

Montgomery County Employee Retirement Plans

Comprehensive Annual Financial Report



**Employees' Retirement System
Retirement Savings Plan
Deferred Compensation Plan**
(Trust Funds of Montgomery County, Maryland)

**Fiscal Year 2010
July 1, 2009 – June 30, 2010**

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Deferred Compensation Plan**
(Trust Funds of Montgomery County, Maryland)

**Fiscal Year 2010
July 1, 2009 – June 30, 2010**

Prepared by the Board of Investment Trustees
101 Monroe Street, 15th Floor
Rockville, Maryland 20850



MONTGOMERY COUNTY, MARYLAND
EMPLOYEE RETIREMENT PLANS
Fiscal Year Ended June 30, 2010
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INTRODUCTION SECTION



OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

December 3, 2010

Honorable County Executive and
Members of the Montgomery County Council

I am pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Montgomery County, Maryland (County) Employee Retirement Plans (Plans) for the fiscal year ended June 30, 2010. This annual report is designed to assist you in understanding the structure and current status of the Plans.

FORMAL TRANSMITTAL OF THE CAFR

This report was prepared pursuant to the provisions of Section 33-51(b) of the Montgomery County Code, 2004, as amended (Code), and includes the independent auditors' report, issued by the County Council's appointed independent public accounting firm. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation including all disclosures rests with the County. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the plan net assets and the changes in plan net assets and financial position of the Plans; and that all disclosures necessary to enable the reader to gain the maximum understanding of the financial affairs of the Plans have been included.

PROFILE OF THE RETIREMENT PLANS

History

The Employees' Retirement System (System) was established in 1965, as a cost-sharing multiple-employer defined benefit pension plan providing benefits to the employees of the County and other agencies or political subdivisions who elect to participate. Participating agencies and subdivisions include the: Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, independent fire/rescue corporations, Town of Chevy Chase, Strathmore Hall Foundation, Inc., Washington Suburban Transit Commission, Montgomery County Employees Federal Credit Union, and certain employees of the State Department of Assessments and Taxation and the District Court of Maryland. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and Guaranteed Retirement Income Plan (GRIP) participants. The Montgomery County Council passed legislation in FY 2009 enabling the County to establish and maintain a GRIP, a cash balance plan that is part of the System, for employees. During FY 2010 eligible County employees who were members of the Retirement Savings Plan (RSP) were granted the option to elect to participate in the GRIP and to transfer their RSP member account balance to the GRIP and cease being a member of the RSP. There were 5,786 active members, including 1,019 in the GRIP, and 5,591 retirees participating in the System as of June 30, 2010.

The RSP was established in 1994, as a cost-sharing multiple-employer defined contribution plan providing benefits to all non-public safety and certain public safety employees hired on or after October 1, 1994. Employees covered by the System may make an irrevocable decision to transfer to the RSP. At June 30, 2010, there were 3,839 active plan members.

The Deferred Compensation Plan (DCP) was established pursuant to Section 457 of the Internal Revenue Code, as amended. During Fiscal Year (FY) 1999, in accordance with Federal legislation, the assets of the County Plan were placed in trust for the sole benefit of participants and their beneficiaries.

Benefit Provisions

The benefit provisions of the System are established by the Code. The System provides for normal service retirement and early service retirement benefits for members who attain age and service requirements. The System also provides options for disability and death benefits to eligible participants. Members are vested after five years of service.

The RSP provides for immediate vesting of employee contributions and employer contributions are vested after three years of service or upon death, disability or reaching retirement age.

Major Initiatives

During FY 2010, the Board of Investment Trustees (Board) conducted an asset/liability study for the System which will result in further diversification of the investment portfolio and better management of the System's risk through restructuring the fixed income and real assets portfolios. Toward this effort, the Board approved new investments in the following sectors: long duration fixed income, absolute return strategies, private equity and private real assets. The Board also continued to build risk budgeting capabilities to provide support for recommendations on asset allocation, portfolio structure and manager weightings.

In addition, the Board expanded the investment counseling services provided to RSP participants and negotiated lower fees for the lifecycle funds offerings in the RSP and two fund offerings in the DCP.

