Regular Plan A.

[2] applicable to all new hires on or after July 1, 1996. All members in the PLD at July 1, 1996 elected to remain in the 1/50 Plan under Regular Plan A.

[3] applicable for future service only rendered by law enforcement from July 1, 2003.

[4] Brewer Water District (P0068) ceased to exist as a separate entity on January 15, 2003 and became part of the City of Brewer (P0063). All Brewer Water District Regular Plan AN members became members of the Regular Plan AC for future service only.

[5] applicable for police officers hired before July 1, 1998 for all service and for police officers hired after June 30, 1998, for future service only from July 1, 2003.

[6] applicable to new police officers hired after June 30, 1998 for service through June 30, 2003.

[7] applicable for future service only from July 1, 2003.

[8] applicable for future service only rendered by law enforcement from July 1, 2002.

[9] applicable for future service only from July 1, 2002.

[10] applicable for future service rendered by the Town's Firefighters and Police Officers from July 1, 2001.

[11] applicable for future service only from July 1, 2000.

[12] applicable to all new hires on or after July 1, 1995. All members in the PLD at July 1, 1995 elected to remain in the 1/50 Plan under Regular Plan A.

[13] applicable to all new hires on or after July 1, 1994. All members in the PLD at July 1, 1994 elected to remain in the 1/50 Plan under Regular Plan A.

[14] applicable for future service rendered by the Town's Firefighters and Police Officers from July 1, 2001.

[15] withdrew from system for new members, effective July 31, 2004.

[16] applicable for future service rendered by the Town's Firefighters from July 1, 2004.

[17] withdrew from system for new members, effective July 1, 2004.

APPENDIX B
MEMBER AND BENEFITS RECIPIENTS DATA AND PROFILES

ACTIVE MEMBER DATA

Regular Plans Members

Count	6,980
Average Current Age	46.4
Average Service	8.8
Average Valuation Pay	$ 29,398

Special Plans Members

Count	1,879
Average Current Age	40.1
Average Service	10.7
Average Valuation Pay	$ 43,845

All Plans Members

Count	8,859
Average Current Age	45.1
Average Service	9.2
Average Valuation Pay	$ 32,462

BENEFIT RECIPIENT AND INACTIVE VESTED MEMBER DATA AS OF JUNE 30, 2004

REGULAR PLANS

Retired Members, Beneficiaries, Disabled Members and Survivors

Count		4,788
Total Annual Benefit	$	40,114,212
Average Annual Benefit	$	8,378

Inactive Vested

Count		750
Total Annual Deferred Benefit (Payable at Normal Retirement Age)	$	3,987,851
Average Annual Deferred Benefit (Payable at Normal Retirement Age)	$	5,317

SPECIAL PLANS

Retired Members, Beneficiaries, Disabled Members and Survivors

Count		1,766
Total Annual Benefit	$	29,792,969
Average Annual Benefit	$	16,870

Inactive Vested

Count		26
Total Annual Deferred Benefit (Payable at Normal Retirement Age)	$	169,984
Average Annual Deferred Benefit (Payable at Normal Retirement Age)	$	6,538

ALL PLANS

Retired Members, Beneficiaries, Disabled Members and Survivors

Count		6,554
Total Annual Benefit	$	69,907,181
Average Annual Benefit	$	10,666

Inactive Vested

Count		776
Total Annual Deferred Benefit (Payable at Normal Retirement Age)	$	4,157,835
Average Annual Deferred Benefit (Payable at Normal Retirement Age)	$	5,358

APPENDIX C
SUMMARY OF PLAN PROVISIONS

1. Member Contributions

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

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

2. Average Final Compensation

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

3. Creditable Service

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

4. Service Retirement Benefits

Regular Plan AC

Normal Retirement Age: 60

Eligibility for member in active service and inactive members: 25 years of creditable service.

Eligibility alternative for members in active service: at least one year of creditable service immediately before retirement and at least normal retirement age.

Eligibility for members not in active service at retirement, and not in active service on or after October 1, 1999: at least 10 years of creditable service and at least normal retirement age.

Eligibility for members not in active service at retirement, but in active service on or after October 1, 1999: at least 5 years of creditable service and at least normal retirement age.

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

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

Cost-of-living Adjustment: See item 10.

Regular Plan AN

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

Regular Plan BC

Normal Retirement Age: 60

Eligibility for member in active service and inactive members: 25 years of creditable service.

