



Maine State Retirement News

for Members, Retirees and Employers

Maine State Retirement System

March 2002

What Does It Mean to Become a Member of the Maine State Retirement System?

One of the reasons for including this article in our member Newsletter is to encourage all of our members, especially our new members, to learn both what they have become entitled to by virtue of their MSRS membership and the basics of their retirement plans. Because the laws governing MSRS benefits are complex and have many nuances, they are sometimes difficult to distil into straightforward terms. For every simple and direct statement we might make in this article, there are undoubtedly wrinkles and exceptions. We want to remind you that we are at your service to answer any and all of your questions and to explain any of the details and complexities that are beyond the scope of this article that you want to explore. We welcome the opportunity to educate you about the benefits you have as an MSRS member.

The MSRS administers defined benefit retirement plans for state employees, public school teachers, judges, legislators, and for employees of municipalities and other public entities called Participating Local Districts (PLDs). Public school teachers, judges, most state employees and legislators and some participating local district employees must contribute to the MSRS as a condition of their employment and so their membership is mandatory. As a member of the MSRS, you contribute a percentage of your gross wages to help fund your retirement benefit. Your employer also contributes to your retirement. Your retirement benefit is "defined," that is, calculated based on a formula set forth in statute. Your retirement benefit is based in part on your average final compensation (the average of your three highest years of earnings at retirement), in part on the number of years of service credit you have accumulated, and in part on an accrual rate of 2% for most members for each year earned.

Upon becoming a member, you completed an Application for Membership, a Designation of Beneficiary Pre-Retirement Death Benefits form and an Application for Coverage Group Life Insurance form (if applicable). We use the information provided on these forms to create your member record, the foundation on which we will build your pension benefit history.

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Cost Considerations in Purchasing Additional Service Credit

A member of Maine State Retirement System earns service credit while employed in an MSRS-covered position and making contributions. The amount of accumulated service credit is one of the factors used in the calculation of a retirement benefit. The more service credit that a member has at retirement, the greater the benefit amount.

In certain circumstances, members may increase their amount of service credit through the purchase of additional service credit. The types of additional service credit that may be purchased are specified in the law. They include such types as: previously refunded MSRS service, periods of employment with an MSRS-covered employer during which no MSRS contributions were made, military service, and public sector service in another state. Each type of service has specific eligibility requirements and a member must meet the eligibility requirements in order to purchase a given type of service.

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For some types of service, the cost of purchase is based on what the member would have contributed had the member contributed to the MSRS at the time of the service, plus interest on those contributions to the date of purchase. Because this amount is not sufficient to cover the full cost of the increase in the member's retirement benefit, the balance is paid for via the employer contributions to the System.

For other categories of purchasable service, the member is responsible for payment of the full cost of the increase in his/her benefit. In such cases, the member must pay the "actuarial equivalent" cost in order to receive the additional service credit. This term means that the amount that the member must pay for the additional service credit must be equal to the cost of the increase in retirement benefits. Because the true benefit increase cannot be determined until the member retires, any actuarially equivalent purchase cost calculated before retirement is an estimate of the amount due. The actual cost is determined at retirement and additional monies may be due in order to complete the purchase of service credit.

Members purchase additional service credit for a number of reasons. These include having the ability to retire earlier, increasing the total service credit used in the benefit calculation and/or attaining a sufficient number of years of service to qualify for retirement. When considering whether to purchase additional service credit, regardless of whether the service can be purchased through payment of missed contributions plus interest or must be paid through payment of the full or actuarially equivalent cost, you should consider whether such a purchase is advantageous to you. One consideration should be whether the increase in your retirement benefit that will result from the additional service credit is likely to exceed the cost to purchase the service. While staff at the System cannot make the purchase decision for you, they can provide you with the amount of the benefit increase that would result from the additional service credit and they can discuss with you other factors that you should take into consideration.

Message from the Executive Director

MORE ON THE MEANING OF MEMBERSHIP

On page one of this edition is an article entitled "What Does It Mean to Become A Member of the MSRS?" The article talks about the benefits and services that are MSRS membership. The meaning, or rather the meaningfulness, of MSRS membership becomes most clear when you begin to call down on a benefit to which membership entitles you - for example, when your service retirement benefit begins to be paid, or when you are found eligible to receive a disability benefit and that benefit begins to be paid, or when the survivor you have named as your beneficiary receives survivor benefits. In these circumstances, MSRS membership becomes most meaningful at the time that it ends.