Finally, in conjunction with the completion of an actuarial review of the System's experience over the last five years, several of the System's assumptions were updated to better align with actual experience. The System also adjusted its method for amortizing the unfunded actuarial liability.

INFORMATION USEFUL IN ASSESSING THE RETIREMENT PLANS' ECONOMIC CONDITION

Financial Information

Accounting System and Reports

The Plans' financial statements have been prepared under the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due in accordance with the terms of the Plans.

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A), which can be found on pages 15 to 19 of this report, provides a brief analysis of the financial performance of the Plans and an introduction to the financial statements of the Plans for the year ended June 30, 2010.

Investments

Montgomery County has established a Board to be responsible for the investment management of the Plans' assets for the exclusive benefit of the members and participants. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

In overseeing the management of the assets of the Plans, the Board has developed sound and prudent investment policies. The Board believes an appropriate balance must be struck between risks taken and returns sought to ensure the long term health of the defined benefit plan. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. To achieve this objective, System assets are allocated to a broad array of investment sectors as follows: domestic equities 25.5 percent, private equity 6.9 percent, international equities 18.7 percent, fixed income 27.5 percent, inflation indexed bonds 10.2 percent, commodities 4.9 percent, opportunistic 3.2 percent, and private real assets 3.1 percent. For the twelve months ended June 30, 2010, the total return achieved by the System's investments was a gain of 14.45 percent, compared to the gain recorded by the System's benchmark index of 13.51 percent and the actuarial assumed rate of return of 7.5 percent.

Section 33-125 of the Montgomery County Code authorizes the Board to establish, for members of the RSP, a diversified slate of mutual and commingled investment funds from which participants may select options. The Board has developed an investment policy outlining its oversight of the investment products offered.

The Board has also established a diversified slate of mutual and commingled funds for the County Plan which offers a range of options from which participants may select. The Board has constructed an investment policy stipulating investment objectives and oversight by the Board.

Funding

The System's actuary uses a five-year smoothed market-related value to determine the actuarial value of assets. The smoothing prevents extreme volatility in employer contribution rates due to short-term fluctuations in the investment markets. For the June 30, 2010 valuation, the actuarial value of assets was \$2.8 billion and the aggregate actuarial liability was \$3.6 billion, resulting in a funded status ratio of 76.6%. The Schedule of Funding Progress, included as Required Supplementary Information in the Financial Section, expresses the System's actuarial value of assets as a percentage of the actuarial accrued liability, providing one indication of the System's funding status on a going-concern basis. The actuary has determined that the present net asset base, expected future contributions and investment earnings thereon, are sufficient to provide for full payment of future benefits under the projected unit credit actuarial cost method.

Internal Control Structure and Budgetary Controls

The Plans' management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles. We believe the internal controls in effect during the fiscal year ended June 30, 2010 adequately safeguard the Plans' assets and provide reasonable assurance regarding the proper recording of financial transactions. In addition, the Board, in conjunction with the Chief Administrative Officer, approves and actively monitors the annual budgets for each plan. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement.

Independent Audit and Actuarial Certification

An independent auditors' report and actuarial certification are included in this report.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Montgomery County Employee Retirement Plans for its comprehensive annual financial report for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Montgomery County Employee Retirement Plans have received the Certificate of Achievement for the last ten consecutive years. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement program requirements and we are submitting it to the GFOA.

Acknowledgements

The Plans' CAFR was prepared by the Board of Investment Trustees staff in conjunction with staff support from the County's Department of Finance. I would like to express my appreciation to the employees who have worked hard throughout the year to ensure the successful operation of the Plans.

Respectfully submitted,



Timothy L. Firestine
Chief Administrative Officer
Plan Administrator

BOARD OF INVESTMENT TRUSTEES

Kelda J.C. Simpson
Chair
Public Representative
Term Expires March 2011

Gino Renne
Vice Chair
OPT/SLT Bargaining Unit Designee

Joseph Adler
Secretary
Montgomery County Director
Of Human Resources
Ex-Officio Member

George Willie
Public Representative
Term Expires March 2011

Walter E. Bader
Police Bargaining Unit Designee

Jennifer E. Barrett
Montgomery County Director of Finance
Ex-Officio Member

Joseph F. Beach
Montgomery County Director of
Management and Budget
Ex-Officio Member

