Actuarial Valuation Report as of June 30, 2011

Maine Public Employees Retirement System Retiree Group Life Insurance

Presented by Cheiron

January 2012

CHEIRON Classic Values, Innovative Advice

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Via Email and UPS Delivery

January 13, 2012

Ms Sandy Matheson
Executive Director
Maine Public Employees Retirement System
#46 State House Station
Augusta, ME 04333-0046

Re: Maine Public Employees Retirement System Retiree Group Life Insurance Actuarial Valuation Report

Dear Sandy:

As requested, we have estimated the Postretirement Group Life Insurance obligations as of June 30, 2011 for the Maine Public Employees Retirement System (MainePERS) based on a roll-forward of the obligations as of June 30, 2010. The enclosed Sections contain the data the auditors need to prepare the disclosure section of the annual report.

Section I summarizes the change in asset information from June 30, 2010 to June 30, 2011.

Sections II and III contain the Liability and Asset information as of June 30, 2011. Per the System's direction, this is the information needed for the auditors. The assets represent the total group life reserve, and adjustments may be necessary if any reserves are not available to satisfy retiree liabilities. The liabilities are based on the biennial valuation as of June 30, 2010 updated to reflect changes in the investment return and salary scale assumptions and rolled forward to June 30, 2011 with expected benefit payments and accruals. The other actuarial assumptions will be reviewed and updated in conjunction with the next full valuation. The next full biennial valuation is scheduled to be performed as of June 30, 2012.

Appendix A describes the Participant Data, Assumptions, and Methods used in the calculation of the disclosure items contained in Sections I-III.

Appendix B contains the substantive Plan Provisions provided by the System.

In preparing our report, we relied without audit on information (some oral and some written) provided by the System. This information includes, but is not limited to, the plan provisions, employee data and financial information.

Actuarial computations provided in this report are for purposes of fulfilling employee benefit plan financial accounting requirements. The calculations reported in the enclosed sections have been made on a basis consistent with our understanding of the associated Actuarial Standards of Practice. Determinations for purposes other than meeting the employee benefit plan's financial accounting requirements (for example, establishing a long-term funding strategy) may be significantly different from the results in this report.

This report was prepared solely for MainePERS for the purposes described herein, except that the plan auditor may rely on this report solely for the purpose of completing an audit related to the matters herein. This report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

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 Actuarial Standards of Practice as Promulgated by the Actuarial Standards Board. We are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Sincerely,
Cheiron

John Colberg, FSA, EA, MAAA
Principal Consulting Actuary

Michael J. Noble, FSA, FCA, EA, MAAA
Consulting Actuary

INTRODUCTION

Maine Public Employees Retirement System (MainePERS) engaged Cheiron to provide a roll-forward estimate of the Postretirement Group Life Insurance liabilities as of June 30, 2011. The primary purposes of performing this actuarial valuation are to:

- Estimate the annual required contribution (ARC) for the Postretirement Group Life Insurance using GASB 43/45 methodology under the current funding strategy for information purposes; and
- Provide disclosures for financial statements.

We have determined costs and liabilities for the substantive Plan using actuarial assumptions and methods that we consider reasonable. The information shown in this report is primarily for comparison purposes, since the semi annual full valuations are used to actually adjust funding strategies.

Below is a summary of the key results of our calculations:

- The ARC for fiscal year ending June 30, 2012 is $10,886,409.
- The actuarial liability under the Entry Age Normal Actuarial Cost Method as of July 1, 2011 is $167,829,396

The fundamental principal underlying our analysis, as well as the GASB standard, is that the cost of benefits should be related to the period in which benefits are earned, rather than to the period of benefit distribution. The *normal cost (*which is a component of the *ARC)* is the annual amount which would be sufficient to fund the substantive Plan benefits (net of retiree contributions) if it were paid from each employee's entry into the Plan until termination or retirement. The *actuarial liability* represents the portion of the value of the projected benefit at retirement that is allocated to service earned prior to the valuation date. The *unfunded actuarial liability* (UAL) represents the excess of the actuarial liability over Plan assets.