Our job, of course, does not begin when your "member" status ends. The System is certainly a benefit-payment machine and, in the end, benefit payment is what is most important to our members. But, we are not just a benefit payment machine. We are also shepherds and finders of missing persons: one of our jobs is to be sure that everyone who should be a member is in fact on the ship. We are also gluttons for data and obsessive about organizing it and storing it: one of our jobs is to keep track of every member's work and compensation history, all of its twists and turns, for however many years s/he is a member of the Retirement System. We are also givers of information and explanations: one of our jobs is to inform MSRS members generally and to make it as easy as possible for members to get information particular to them.

Let me return to the topic of our job of being a retirement benefit payment machine. The nature of the retirement benefit that the Retirement System was established to pay is another meaningful aspect of Retirement System membership. The sad story of Enron - sad in every sense of the word - is a graphic illustration of that. Enron employees' plans and hopes for retirement rode, at least in significant part, on the success or failure of what their money for retirement was invested in and the entire risk of investment failure was borne by each individual employee. For the part of their retirement money that was invested in Enron stock, Enron employees were not in a Defined Benefit plan. In a Defined Benefit plan, the risk that an investment will fail is not borne by benefit recipients, current or future. The five major retirement plans run by the Maine State Retirement System are Defined Benefit plans. Retirees and future benefit recipients of these MSRS plans do not bear the risk of a market drop or individual investment failure. If Enron had been what it said it was, its employees would have had a great deal of money in retirement. Remember, though, that the value of a monthly benefit paid by a Defined Benefit plan over the lifetime of a member, and if the member has a beneficiary, the beneficiary's life, can also be very, very large. And, that benefit is not impelled by investment risk. You can look at it like this: a Defined Benefit retirement plan trades the possibility of making a killing for the certainty of not getting killed.

I want to make another observation, also drawn from Enron. Many of you may have some investments in which you do bear the risk of failure (and have the possibility of success). It is wise of you to be investing money for retirement in this way. The other Enron lesson, as to those kinds of investments, is the lesson about having all of your eggs in one basket. The lesson is: don't. The effect of the collapse of Enron stock was less for those whose money for retirement was not invested only in Enron. The principle is no less strong in the absence of the wrongdoing that characterizes the Enron situation. Well-run companies can fall on hard times; well-run companies can fail. If you have

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invested in only one of them, you participate fully in its hard times or failure. To the extent you have invested in both a number and a variety of investments (the technical term is "diversification"), you're buffered. Diversification is essential not just with individual stocks. It is also essential with respect to investment types (for example, stocks; bonds) and with respect to areas of the investment market (for example, technology; financial services; consumer products). If you've only invested in one type of investment and it suffers, you suffer. If you've only invested in one area of the market and it suffers, you suffer. You can look at it like this: put all of your eggs in one basket only when you are as prepared for all of them to break as you are for all of them to hatch.

The assets of the MSRS Defined Benefit retirement plans currently total just under \$7 billion. The investment of the assets is broadly diversified. The System invests in stocks and bonds, in United States and international markets, in all areas of those markets, in thousands of different stocks, in many hundreds of different bonds. It should emphasize the importance of diversification to know that this basic principle of investing applies equally emphatically to the individual investor investing on her/his own behalf and to institutional investors investing on behalf of large numbers of individuals.

MEET THE STAFF

Membership Services: Payroll Processing Unit

The MSRS Membership Services Department is comprised of three units: Employer Payroll, Eligibility, and Payroll Processing. The department is the System's primary liaison with employers and is responsible for the processing of most of the member information submitted by employers.

The Payroll Processing Unit (PPU) maintains and updates all information relating to active and inactive member accounts. The people that work in the Payroll Processing Unit are Tim Wing, Supervisor; Evelyn Unangst, Lead Data Entry Clerk; and



Back Row (left to right): Tim Wing, Elizabeth Lever, Evelyn Unangst, and Tammy Auclair. *Front Row (left to right):* Cindra Bailey, Nicole Greenlaw, and JoAnn Nelson.

Data Entry Clerks: Tammy Auclair, Nicole Greenlaw, Elizabeth Lever, JoAnn Nelson, and Cindra Bailey. Documents handled by PPU on a daily basis include member applications; forms for name and address changes, personnel status changes, pre-retirement beneficiary designations and Group Life Insurance beneficiary designations; and employer monthly payroll reports (the largest source of member information).

The MSRS receives 740 payroll reports each month from State agencies, teacher units and participating local districts. Approximately 650 of the payrolls received each month are keyed manually. A payroll may contain as few as one member to as many as 1300 members. The PPU team enters data provided on the payrolls (and other forms) into the MSRS membership recordkeeping system. That information then becomes part of each member's history record.