Jeffrey D. Buddle
Fire & Rescue Bargaining Unit Designee

Stephen B. Farber
Montgomery County Council Staff Director
Ex-Officio Member

J. Lodge Gillespie, Jr.
Montgomery County Council Representative
Term Expires March 2012

Jeffrey Sharpe
Montgomery County Council Representative
Term Expires March 2011

Sunil Pandya
Montgomery County
Department of Liquor Control
Non-Bargaining Unit Representative
Term Expires March 2011

Mary E. Menke
Retired Employees Representative
Term Expires March 2012

ADMINISTRATIVE ORGANIZATION

Administrative Staff

Joseph Adler
Director
Office of Human Resources

Jennifer E. Barrett
Director of Finance

Linda A. Herman
Executive Director
Board of Investment Trustees

Professional Services

Actuary

Mercer Human Resource
Consulting
Washington, DC

Investment Consultants

Wilshire Associates
Pittsburgh, PA

Franklin Park
Philadelphia, PA

Auditor

Clifton Gunderson LLP
Certified Public Accountants
Timonium, MD

Investment Managers-Employees' Retirement System

Adams Street Partners
Chicago, IL

AEW Partners
Boston, MA

BlackRock Financial Management
New York, NY

Bridgewater Associates
Westport, CT

Carmel Partners
San Francisco, CA

First Quadrant L.P.
Pasadena, CA

FLAG Capital Management
Stamford, CT

FX Concepts, Inc.
New York, NY

Goldman Sachs
New York, NY

Grosvenor Capital Management
Chicago, IL

Gryphon International Investment
Toronto, Canada

Hampshire Companies
Morristown, NJ

HarbourVest Partners
Boston, MA

Jennison Associates
Waltham, MA

JP Morgan Investment Management
New York, NY

KPS Capital Partners, LP
New York, NY

Landmark Partners Inc.
Simsbury, CT

LBA Realty
Irvine, CA

Loomis Sayles & Co.
Boston, MA

Marathon London
United Kingdom

Mason Wells
Milwaukee, WI

Mondrian Investment Partners Ltd.
United Kingdom

Nomura Asset Management
New York, NY

Numeric Investors
Cambridge, MA

Odyssey Investment Partners
New York, NY

OFI Trust Company
New York, NY

Pomona Capital
New York, NY

RhumbLine Advisors
Boston, MA

Riverside Partners
Boston, MA

Schroder Investment Management
New York, NY

STW Fixed Income Management
Carpentaria, CA

Systematic Financial Management
Teaneck, NJ

TA Associates
Boston, MA

TA Realty LLC
Boston, MA

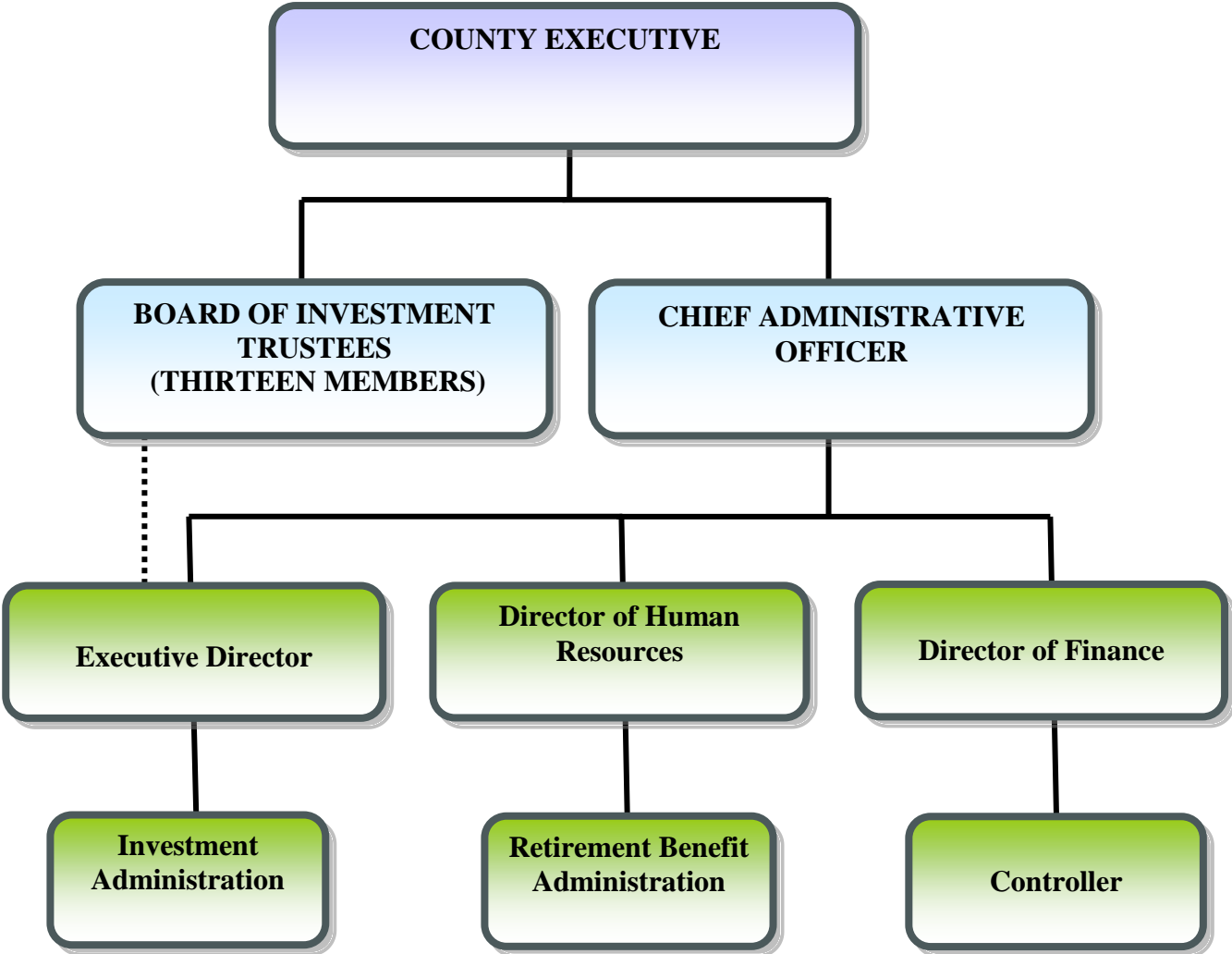
Transwestern Investment Company
Chicago, IL

Wellington Management
Boston, MA

Custodial Bank-Employees' Retirement System

The Northern Trust Company
Chicago, IL

Administrative Organization Chart





FINANCIAL SECTION

Independent Auditor's Report

The Honorable County Council