SUMMARY OF PLAN PROVISIONS (continued)

Eligibility alternative for members in active service: at least one year of creditable service immediately before retirement and at least normal retirement age.

Eligibility for members not in active service at retirement, and not in active service on or after October 1, 1999: at least 10 years of creditable service and at least normal retirement age.

Eligibility for members not in active service at retirement, but in active service on or after October 1, 1999: at least 5 years of creditable service and at least normal retirement age.

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

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

Cost-of-living Adjustment: See item 10.

Regular Plan Notes:

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

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

Special Plan 1C

Eligibility 20 years of creditable service in named positions.

Benefit: ½ of average final compensation plus 2% for each year of service in excess of 20.

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

Cost-of-Living Adjustment: See item 10.

Special Plan 1N

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

Special Plan 2C

Eligibility: 25 years of creditable service in named positions.

Benefit: ½ average final compensation plus 2% for each year of service in excess of 25.

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

Cost-of-Living Adjustment: See item 10.

Special Plan 2N

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

SUMMARY OF PLAN PROVISIONS (continued)

Special Plan 3C

Eligibility: 25 years of creditable service in named positions.

Benefit: 2/3 of average final compensation plus 2% for each year of service in excess of 25.

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

Cost-of-Living Adjustment: See item 10.

Special Plan 3N

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

Special Plan 4C

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

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

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

Cost-of-Living Adjustment: See item 10.

Special Plan 4N

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

Special Plan Notes:

1. If Special Plan members fail to meet the Special Plan eligibility criteria, their service retirement benefits are those provided by the applicable underlying Regular Plan; Special Plan service credits are used toward Regular Plan eligibility requirements.

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

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

5. Pre-Retirement Accidental Death Benefits

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

Benefit: - if the member leaves no dependent children, 2/3 of the member's average final compensation to the surviving spouse until death,

- if the member is survived by a spouse who has the care of dependent child(ren) of the member, the surviving spouse shall receive an annual sum equal to the member's average final compensation. When there is no longer any dependent child(ren), the surviving spouse shall receive 2/3 of member's average final compensation until death,

SUMMARY OF PLAN PROVISIONS (continued)

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

6. Pre-Retirement Ordinary Death Benefits

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

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

7. Disability Benefits Other Than No-Age Benefits

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

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

Form of payment: Payment begins on termination of service and ceases on cessation of disability or after 5 years, unless the member is unable to engage in any substantially gainful activity; in which case payments cease on the earlier of 10 years following normal retirement age or date the service retirement benefit equals or exceeds the disability benefit.

Conversion to service retirement: During the period of disability, service is credited and average final compensation may be increased with cost-of-living adjustments (see item #10). On the date when service benefits reach a level of 66 2/3% of average final compensation or 10 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.

8. No-Age Disability Benefits

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

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

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

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

SUMMARY OF PLAN PROVISIONS (continued)

9. Refund of Contributions

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

Benefit: member's accumulated contributions with interest.

10. Cost-of-Living Adjustments

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

11. Methods of Payment of Service Retirement Benefits

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

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

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

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

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

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

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

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

Option 8: Option 4 with pop-up*.

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

APPENDIX D
ACTUARIAL ASSUMPTIONS AND METHODS

A. Actuarial Assumptions

1. Annual Rate of Investment Return 8.0%

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

3. Rates of Termination at Selected Ages*

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

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

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

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

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

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

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

ACTUARIAL ASSUMPTIONS AND METHODS
(continued)

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

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

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

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

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

Regular Plans	Age	Assumption
	45	50
	50	50
	55	100
	56	100
	57	100
	58	150
	59	250
	60	400
	63	250
	70	1,000

Special Plans

50% of those eligible to retire in each year.

ACTUARIAL ASSUMPTIONS AND METHODS
(continued)

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

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

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

10. Family Composition Assumptions

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

11. Salary Growth Assumption

Rates of Increase at Selected Ages

Age	Increase
25	9.0%
30	7.5%
35	5.5%
40	5.5%
45	5.0%
50	4.5%
55	4.5%
60	4.5%

ACTUARIAL ASSUMPTIONS AND METHODS
(continued)

B. Actuarial Methods

1. Funding Method

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

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

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

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

2. Asset Valuation Method

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

[This page intentionally left blank.]