GASB's Statement 43 refers to the financial reporting for postemployment benefit plans other than pension plans and Statement 45 refers to the employer accounting for these plans. Statement 43 is generally applicable where an entity has a separate trust or fund for OPEB benefits. Statement 45 requires the plan sponsor to book the actuarial cost (net of employee, retiree, and their dependents' contributions) of the plan as an expense on its financial statements and then accrue a liability to the extent actual contributions were less than this expense. Additional disclosures include a description of the substantive plan, summary of significant accounting policies (not included in this report), contributions, and a statement of funding progress, along with the methods and assumptions used for those disclosures.

The current premium rates were developed from a 2005 experience study. We recommend that the premium rates be reviewed for the next full valuation as part of the re-evaluation of the experience of the program. A review of the premium rates would also include reviewing the assumptions behind those premiums, particularly mortality and the expense assumptions, which could materially affect the cost. As a result of the investment markets of 2008-09, it is likely that the study would result in a rate increase unless the investment experience is offset by improvements in mortality or other experience.

Section I: Asset Reconciliation

The following chart shows the assets as of the valuation date reconciled from the prior valuation Date**.**

	State[1]	Teachers	PLDs	Judges[1]	Legislators[1]	Total
Balance June 30, 2010	**19.3**	**21.4**	**9.7**	**0.3**	**0.1**	**50.8**
Claims and Expenses	(4.5)	(2.7)	(2.4)	(0.1)	0.0[2]	(9.7)
Premium Revenue	4.9	4.3	2.1	0.1	0.0[2]	11.4
Investment Income and Interest	4.2	4.8	2.0	0.1	0.0[2]	11.1
Net Change during Fiscal Year	**4.6**	**6.4**	**1.7**	**0.1**	**0.0**[2]	**12.8**
Balance June 30, 2011	**23.9**	**27.8**	**11.4**	**0.4**	**0.1**	**63.6**

[1] Split of assets, expenses, investment income and premiums for State, Judges, and Legislators estimated based on ratio of liabilities as of the valuation date.

[2] Less than $0.05 million

Section II: Financial Statement Information

The following chart shows Actuarial Liability, the assets as of the valuation date, and the Unfunded Actuarial Liability**.** The Actuarial Liability is calculated taking the Present Value of Future Benefits (shown in Section II) and subtracting the present value of future Normal Costs under the **Entry Age Normal** funding method.

As of June 30, 2011 (in millions)	**State**	**Teachers**	**PLDs**[1]	**Judges**	**Legislators**	**Total**
Actuarial Liability						
- Active Employees	$33.6	$34.4	$ 11.1	$0.7	$0.0[2]	$ 79.8
- Retirees	43.7	33.2	10.4	0.5	0.2	88.0
Total	**$77.3**	**$67.6**	**$21.5**	**$1.2**	**$0.2**	**$167.8**
Less: Assets at Valuation Date	23.9	27.8	11.4	0.4	0.1	63.6
Unfunded Actuarial Liability (UAL)	**$53.4**	**$39.8**	**$ 10.1**	**$0.8**	**$0.1**	**$104.2**

The ARC consists of two parts: (1) the *normal cost*, which represents the annual cost attributable to service earned in a given year, and (2) the amortization of the UAL. In the table below, we show the computed FYE 2012 ARC.

For Fiscal 2012 (in millions)	**State**	**Teachers**	**PLDs**[1]	**Judges**	**Legislators**	**Total**
Actuarial Required Contribution (ARC)						
- Normal Cost	$ 1.3	$ 0.7	$ 0.6	$0.0[2]	$0.0[2]	$ 2.6
- UAL Amortization[3]	4.3	3.0	0.9	0.1	0.0[2]	8.3
Total	**$ 5.6**	**$ 3.7**	**$ 1.5**	**$0.1**	**$0.0**[2]	**$ 10.9**

1 Net of PLD premiums ($0.46 per month per $1000 of benefit)
2 Less than $0.05 million
3 Amortized as a level percent of pay over 26 years (PLDs over 19 years)

Section III: Balance Sheet Information

The following chart develops the Present Value of Future Benefits for the purpose of analyzing the overall financial obligations and the prospective funding source for Postretirement Life Insurance Benefits. The Present Value of Benefits represents the amount of money needed today to fully pay off all future benefits, assuming participants continue to earn salary increases and accrue benefits under the current program and plan provisions.