of Montgomery County, Maryland
Board of Trustees
Montgomery County Employees' Retirement Plans:

We have audited the accompanying statements of plan net assets of the Montgomery County Employees' Retirement Plans (the Plans) as of June 30, 2010, and the related changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plans' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 financial statements referred to above present fairly, in all material respects, the plan net assets of the Plans as of June 30, 2010, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2010 on our consideration of the Plans' internal control over financial reporting and on 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 15 through 19, and the schedules of funding progress and employer contributions on page 33, are not a required part of the basic 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Plans' basic financial statements. The introduction section on pages 4 to 10, the supplementary information, investment section, actuarial section, and statistical section, as listed in the table of contents and shown on pages 34 to 81, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The information in the introduction, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
December 3, 2010



MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) of the Montgomery County Employee Retirement Plans (Plans) financial performance provides an introduction to the financial statements of the Plans as of and for the year ended June 30, 2010. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, it should be read in conjunction with the transmittal letter in the Introduction Section on page 4, the financial statements, required supplementary information, and other supplementary information which follow this discussion.

REQUIRED FINANCIAL STATEMENTS

The financial statements for the Plans have been prepared under the accrual basis of accounting in conformity with U.S. generally accepted accounting principles, promulgated by the Governmental Accounting Standards Board. The Statements of Plan Net Assets comprise the Plans' assets and liabilities and provide information about the nature and amount of investments, as well as the liabilities distinguished as long-term and other liabilities. The Statements of Changes in Plan Net Assets report the changes of the Plans' net assets, measured by the additions by major sources and deductions by type. Comparative financial statements of the three plans are presented in the latter part of the financial section.