STATISTICAL SECTION

SCHEDULE OF ADDITIONS TO PLAN NET ASSETS BY SOURCE - DEFINED BENEFIT PLANS

Fiscal Year Ending June 30:	Contributions: Member	Contributions: Employer*	Investment Income (Net)	Total Additions to Fiduciary Net Assets
2005	$138,622,166	$291,615,599	$942,303,248	$1,372,541,013
2004	132,254,628	299,900,485	1,143,956,814	1,576,111,927
2003	128,911,129	295,154,266	349,190,234	773,255,629
2002	122,613,972	423,674,078	(532,832,471)	13,455,579
2001	116,032,261	272,419,817	(594,457,402)	(206,005,324)
2000	110,766,917	258,050,705	676,730,505	1,045,548,127
1999	105,706,888	299,525,280	690,910,031	1,096,142,199

* *See Notes to Financial Statements beginning on page 23 for current Employer rates as a percentage of covered payroll.*

SCHEDULE OF ADDITIONS TO PLAN NET ASSETS BY SOURCE - GROUP LIFE INSURANCE PLAN

Fiscal Year Ending June 30:	Contributions: Member*	Contributions: Employer	Investment Income (Net)	Total Additions to Fiduciary Net Assets
2005	$8,456,619	$211,576	$1,122,921	$9,791,116
2004	8,345,241	211,691	391,887	8,948,819
2003	8,059,713	215,777	2,150,357	10,425,847
2002	7,648,870	184,336	2,762,100	10,595,306
2001	7,216,169	178,086	3,219,707	10,613,962
2000	7,193,257	176,388	1,481,132	8,850,777
1999	7,005,931	168,987	1,206,160	8,381,078

* *Member Contributions in 2000 and 1999 originally included contribution refunds of $14,999 and $25,834 respectively, that have now been re-classed as deductions. See Schedule of Deductions from Plan Net Assets By Type-Group Life Insurance on the following page.*

SCHEDULE OF ADDITIONS TO PLAN NET ASSETS BY SOURCE - COMBINED

Fiscal Year Ending June 30:	Contributions: Member	Contributions: Employer	Investment Income (Net)	Total Additions to Fiduciary Net Assets
2005	$147,078,785	$291,827,175	$943,426,169	$1,382,332,129
2004	140,599,869	300,112,176	1,144,348,701	1,585,060,746
2003	136,970,842	295,370,043	351,340,591	783,681,476
2002	130,262,842	423,858,414	(530,070,371)	24,050,885
2001	123,248,430	272,597,903	(591,237,695)	(195,391,362)
2000	117,960,174	258,227,093	678,211,637	1,054,398,904
1999	112,712,819	299,694,267	692,116,191	1,104,523,277

SCHEDULE OF DEDUCTIONS FROM PLAN NET ASSETS BY TYPE - DEFINED BENEFIT PLANS

Fiscal Year Ending June 30:	Benefits Paid (Net)	Refunds and Withdrawals	Administrative Expenses	Total Deductions from Fiduciary Net Assets
2005	$470,218,358	$15,975,376	$9,323,141	$495,516,875
2004	433,798,828	15,677,722	9,328,218	458,804,768
2003	409,400,944	13,816,968	9,508,254	432,726,166
2002	387,400,584	15,807,418	8,122,795	411,330,797
2001	362,068,648	17,453,576	7,847,406	387,369,630
2000	335,589,992	17,675,072	7,772,582	361,037,646
1999	317,875,786	19,156,890	7,446,433	344,479,109

SCHEDULE OF DEDUCTIONS FROM PLAN NET ASSETS BY TYPE - GROUP LIFE INSURANCE PLAN

Fiscal Year Ending June 30:	Benefits Paid (Net)	Refunds and Withdrawals	Administrative Expenses	Total Deductions from Fiduciary Net Assets
2005	$7,215,051	$17,279	$841,750	$8,074,081
2004	7,104,121	19,535	854,891	7,978,547
2003	7,100,216	17,195	895,521	8,012,932
2002	8,447,953	14,724	734,383	9,197,060
2001	6,221,450	14,688	703,686	6,939,824
2000	7,306,079	14,999*	650,303	7,971,381
1999	7,687,006	25,834*	595,419	8,308,259

* *Refunds amount of $14,999 for 2000 and $25,834 for 1999 were originally reported in Member Contributions. This table reflects the re-class from additions to deductions from plan net assets. Also, in 1999 $426,432 was originally reported as Benefits Paid and has been re-classed to Administrative Expenses.*