As of June 30, 2011 (in millions)	State	Teachers	PLDs[1]	Judges	Legislators	Total
Assets						
- Current Value of Assets	$23.9	$27.8	$ 11.4	$0.4	$0.1	$ 63.6
- Future Employer Contributions	60.2	43.7	14.4	0.9	0.1	119.3
Total Present Value of Assets	**$84.1**	**$71.5**	**$25.8**	**$1.3**	**$0.2**	**$182.9**
Liabilities						
- Active Accrued Benefits	$24.5	$24.4	$ 9.1	$0.6	$0.0[2]	$ 58.6
- Active Future Accruals	15.9	13.9	6.3	0.2	0.0[2]	36.3
- Active Present Value of Benefits	$40.4	$38.3	$15.4	$0.8	$0.0[2]	$ 94.9
- Inactive Present Value of Benefits	43.7	33.2	10.4	0.5	0.2	88.0
Total Present Value of Benefits	**$84.1**	**$71.5**	**$25.8**	**$1.3**	**$0.2**	**$182.9**

[1] Net of PLD premiums ($0.46 per month per $1000 of benefit)
[2] Less than $0.05 million

Appendix A: Participant Data, Assumptions and Methods

Participant Data as of June 30, 2010[1]

Actives				
Group	**Count**	**Average Age**	**Average Service**	**Average Salary**
State	13,394	47.6	13.4	$ 45,485
Teachers	14,316	46.7	15.9	$ 45,448
PLDs	6,021	49.4	11.7	$ 42,075
Judges	59	59.0	20.9	$104,576
Legislators	0	N/A	N/A	N/A
TOTAL	33,790	47.6	14.1	$ 44,965

Retirees			
Group	**Count**	**Average Age**	**Average Benefit[2]**
State	7,715	69.1	$ 14,311
Teachers	5,620	70.8	$ 16,208
PLDs	2,306	70.4	$ 13,123
Judges	34	74.3	$ 33,259
Legislators	30	77.1	$ 11,035
TOTAL	15,705	69.9	$ 14,850

[1] As per the biennial measurement as of June 30, 2010
[2] Ultimate benefit (40% of initial base benefit)

Note that all assumptions are based on the MainePERS Pension assumptions, except where otherwise indicated.

Economic Assumptions

Valuation Date: June 30, 2011

Investment Return: 7.25% per year. (7.75% in prior valuation)

Cost-of-Living Increases in Life Benefits: N/A, unlike the Pension assumptions. (i.e., Life Benefits do not increase with Cost of Living increases)

Rates of Salary Increase
(experience-based sample rates by service including both merit scale increase and yearly increase):

Service	State	Teachers	PLD	Judges	Legislators
0	10.50%	13.50%	9.50%	3.50%	3.50%
5	6.00%	6.25%	4.00%	3.50%	3.50%
10	4.50%	5.00%	3.50%	3.50%	3.50%
15	3.95%	4.50%	3.50%	3.50%	3.50%
20	3.70%	3.70%	3.50%	3.50%	3.50%
25+	3.50%	3.50%	3.50%	3.50%	3.50%

Additionally, until FY 2012 the yearly increase assumption has been decreased from 3.50% to 1.50% for State, PLD, Judges, and Legislators, and 3.50% to 2.10% for Teachers. The table above reflects the standard 3.50% yearly increase.

Appendix A: Participant Data, Assumptions and Methods (continued)

The rates of salary increase in the prior valuation are shown below.

Service	State	Teachers	PLDs	Judges	Legislators
0	10.00%	10.00%	10.50%	4.00%	4.75%
5	7.50%	7.50%	5.00%	4.00%	4.75%
10	5.28%	5.28%	4.50%	4.00%	4.75%
15	6.07%	6.07%	4.50%	4.00%	4.75%
20	4.90%	4.90%	4.50%	4.00%	4.75%
25+	4.75%	4.75%	4.50%	4.00%	4.75%

Demographic Assumptions

Rates of Termination
(experience-based sample rates by service):