FINANCIAL ANALYSIS OF THE MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS

Shown below is a condensed presentation of the Net Assets of the Employees' Retirement System (ERS), Retirement Savings Plan (RSP), and Deferred Compensation Plan (DCP) at June 30:

Net Assets (Millions)						
	ERS		RSP		DCP	
	2010	2009	2010	2009	2010	2009
Assets:						
Cash and investments	\$ 2,656.1	\$ 2,289.7	\$ 131.9	\$ 128.1	\$ 228.6	\$ 201.2
Receivables	23.1	19.7	1.6	1.6	1.4	1.1
Total assets	<u>2,679.2</u>	<u>2,309.4</u>	<u>133.5</u>	<u>129.7</u>	<u>230.0</u>	<u>202.3</u>
Liabilities	236.5	163.4	-	-	-	-
Total net assets	<u><u>\$ 2,442.7</u></u>	<u><u>\$ 2,146.0</u></u>	<u><u>\$ 133.5</u></u>	<u><u>\$ 129.7</u></u>	<u><u>\$ 230.0</u></u>	<u><u>\$ 202.3</u></u>

Shown below is a condensed summary of the Change in Net Assets of the ERS, RSP, and DCP for the years ended June 30:

Change in Net Assets						
(Millions)						
	ERS		RSP		DCP	
	2010	2009	2010	2009	2010	2009
Additions:						
Employer contributions	\$ 114.0	\$ 109.6	\$ 16.4	\$ 20.6	\$ -	\$ -
Member contributions	20.4	18.2	8.8	11.3	17.0	18.1
Transfer of member account asset balances	31.5	-	(31.5)	-	-	-
Net investment income (loss)	304.2	(428.5)	14.2	(26.7)	19.4	(44.5)
Total additions	<u>470.1</u>	<u>(300.7)</u>	<u>7.9</u>	<u>5.2</u>	<u>36.4</u>	<u>(26.4)</u>
Deductions:						
Benefits	169.1	168.6	-	-	-	-
Refunds	1.4	0.7	3.9	3.7	8.7	13.4
Administrative expenses	2.9	2.8	0.2	0.3	-	-
Total deductions	<u>173.4</u>	<u>172.1</u>	<u>4.1</u>	<u>4.0</u>	<u>8.7</u>	<u>13.4</u>
Total change in net assets	<u>\$ 296.7</u>	<u>\$ (472.8)</u>	<u>\$ 3.8</u>	<u>\$ 1.2</u>	<u>\$ 27.7</u>	<u>\$ (39.8)</u>

The following schedules provide a comparative summary and an analysis of each Plans' assets, liabilities and net assets, at June 30:

Employees' Retirement System			
Net Assets			
(Millions)			
	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Assets:			
Cash and investments	\$ 2,656.1	\$ 2,289.7	16.0 %
Receivables	23.1	19.7	17.3
Total assets	<u>2,679.2</u>	<u>2,309.4</u>	16.0
Liabilities:			
Benefits payable and other liabilities	6.6	25.2	(73.8)
Obligations under securities lending agreements	229.9	138.2	66.4
Total liabilities	<u>236.5</u>	<u>163.4</u>	44.7
Total plan net assets	<u>\$ 2,442.7</u>	<u>\$ 2,146.0</u>	13.8 %

The table shown above reflects an increase in the Employees' Retirement System's net assets of \$296.7 million or 13.8 percent during fiscal year (FY) 2010. The increase reflects the recovery of financial markets over the last twelve months resulting in increased investment earnings. In addition, the transfer of 1,022 members to the Guaranteed Retirement Income Plan (GRIP), a cash balance plan within the Employees' Retirement System, contributed to the increase in the net assets. During the previous year, net assets decreased by \$472.8 million.