SCHEDULE OF DEDUCTIONS FROM PLAN NET ASSETS BY TYPE - COMBINED

Fiscal Year Ending June 30:	Benefits Paid (Net)	Refunds and Withdrawals	Administrative Expenses	Other Deductions*	Total Deductions from Fiduciary Net Assets
2005	$477,433,409	$15,992,655	$10,164,891	NA	$503,590,955
2004	440,902,949	15,697,257	10,183,109	NA	466,783,315
2003	416,501,160	13,834,163	10,403,775	NA	440,739,098
2002	395,848,537	15,822,142	8,857,178	NA	420,527,857
2001	368,290,098	17,468,264	8,551,092	NA	394,309,454
2000	342,896,071	17,690,071	8,422,885	NA	369,009,027
1999	325,562,792	19,182,724	8,041,852	$601,825	353,389,194

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

SCHEDULE OF BENEFITS PAID (NET) BY TYPE - DEFINED BENEFIT PLANS

Fiscal Year Ending June 30:	Death (Lump Sum)	Contribution Refunds	Termination	Total Refunds	Service Retirees Benefits	Beneficiary Recipients of Service Retirees Benefits	Disability Benefits	Pre-Retirement Death Benefits	Total Benefits	Total Benefits and Refunds Expense
2005	$1,917,019	$1,353,419	$12,704,938	$15,975,376	$385,744,986	$33,959,185	$44,900,918	$5,613,268	$470,218,358	$486,193,734
2004	2,209,683	1,781,147	11,686,892	15,677,722	354,931,058	32,393,365	41,176,546	5,297,859	433,798,828	449,476,550
2003	2,481,807	1,219,184	10,115,976	13,816,968	333,708,167	31,243,729	39,350,574	5,098,475	409,400,944	423,217,912
2002	1,690,232	3,056,473	11,060,713	15,807,418	315,816,672	29,789,595	36,748,652	5,045,666	387,400,584	403,208,002
2001	1,359,147	2,640,562	13,453,867	17,453,576	295,575,271	27,848,153	33,686,219	4,959,005	362,068,648	379,522,224

SCHEDULE OF BENEFITS PAID (NET) BY TYPE - GROUP LIFE INSURANCE PLAN

Fiscal Year Ending June 30:	Premium Refunds	Basic	Supplemental	Dependent	Retiree	Accidental Death & Dismemberment	Conversion	Total Claims Benefits	Total Benefits and Refunds Expense
2005	$17,279	$1,680,927	$846,410	$250,344	$4,111,284	$233,000	$93,085	$7,215,051	$7,232,330
2004	19,535	1,451,264	1,612,705	211,500	3,649,726	143,027	35,900	7,104,122	7,123,657
2003	17,195	1,684,414	731,000	314,224	4,302,678	0	67,900	7,100,216	7,117,411
2002	14,724	1,559,284	1,943,000	240,086	4,412,198	169,042	124,343	8,447,953	8,462,677
2001	14,688	1,227,841	1,030,982	296,440	3,579,737	0	86,450	6,221,450	6,236,138

SCHEDULE OF RETIREES BY BENEFIT TYPE

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

Recipients of Maine State Retirement System benefits fall into four categories:

- *Service Retirees* - those who are receiving a service retirement benefit and their concurrent beneficiaries.
- *Service Retiree Beneficiary Recipients* - those who are the beneficiaries of deceased service retirees.
- *Disability Retirees* - those who are receiving a disability retirement benefit.
- *Pre-Retirement Beneficiaries* - those who are the beneficiaries of active or inactive members or disability retirees who died before being qualified to receive or, if qualified, before receiving, service retirement benefits.