Tim Wing is the person from PPU who is most likely to contact payroll clerks. In addition to his supervisory responsibilities, Tim reviews payroll reports for accuracy and ensures that all aspects of the reports balance. Payroll clerks may receive a call from Tim if there is missing or inaccurate information reported, or when the money sent in does not match the information provided on the payroll report.

The Payroll Processing Unit performs a very critical function at the MSRS and plays a key role in the System's ability to accurately track information that will ultimately be vital to calculating retirement benefits for each member.

MSRS Member continued from page 1

Throughout the course of your membership, payroll and other information reported to us by your employer is recorded on your account and will eventually be used to determine what benefit(s) you are entitled to. This information also makes it possible for us to calculate the amount of your benefit. Generally, most state employees and teachers can begin receiving a service retirement benefit at age 60 or 62, or, if they have at least 25 years of service credit, at any age. Most PLD members can begin receiving a service retirement benefit at age 60, or at any age with at least 25 years of service credit. The MSRS administers multiple retirement plans with different requirements for retirement. Please contact our State Unit, Teacher Unit or PLD Unit if you are unsure under which plan you are covered or what the requirements are for retirement eligibility.

As a member of the MSRS, you may also be eligible for certain other benefits. Disability retirement benefits are provided to an MSRS member who develops a permanent mental or physical incapacity that makes it impossible to perform the duties of his or her employment position. The Disability Program is a long-term disability program; it is not designed for those who are temporarily unable to do their jobs.

Group Life and Accidental Death and Dismemberment Insurance benefits are available to individuals whose employers offer the group life insurance program and who elect to participate in the program. There are various levels of life insurance coverage that you may select, and accidental death and dismemberment insurance automatically accompanies the group life coverage. Insurance premiums are paid by the participant and/or the employer. You must complete a designation of beneficiary form for the group life insurance program to ensure that benefits are paid to your named beneficiary in the event of your death.

Death benefits are provided to beneficiaries of certain members when the member dies before a service retirement benefit becomes effective. The beneficiaries may elect a reduced retirement allowance, a lump sum refund of contributions and interest, or a monthly survivor benefit, the amount of which is determined by statute. Please be certain that you have designated a beneficiary of pre-retirement death benefits to ensure that your wishes are carried out in the event of your death. You may update your designation of a beneficiary at any time by completing a new designation of beneficiary form and filing it with the MSRS. Note that this is a separate designation from a designation of beneficiary for group life insurance purposes and that you need to make both designations.

In the event that you wish to withdraw your accumulated employee contributions and interest, you are first required to terminate your MSRS-covered employment. Taking a refund of your contributions and interest voids all rights to other MSRS benefits, including service and disability retirement.

If this information raises questions for you, please do not hesitate to call our office. For eligibility information, ask for Membership Services; for retirement information, ask for Retirement Services; for disability information, the Disability Program; and for death benefit and group life insurance information, the Survivor Services Program.

Rollovers to the Maine State Retirement System's Defined Contribution Plan

The Retirement System has recently amended its policies regarding the acceptance of rollovers from other qualified retirement plans. Under federal law, a rollover is the tax-free transfer of funds from one retirement plan to another when the funds can, because of a termination of service, be transferred. Historically, the System has not accepted rollovers, but will now accept them when the funds are used for the purchase of additional creditable service. The only circumstances in which the System accepts a rollover is for the purchase of service credit, so in order for you to roll money to the System, you must have eligible service available for purchase. The article on page 1 regarding things to consider prior to purchasing additional service credit may be helpful to you in making a purchase decision.

Federal laws govern the types of plans out of which funds can be rolled and new tax laws effective January 1, 2002 expand the types of plans from which rollovers can be made. If you have funds in another plan and have service credit available that you want to purchase, you should contact the administrator of that plan to determine whether funds from your plan are eligible for rollover. Other federal tax law changes may make it possible to transfer money between plans to make service purchases in other circumstances. Federal guidance on this is not yet final, however. We will inform you when it is.

An Explanation of the IRS Form 1099-R

In January of each year, the Maine State Retirement System mails an Internal Revenue Service Form 1099-R to each person who received either a benefit payment or a refund of contributions in the prior calendar year. Below is an explanation of Form 1099-R and the information reported on it.

