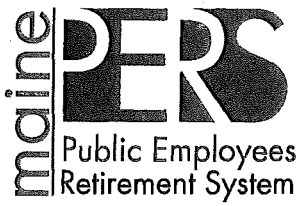


MAINE STATE LEGISLATURE

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 scanned originals with text recognition applied
(searchable text may contain some errors and/or omissions)



formerly, Maine State Retirement System

Gail Drake Wright, Executive Director
John C. Milazzo, Chief Deputy Executive Director
OFFICE OF THE General Counsel

File

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

2008 FEB 20 A 8:08

HAND DELIVERED

February 12, 2008

Senator Ethan Strimling, Senate Chair
Representative John L. Tuttle, Jr., House Chair
Members, Joint Standing Committee on Labor
2 State House Station
Augusta, ME 04333-0002

Dear Senator Strimling, Representative Tuttle and Members of the Labor Committee:

I am writing to you pursuant to 5 M.R.S.A. §17103, sub-§11, which requires that the Board of Trustees of the Maine Public Employees Retirement System make a written report about the Maine Public Employees Retirement System to the "appropriate legislative committee" each year by March 1. Our report is comprised of this letter, supplemented by the System's Comprehensive Annual Financial Report (CAFR), a copy of which is included with this letter and which is also available online at www.maineopers.org.

OPERATIONS MATTERS

Change in System Name: Effective September 20, 2007, the Maine State Retirement System became the Maine Public Employees Retirement System, or MainePERS. In proposing this change, the System sought to make its name more representative and inclusive of all of its constituencies. When this bill was passed out of Committee, the System indicated it would submit a subsequent bill to clarify and standardize references to various plans of the System in the statutes as a whole. The System submitted this bill and the public hearing was held on February 6.

Changes in Board Membership: Three new Trustees were confirmed by the Legislature in 2007. Joining the board as a first time Trustee and appointed for her expertise in financial matters was Carol L. Mitchell, Esq. The new Trustee appointed as a PLD member who is a member of the retirement program was Richard T. Metivier, Finance Director for the City of Lewiston. Rejoining the board as the Trustee who is a retired State employee receiving a MainePERS retirement benefit was George A. Burgoyne. Mr. Burgoyne previously served on the Board as an active State employee from 1989 to 2003.

Funding Status of the State Employee and Teacher Retirement Program. The unfunded actuarial liability (UAL) of the State Employee and Teacher Retirement Program decreased slightly in FY 2007 from \$3.043 billion at June 30, 2006 to \$2.912 billion at June 30, 2007. This decrease in liabilities resulted from favorable investment returns on assets during FY 2007. It should be noted that had the experience of the Retirement Program been exactly as predicted by the actuarial assumptions, there would have been an increase in liabilities in FY 2007 under the current amortization schedule. The decrease in liabilities is attributable to an investment experience gain to the Program. The regular flow of required contributions and the up-front funding of any new liabilities continued to provide solid underpinnings for plan funding. The investment return on an actuarial basis was 10.57% during FY 2007, an increase from the FY 2006 actuarial return of 7.99% and significantly higher than the actuarial investment return assumption of 7.75%. (See Investments section for market returns.) The actuarial funded status of the State Employee and Teacher Retirement Program, that is, the ratio of plan assets to plan liabilities, increased in FY 2007 from 71.2% to 73.9%. Ten years ago, the funding ratio was 57.5%.

Funding Status of Consolidated Plan for Participating Local Districts. The Consolidated Plan consisted of 248 participating local districts at June 30, 2007. Because of the Plan's structure under which an individual district retains responsibility for payment of liabilities existing at the time the district enters the Plan, and because of several years of strong investment returns, the Consolidated Plan has no unfunded actuarial liability. Its employer rates, which have decreased since inception, remain stable and low. The funding methodology adopted by the Board in FY 2000 is designed to manage the volatility that can be associated with a well-funded retirement plan.

GFOA Certification. In 2007, the System submitted its FY 2006 Comprehensive Annual Financial Report (CAFR) to the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting Program and was awarded the Certificate of Excellence for the third consecutive year. In order to be awarded this certificate, a governmental unit must publish an easily readable and efficiently organized CAFR, with contents that meet or exceed rigorous program standards and satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid only for one year and the System's FY 2007 CAFR has been submitted to the GFOA.