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates July 1, 1999 to June 30, 2005	Years of Creditable Service 5-10	10-15	15-20	20-25	25-30	30+
Period 7/1/1999 to 6/30/2000						
Average Monthly Benefit	276.00	421.00	709.00	1,174.00	1,355.00	1,925.00
Average Final Average Salary	16,704.00	15,386.00	18,931.00	23,466.00	27,265.00	28,803.00
Number of Active Retirees	1068	2968	2431	3431	4861	4696
Period 7/1/2000 to 6/30/2001						
Average Monthly Benefit	289.00	439.00	740.00	1,233.00	1,424.00	2,028.00
Average Final Average Salary	17,347.00	16,093.00	19,593.00	24,288.00	28,405.00	30,555.00
Number of Active Retirees	1029	2986	2400	3428	5038	4895
Period 7/1/2001 to 6/30/2002						
Average Monthly Benefit	300.00	456.00	768.00	1,279.00	1,479.00	2,109.00
Average Final Average Salary	17,828.00	16,542.00	20,259.00	24,904.00	29,146.00	31,792.00
Number of Active Retirees	1001	2989	2401	3450	5191	5111
Period 7/1/2002 to 6/30/2003						
Average Monthly Benefit	305.00	468.00	791.00	1,312.00	1,515.00	2,170.00
Average Final Average Salary	18,881.00	17,361.00	21,472.00	26,137.00	30,469.00	33,731.00
Number of Active Retirees	970	2935	2397	3473	5417	5366
Period 7/1/2003 to 6/30/2004						
Average Monthly Benefit	320.00	487.00	818.00	1,347.00	1,566.00	2,247.00
Average Final Average Salary	19,874.00	18,134.00	22,389.00	26,958.00	31,602.00	35,366.00
Number of Active Retirees	950	2868	2420	3526	5631	5610
Period 7/1/2004 to 6/30/2005						
Average Monthly Benefit	329.00	511.00	855.00	1,408.00	1,634.00	2,343.00
Average Final Average Salary	20,660.00	18,974.00	23,337.00	28,063.00	32,716.00	36,905.00
Number of Active Retirees	958	2827	2442	3607	5843	5925

EMPLOYERS FOR WHOM THE MAINE STATE RETIREMENT SYSTEM ADMINISTERS RETIREMENT PLANS

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

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

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

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

Acton School Department
Arundel School Department
Auburn School Department
Augusta School Department
Bangor School Department
Bath School Department
Biddeford School Department
Brewer School Department
Bridgewater School Department
Brunswick School Department
Bucksport School Department
CSD #3 Boothbay Harbor
CSD #4 Flanders Bay
CSD #7 Mt. Desert
CSD #8 Airline CSD
CSD #9 South Aroostook
CSD #10 Maranacook
CSD #11 Schoodic
CSD #12 East Range
CSD #13 Deer Isle Stonington
CSD #14 Great Salt Bay Damariscotta
CSD #15 Oak Hill
CSD #17 Moosabec
CSD #18 Wells-Ogunquit
CSD #19 Five Town CSD
Cape Elizabeth School Department
Caribou School Department
Caswell School Department
Dedham School Department
Easton School Department
Ellsworth School Department
Erskine Academy
Falmouth School Department
Fayette School Department
Foxcroft Academy
Freeport School Department
Fryeburg Academy
George Stevens Academy
Glenburn School Department
Gorham School Department
Gould Academy
Harmony School Department
Hermon School Department
Indian Island
Indian Township
Isle Au Haut School Department
Islesboro School Department
Jay School Department
Kittery School Department
Lee Academy
Lewiston School Department
Limestone School Department
Lincoln Academy
Lincolnville School Department
Long Island School Department
MSAD #1 Presque Isle
MSAD #3 Unity
MSAD #4 Guilford
MSAD #5 Rockland
MSAD #6 Bar Mills
MSAD #7 North Haven
MSAD #8 Vinalhaven
MSAD #9 Farmington
MSAD #10 Allagash
MSAD #11 Gardiner
MSAD #12 Jackman
MSAD #13 Bingham
MSAD #14 Danforth
MSAD #15 Gray
MSAD #16 Hallowell
MSAD #17 South Paris
MSAD #18 Bucksport
MSAD #19 Lubec
MSAD #20 Fort Fairfield
MSAD #21 Dixfield
MSAD #22 Hampden
MSAD #23 Carmel
MSAD #24 Van Buren
MSAD #25 Sherman Station
MSAD #26 Ellsworth
MSAD #27 Fort Kent
MSAD #28 Camden