| | | | | | | | | | |
|--|-----------------------------------|--|--|-------------------------------|--|--|---------|--|--|
| <input type="checkbox"/> CORRECTED (if checked) | | | | OMB No. 1545-0119 | | Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. | | | |
| PAYER'S name, street address, city, state, and ZIP code | | 1 Gross distribution | | 2001 | | | | | |
| | | 2a Taxable amount | | | | | | | |
| | | 2b Taxable amount not determined | | Total distribution | | | | | |
| PAYER'S Federal identification number | RECIPIENT'S identification number | 3 Capital gain (included in box 2a) | | 4 Federal income tax withheld | | 5 Employee contributions or insurance premiums | | | |
| RECIPIENT'S name, street address, city, state and ZIP code | | 6 Net unrealized appreciation in employer's securities | | 7 Distribution code | | IRA/ SEP/ SIMPLE | 8 Other | | |
| | | | | | | | % | | |
| | | 9a Your percentage of total distribution | | % | | 9b Total employee contributions | | | |
| | | 10 State tax withheld | | 11 State/Payer's state no. | | 12 State distribution | | | |
| Account number (optional) | | 13 Local tax withheld | | 14 Name of locality | | 15 Local distribution | | | |

Form 1099-R

16-0331690

Department of the Treasury - Internal Revenue Service

- 1 This box shows your total earnings from MSRS benefits for 2001.
- 2a This box shows the taxable portion of your earnings. **If Box 2a is blank and there is an "x" in Box 2b, you and/or your tax accountant need to determine what part of your earnings is taxable.**
- 4 This box shows the amount of federal income tax already withheld from your earnings (if any).
- 5 This box shows the total of your non-taxable contributions for 2001.
- 7 This box contains a number that represents what type of benefit you are receiving: 3 for a disability benefit; 4 for a death benefit or 7 for a service retirement benefit.
- 9b This box shows the remaining contributions to recover. This amount is reduced each year by the amount in box 5.
- 10 This box shows the amount of state income tax already withheld from your earnings (if any).
- 11 This box shows the number 23, the State of Maine code number.

The three initials following the Account number in the box to the left of 10 represent what type of benefit you are receiving: disability, death or service retirement.

- 12 This box shows the amount taxable by the State of Maine.

Boxes 3, 6, 8, 9a, 13, 14 and 15 are blank because they are not pertinent to this MSRS distribution.

Mark Your Calendars!

2002 Holiday Schedule

The MSRS office will be closed in observance of the following holidays for the remainder of 2002:

| | |
|---------------------|------------------------|
| Patriot's Day | Monday, April 15 |
| Memorial Day | Monday, May 27 |
| Independence Day | Thursday, July 4 |
| Labor Day | Monday, September 2 |
| Columbus Day | Monday, October 14 |
| Veteran's Day | Monday, November 11 |
| Thanksgiving Day | Thursday, November 28 |
| Thanksgiving Friday | Friday, November 29 |
| Christmas | Wednesday, December 25 |

Mailing Dates for Benefit Checks and Advices of Deposit in 2002

As a general rule, the MSRS delivers benefit checks and advices of deposit to the U. S. Post Office in Augusta on the next to the last day of the month. When the next to the last day is either a Saturday or Sunday, they will be delivered on the Friday preceding. For the remainder of 2002, checks and advices of deposit will be delivered to the U.S. Post Office on the following dates:

| | |
|----------|--------------|
| March 29 | August 30 |
| April 29 | September 27 |
| May 30 | October 30 |
| June 28 | November 27 |
| July 30 | December 30 |

NEW Certificates of Coverage

A recent change in life insurance carriers by MSRS has resulted in a new Certificate of Coverage. You should have recently received a new Certificate in the mail or from your employer—please read it carefully and keep it with your other important papers. The amount of your coverage is unaffected by this Certificate. We want to remind you that the coverage in force is payable to the beneficiary you have designated in writing, upon receipt of a valid claim. It is recommended that you review your beneficiary designation (and update it if desired) if you do not know who you have named as a beneficiary, have recently experienced an event that would require updating your beneficiary, or have not reviewed your beneficiary form in the last five years.

If you have questions about your coverage or require assistance completing your beneficiary form, please call our office at 287-3461 or toll free at 800-451-9800.

NEW Refund Application Packages

- ◆ If you are a member and are planning to withdraw your accumulated contributions, please contact our office for a new packet.
- ◆ If you are an employer that maintains a supply of Refund Application Packages, we ask that you please discard any older application packages that you may have and request a new supply from the MSRS.



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Retirement News

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Retirement News is intended to provide timely information about the MSRS to members, employers and retirees. For the most complete and up-to-date information, please contact an MSRS representative. The contents should not be considered the basis of any contractual rights between the MSRS and its members. The official wording of the laws of Maine will govern.

The Maine State Retirement System does not discriminate against people with disabilities in its programs, activities, and employment. *Retirement News* can be made available in alternative formats. If you have such a request, please contact the Communications Unit.

You can reach the MSRS at 207-287-3461 or
800-451-9800 or (TTY only) 207-287-8446