Public Pensions Standards Award. For the second consecutive year, the System was awarded the Public Pension Coordinating Council's Public Pension Standards Award. To receive this award, retirement programs must meet requirements in six areas: comprehensive benefits, funding adequacy, actuarial valuation, audit, communications and investment policies and standards.

Member and Retiree Services. As previously reported, the System has launched a major project to install a complete "line-of-business" technology system that will result in the automation of

nearly all pension administrative services and functions of MainePERS. Vitech Systems Group was the vendor selected to deliver, configure, customize, and implement the line-of-business automated system. At the present time, we are preparing to test the benefits payroll functions in the new system. Other portions of the new system are in various stages of design and development.

In 2007, the System continued its multi-year expansion of the numbers of members receiving annual statements by providing first time statements to members of the Participating Local District, Legislative and Judicial Retirement Programs.

The System has made great strides in its effort to verify the historical member data that will be moved to the new line-of-business system. As a result of this more accurate data and the passage of legislation submitted in the First Regular Session of the 123rd Legislature, the System has begun to contact long-inactive members and offer them the opportunity to refund their balances. These efforts will likely continue through 2008.

Also in 2007, the Board adopted major amendments to its Administrative Appeals Rule in order to gain efficiencies in the process and at the same time safeguarding an appellant's opportunity to present all relevant evidence. Since MainePERS is operating under two Appeals rules, the new and the old, pending full ramp up to the new procedures, it is too early to assess the efficacy of the new approach.

More than 45,000 State, Teacher and PLD employees and retirees have Group Life insurance administered by MainePERS. During 2007 the System implemented several changes to the program based on the results of a 2006 experience study. The Board approved revisions to the premium structure for both Basic and Supplemental coverage. The revisions to the Basic rate, which were implemented in July 2007, reduced the premium for active Teachers. The System's Board of Trustees also approved a new, age-based premium structure for supplemental coverage which will be implemented in April of this year. Lastly, the System's Board adopted a revised rule for Group Life insurance in November 2007. A significant change in the rule permits teachers who change school employers a new opportunity to elect Group Life insurance coverage without having to demonstrate evidence of insurability.

Employer Services. In 2007, System staff made concentrated efforts to increase the frequency of communication with employers. There is now a dedicated employer link on the System website, www.maineipers.org. As a result of feedback received at employer training sessions and the System's desire to enlist active employer participation in rolling out the new line of business system, the System created an Employer Reporting Work Group. During 2007, over thirty additional employers started to electronically file payroll information with the System, bringing such filers to over fifty percent. The System will continue its efforts to increase the number of electronic filers in 2008.

System staff is reaching out to school districts in the process of consolidation and offering to assist with questions related to retirement coverage for school support staff. The System and the Department of Education are working together to identify schools that might benefit from guidance in this area.

MAJOR POLICY ISSUES

MainePERS continues to participate in exploring solutions to funding for correction of the major inequities imposed on the State Employee and Teacher Retirement Program by the creation of a two-tiered retirement plan in 1993 ("correction of the cliff").

In the Investments area, the Board of Trustees faces expanded legislatively mandated divestment efforts and the limits of permissibility of such action under the Maine Constitution and the Trustees' fiduciary obligations under state and federal law.

DEFINED CONTRIBUTION PLANS

In 2007, the System continued to promote its defined contribution retirement plans, collectively referred to as MaineSTART, to its participating local district employers. In addition to offering 401(a) and 457(b) plans, in 2007, the System also made available a 403(b) plan to employees of the Maine Veterans Homes. MaineSTART offers a group of Vanguard funds designed to be very low cost and enticingly easy to manage. The System enrolled eight new employers in MaineSTART during 2007, bringing the total number of participating PLD employers to 26. The System plans to offer MaineSTART to State employees and teachers in the future.

INVESTMENTS

At June 30, 2007, the System's invested assets were \$11.0 billion, an increase of \$1.4 billion from the June 30, 2006 total. The investment return for the 12 months ended June 30, 2007 on a market value of assets basis was 16.2%. For the three-year, five-year, and 10-year periods ending on that date, the annualized returns based on market value were 11.8%, 11.4% and 7.7% respectively.

As reported in December 2007, the System has divested of \$21.1 million in market value of companies as a result of the Sudan divestment law enacted by the 122nd Legislature. System staff actively researches allegations of portfolio companies' involvement in Sudan, and regularly updates the list of prohibited investments, as well as lists of other companies whose alleged involvement requires ongoing attention. The System submitted its annual report to the Labor Committee on January 1, 2008.