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

TEACHER *(continued)*

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

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

TEACHER *(continued)*

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

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

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

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

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

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

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS *(continued)*

Berwick Sewer District
Berwick, Town of
Bethel, Town of
Biddeford School Department
Biddeford, City of
Bingham Water District
Boothbay Harbor Water District
Boothbay Harbor, Town of
Boothbay Region Water District
Bradford, Town of
Brewer Housing Authority
Brewer School Support
Brewer, City of
Bridgton Water District
Brunswick & Topsham Water District
Brunswick Fire And Police
Brunswick Public Library Association
Brunswick School Support
Brunswick Sewer District
Brunswick, Town of
Bucksport School Food Service
Bucksport School Support
Bucksport, Town of
Calais School Support
Calais, City of
Camden, Town of
Cape Elizabeth School Support
Caribou Fire & Police
Carrabasset Valley, Town of
Castine, Town of
Chesterville, Town of
Cheverus High School
China, Town of
Coastal Counties Workforce Incorporated
Community School District #903
Community School District #912
Community School District #915
Community School District #918
Corinna Sewer District
Corinna, Town of
Cranberry Isles
Cumberland County
Cumberland, Town of
Dexter, Town of
Dover-Foxcroft Water District
Dover-Foxcroft, Town of
Durham School Support
Durham, Town of
Eagle Lake Water & Sewer District
East Millinocket
East Millinocket School Support
Easton School Support
Easton, Town of
Eliot, Town of
Ellsworth School Support
Ellsworth, City of
Erskine Academy
Fairfield, Town of
Falmouth Memorial Library
Falmouth School Support
Falmouth, Town of
Farmington Village Corporation
Farmington, Town of
Fayette, Town of
Fort Fairfield Housing Authority
Fort Fairfield Utilities District
Fort Fairfield, Town of
Freeport, Town of
Frenchville, Town of
Fryeburg Academy
Fryeburg, Town of
Gardiner Water District
Gardiner, City of
Garland, Town of
Georgetown School Support
Glenburn School Lunch
Glenburn School Support
Glenburn, Town of
Gorham School Support
Gorham, Town of
Gould Academy
Greater Portland Council of Government
Greenville School Support
Greenville, Town of
Hallowell Water District
Hallowell, City of
Hampden Water District
Hampden, Town of
Hancock County
Harpswell, Town of
Harrison, Town of
Hermon School Support
Hermon, Town of
Hodgdon, Town of
Homestead Project Incorporated
Houlton Water Company
Houlton, Town of
Indian Township Tribal Government
Jackman Utility District
Jackman Water District
Jay School Support
Jay, Town of
Kennebec County
Kennebec Sanitary Treatment District
Kennebec Water District
Kennebunk Kennebunkport Wells Water District
Kennebunk Light & Power District
Kennebunk Sewer District
Kennebunk, Town of
Kennebunkport, Town of
Kittery School Support

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

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS *(continued)*

Kittery Water District
Kittery, Town of
Lebanon, Town of
Lewiston Auburn 911
Lewiston Auburn Water Pollution Control
Lewiston Housing Authority
Lewiston School Support
Lewiston, City of
Limestone School Support
Lincoln & Sagadahoc Multi-County Jail Authority
Lincoln Academy
Lincoln County
Lincoln County Sheriffs
Lincoln Sanitary District
Lincoln Water District
Lincoln, Town of
Linneus, Town of
Lisbon School Support
Lisbon Water Department
Lisbon, Town of
Livermore Falls Water District
Livermore Falls, Town of
Lovell, Town of
Lubec Water & Electric District
Lubec, Town of
M.A.D.S.E.C.
Madawaska School Support
Madawaska Water District
Madawaska, Town of
Maine County Commissioners Association
Maine Development Foundation
Maine International Trade Center
Maine Maritime Academy
Maine Municipal Bond Bank
Maine Principals' Association
Maine Sardine Council
Maine School Management Association
Maine State Employees Association
Maine State Retirement System
Maine Turnpike Authority
Maine Veterans Home - Augusta
Maine Veterans Home - Bangor
Maine Veterans Home - Caribou
Maine Veterans Home - Central Office
Maine Veterans Home - Scarborough
Maine Veterans Home - South Paris
Mapleton, Town of
Mars Hill Utility District
Mars Hill, Town of
Mechanic Falls Sanitary District
Mechanic Falls School Support
Mechanic Falls, Town of
Medway School Support
Medway, Town of
Mexico, Town of
Mid-Maine Waste Action Corporation
Milford, Town of
Millinocket School Support
Millinocket, Town of
Milo Water District
Monson, Town of
Mount Desert Island Regional
Mount Desert Water District
MSAD #1 Presque Isle
MSAD #9 Farmington
MSAD #13 Bingham
MSAD #16 Hallowell
MSAD #17 South Paris
MSAD #21 Dixfield
MSAD #28 Camden Rockport
MSAD #29 Houlton
MSAD #31 Howland
MSAD #36 Livermore Falls
MSAD #40 Waldoboro
MSAD #41 Milo
MSAD #49 Fairfield
MSAD #50 Thomaston
MSAD #51 Cumberland
MSAD #52 Turner
MSAD #53 Pittsfield
MSAD #54 Skowhegan
MSAD #60 Berwick
MSAD #67 Lincoln
MSAD #68 Dover-Foxcroft
MSAD #71 Kennebunk
MSAD #74 North Anson
Mt. Desert School Support
Mt. Desert, Town of
Naples, Town of
New Gloucester, Town of
North Berwick, Town of
Northern Maine Regional Planning Commission
Norway Water District
Norway, Town of
Ogunquit, Town of
Old Orchard Beach School Support
Old Orchard Beach, Town of
Old Town Housing Authority
Old Town School Support
Old Town Water District
Old Town, City of
Orland School Food Service
Orland School Support
Orland, Town of
Orono School Support
Orono, Town of
Orrington School Support
Orrington, Town of
Otisfield, Town of
Oxford County
Oxford, Town of