Service	State	Teachers	PLDs	PLDs Special
0	30.00%	37.00%	20.00%	25.00%
5	7.50%	12.50%	7.50%	4.00%
10	4.40%	6.00%	2.50%	2.50%
15	3.50%	4.50%	2.50%	2.50%
20	2.00%	3.00%	2.50%	2.50%
25+	2.00%	2.00%	2.50%	2.50%

(experience-based sample rates by age):

Age	Judge & Legislator
25	7.00%
30	6.00%
35	5.00%
40	4.00%
45	3.00%
50	2.00%
55	1.00%

Rates of Healthy Mortality
(experience-based sample deaths per 10,000 members by age):

	Teachers		All Other Plans	
Age	Male	Female	Male	Female
20	5	3	5	3
25	6	3	7	3
30	7	3	9	4
35	8	4	9	5
40	10	6	12	8
45	14	9	17	10
50	24	13	28	15
55	40	21	48	25
60	73	41	8	48
65	133	79	156	93
70	217	125	255	148

Appendix A: Participant Data, Assumptions and Methods (continued)

Demographic Assumptions (continued)

Rates of Disabled Mortality
(experience-based sample deaths per 10,000 members by age):

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

Rates of Retirement
(experience-based sample retirements per 1,000 members by age):

	State		Teachers	
Age	Tier 1	Tier 2	Tier 1	Tier 2
45	28	28	18	18
50	42	42	39	39
55	103	103	106	106
59	200	148	156	156
60	228	148	225	225
61	133	133	139	139
62	268	250	277	277
63	202	202	224	224
64	221	221	223	223
65	478	478	485	485
70	589	589	570	570

Judges: Members in Tier 1 are assumed to retire at age 60. Members in Tier 2 are assumed to retire at a rate of 50% each year from age 62 through age 70.

Legislators: Members in Tier 1 are assumed to retire at age 60. Members in Tier 2 are assumed to retire at age 62.

Participants who are not members of MainePERS: Age 62.

Appendix A: Participant Data, Assumptions and Methods (continued)

Demographic Assumptions (continued)

Rates of Disability
(experience-based sample disablements per 10,000 members by service):

Service	State	Teachers	PLDs	Judges & Legislators
25	6.8	4.6	3	6
30	7.6	5	4	6
35	10.2	5.5	5	7
40	19	6	7	11
45	27.9	15.5	15	22
50	42.7	24.3	33	42
55	81	33	61	72

Participation Percent for Future Retirees: 100% of those currently enrolled (unique to this valuation).

Other Assumptions (Unique to this Valuation)

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

Form of Benefit Payment: Lump Sum

Actuarial Cost Method

To be consistent with past analyses and with the Pension Plan funding, the individual entry age normal method is used to determine liabilities. Under this funding method, a normal cost rate is calculated for each member. 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 member is the product of annual salary and the 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.

Asset Valuation Method

Figures are taken as reported by the MainePERS without audit or change, except that State assets are allocated to State, Judges and Legislators based on total actuarial liability.

Appendix B: Summary of Key Plan Provisions

Summary of Key Plan Provisions

Membership

Service Retirement: A retiree must have participated in the group life insurance program for at least ten years just prior to retirement.

Disability Retirement: An employee must have participated in the group life insurance program immediately prior to disablement.

Basic Insurance

Average final compensation calculated for retirement purposes.

Amount of Insurance for a Retiree

Service Retirement: The Basic Insurance will be reduced by 15% per year until the amount equal to the greater of (a) 40% of the initial Basic Insurance, or (b) $2,500.

Disability Retirement: The amount of basic life insurance in force prior to retirement will be continued until normal retirement age. At normal retirement age, the amount of insurance will be reduced as for service retirement.

Retiree Contributions

State Employees: None

Teachers: None

PLDs: PLD or member must pay $0.46 per month per $1,000 of base benefit, based on the coverage amounts declining from 100% to 40%.

Judges: None

Legislators: None

Normal Retirement Age

The specified age, the years of service requirement, or any age and years of service combination at which a participant may become eligible for unreduced service retirement benefits.

Discontinued Coverages at Retirement

- Supplemental Life
- Accidental Death and Dismemberment
- Dependent Life

(Discontinued coverages may be converted to individual policies at a charge to the MainePERS. Conversion charges are considered a cost of active, not retiree, group life insurance. Therefore, it is not included in these liabilities.)