The 123rd Legislature created an Investment Trust for the purpose of investing funds set aside by the State of Maine to cover OPEB liabilities for retiree health insurance benefits for State

employees and teachers. The Trustees of MainePERS were named Trustees for this Investment Trust and have the responsibility of investing these funds. In January 2008, MainePERS received initial funds of \$100 million from the State for investment.

In the past year the Board has reduced its asset allocation to U.S. stocks from 50% to 45% of the total fund. The 5% has been reallocated to non-U.S. stocks bringing the total allocation to non-U.S. stocks to 20%. In addition, the Board approved an allocation of 4% to infrastructure investments which are currently included as a sub-asset class of U.S. stocks. The System will be funding the infrastructure allocation over approximately four years. The Board has also lowered the duration target on its 30% allocation to Treasury Inflation Protected Securities (TIPS). Previously a long duration TIPS index was the target. The new target is based on an intermediate duration TIPS index. We are in the process of conducting an asset liability study and formal review of the strategic asset allocation.

A new Chief Investment Officer, Andrew H. Sawyer, was hired in early 2007. Andrew is a Chartered Financial Analyst (CFA) and has earned an MBA from Pace University. Prior to joining MainePERS, Andrew was a portfolio manager at TD Banknorth. At the same time, Peter Robbins, CFA and Chief Investment Officer and Managing Director for H.M. Payson & Co. was appointed Chair of the Board's Investment Advisory Committee (IAC). New members to the IAC also include Benedetto Viola, MainePERS Board member; Catherine Sullivan, Vice Chair of the MainePERS Board; David Wakelin, Esq., past Chair of the MainePERS Board; James Bennett, PhD, CFA, Associate Professor of Finance at the University of Southern Maine; and Robert Strong, PhD, CFA, University Foundation Professor of Investment Education and Professor of Finance at the University Of Maine.

In FY 2008, the System is experiencing great volatility in the market value of its investments as the markets experience large fluctuations. At July 1, 2007, market value of assets was \$11.0 billion. The highest month end market value of assets achieved to date in this fiscal year is \$11.6 billion, the lowest month end market value of total assets has been \$10.7 billion, and at the end of January 2008, total assets were \$11.0 billion.

BUDGET APPROVAL

Since 1993 when the status of the Retirement System was legislatively changed from an independent executive agency to a public instrumentality, the System has presented its budget for review annually by the Labor Committee and Legislature via a Legislative Document that showed its operating budget numbers and costs as they related to the State Employee and Teacher Retirement Program and affected the State Budget. No appropriation of monies was ever required as funds for the State's retirement contributions were always directly appropriated as part of the State Budget. The State's share of administrative operating expenses was embedded in the appropriation.

The 123rd Legislature changed the way in which the System's operating expenses are to be paid. Beginning July 1, 2007, System administrative costs and expenses attributable to the State Employee and Teacher Retirement Program, the Legislative Retirement Program and the Judicial Retirement Program are directly charged against the assets of the applicable programs. The legislation reflecting this change did not specify whether or how the System's operating expenses would come before the Committee of jurisdiction under this new arrangement. With permission of the Senate Chair of the Labor Committee we are including information on our operating budget in this report. I hope to discuss with you whether or not this method of presentation is appropriate when I review this annual report with you.

In 2007, the System's operating budget was within its approved budget parameters of \$10,958,309. For 2008, our approved budget was established at this same \$10,958,309, and seven months into the fiscal year, we are well within this budget. As we have indicated before, we expect to have major changes in our work force once our new technology system is operational and for this reason we are carrying a number of vacant positions that will likely not be filled in 2008, and if and when they are filled, are likely to have changed character dramatically. Any savings from these positions will simply inure to the trust funds. Salary increases that are part of the third year of our approved current collective bargaining contract are also to be funded within this budget.

CONCLUSION

I am pleased to submit this report to the Labor Committee. If the Committee has additional questions about the status of the Maine Public Employees Retirement System or any information included in this report, I would be happy to address them at the Committee's pleasure.

Respectfully,



Gail Drake Wright
Executive Director

GDW/pjm

cc: Members, Board of Trustees
John C. Milazzo, Chief Deputy Executive Director and General Counsel
David E. Boulter, Executive Director, Legislative Council
Carolyn Russo, Office of Policy and Legal Analysis

bcc: Andrew Sawyer
Chris Gianopoulos
Sherry Tripp Vandrell
Kathy Morin
Marlene McMullen-Pelsor
Rebecca Grant
Gary Emery