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

CONSOLIDATED PLAN FOR PARTICIPATING LOCAL DISTRICTS *(continued)*

Paris Utility District
Paris, Town of
Penobscot County
Penquis C.A.P.
Phippsburg School Food Service
Phippsburg School Support
Phippsburg, Town of
Piscataquis County
Pittsfield, Town of
Pl Pt Passamaquoddy Resv Housing Authority
Portland Housing Authority
Portland Public Library
Portland School Support
Portland, City of
Presque Isle Water & Sewer District
Presque Isle Water District
Princeton School Support
Princeton, Town of
Project Lodestone
Readfield, Town of
Region 4 So. Penobscot
Region 8 Coop. Board for Voc. Ed.
Richmond School Support
Richmond Utility District
Rockland, City of
Rockport, Town of
Rumford Fire & Police
Rumford Mexico Sewerage District
Rumford School Support
Rumford Water District
Rumford, Town of
Sabattus Sanitary District
Sabattus School Support
Sabattus, Town of
Saco School Support
Saco, City of
Sagadahoc County
Sanford Housing Authority
Sanford School Support
Sanford Sewerage District
Sanford Water District
Sanford, Town of
Scarborough School Food Service
Scarborough School Support
Scarborough, Town of
Searsport Water District
Searsport, Town of
Skowhegan, Town of
Somerset County
South Berwick Sewer District
South Berwick Water District
South Berwick, Town of
South Portland Housing Authority
South Portland School Support
South Portland, City of
Southern Kennebec Valley Regional
St. Agatha, Town of
The Wells Reserve
Thomaston, Town of
Topsham, Town of
Training and Development Corporation
Tri-Community Sanitary Landfill
Van Buren Housing Authority
Van Buren, Town of
Vassalboro, Town of
Veazie Police
Waldo County
Waldo County Technical Center
Waldoboro, Town of
Washburn, Town of
Washington County
Waterville Fire & Police
Waterville Sewer District
Wells, Town of
West Paris, Town of
Westbrook Housing Authority
Westbrook School Support
Winslow School Support
Winslow, Town of
Winter Harbor Utility District
Winthrop School Support
Winthrop, Town of
Wiscasset, Town of
Yarmouth School Support
Yarmouth Water District
Yarmouth, Town of
York County
York School Support
York Sewer District
York Water District
York, Town of

(continued on next page)

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

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

Bridgton, Town of
Brownville, Town of
Cape Elizabeth, Town of
CSD 3 Boothbay/Boothbay Harbor
Damariscotta, Town of
Dixfield, Town of
Exeter, Town of
Fort Kent, Town of
Franklin County
Georgetown, Town of
Howland, Town of
Knox County
Limestone Water/ Sewer District
Limestone, Town of
Maine Municipal Association
Maine State Housing Authority
Milo, Town of
MSAD #34
MSAD #56
New Canada Plantation
Norway Paris Solid Waste Corp
Presque Isle, City of
Richmond, Town of
Wallagrass Plantation
Westbrook Fire and Police
Westbrook, City of
Western Maine Community Action Council
Wilton, Town of

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

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

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

www.msrs.org

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

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