Retirement Savings Plan			
Net Assets			
(Millions)			
	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Assets:			
Cash and investments	\$ 131.9	\$ 128.1	3.0 %
Receivables	1.6	1.6	-
Total assets	<u>133.5</u>	<u>129.7</u>	2.9
Liabilities			
	-	-	
Total plan net assets	<u>\$ 133.5</u>	<u>\$ 129.7</u>	2.9 %

During FY 2010, net assets increased 2.9 percent to \$133.5 million. The increase is attributable to the recovery of financial markets during FY 2010. Membership in the Retirement Savings Plan decreased from 5,829 to 4,751 primarily due to the member transfers to the Guaranteed Retirement Income Plan (GRIP).

Deferred Compensation Plan			
Net Assets			
(Millions)			
	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Assets:			
Investments	\$ 228.6	\$ 201.2	13.6 %
Receivables	1.4	1.1	27.3
Total assets and plan net assets	<u>\$ 230.0</u>	<u>\$ 202.3</u>	13.7 %

Net assets of the Deferred Compensation Plan increased 13.7 percent to \$230.0 million during FY 2010. The increase is primarily attributable to the recovery of financial markets during the fiscal year.

ADDITIONS

The primary sources of additions for the Plans include member and employer (where applicable) contributions. The net gain is attributable to the recovery of financial markets during FY 2010. The following tables compare the source and amount of additions for each Plan during FY 2010 and FY 2009.

Employees' Retirement System			
Contributions and Investment Income			
(Millions)			
	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Employer contributions	\$ 114.0	\$ 109.6	4.0 %
Member contributions	20.4	18.2	12.1
Transfer of member account asset balances	31.5	-	100.0
Net investment income (loss)	304.2	(428.5)	171.0
	<u>\$ 470.1</u>	<u>\$ (300.7)</u>	256.3 %

During FY 2010, employer contributions to the Employees' Retirement System increased by 4.0 percent and member contributions by 12.1 percent due to an increase in the number of members attributable to Retirement Savings Plan participants transferring to the GRIP.

The net investment gain for the Employees' Retirement System totaled \$304.2 million for FY 2010, comprised of \$246.3 million in net appreciation in fair value of investments, \$73.0 million in dividends and interest, \$0.6 million from securities lending activities, and \$15.7 million related to investment expenses. This is compared to a net investment loss of \$428.5 million in FY 2009. The increase in earnings compared to the previous fiscal year is due to the recovery of financial markets.

Retirement Savings Plan Contributions and Investment Income (Millions)			
	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Employer contributions	\$ 16.4	\$ 20.6	(20.4) %
Member contributions	8.8	11.3	(22.1)
Transfer of member account asset balances	(31.5)	-	(100.0)
Net investment income (loss)	<u>14.2</u>	<u>(26.7)</u>	153.2
	<u>\$ 7.9</u>	<u>\$ 5.2</u>	51.9 %

Employer contributions to the Retirement Savings Plan were \$16.4 million in FY 2010, a decrease of 20.4 percent from FY 2009. Member contributions were \$8.8 million in FY 2010, a decrease of 22.1 percent from FY 2009. The decrease in contributions is due to the election by members to transfer to the GRIP.

The net investment gain is primarily attributable to appreciation in investments during FY 2010.

Deferred Compensation Plan Contributions and Investment Income (Millions)			
	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Member contributions	\$ 17.0	\$ 18.1	(6.1) %
Net investment income (loss)	<u>19.4</u>	<u>(44.5)</u>	143.6
	<u>\$ 36.4</u>	<u>\$ (26.4)</u>	237.9 %

Member contributions to the Deferred Compensation Plan were \$17.0 million for FY 2010, compared to \$18.1 million for FY 2009.

Net investment gain for the Deferred Compensation Plan was \$19.4 million, compared to the net investment loss of \$44.5 million in the previous fiscal year. The gain in FY 2010 is primarily due to the recovery of financial markets during the fiscal year.

DEDUCTIONS

The primary sources of deductions from the Plans include the payment of retiree and survivor benefits, participant refunds, and administrative expenses. The following tables show the use and amount of deductions for each plan during FY 2010 and 2009.

Employees' Retirement System			
Deductions by Type			
(Millions)			
	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Benefits	\$ 169.1	\$ 168.6	0.3 %
Refunds	1.4	0.7	100.0
Administrative expenses	2.9	2.8	3.6
	<u>\$ 173.4</u>	<u>\$ 172.1</u>	0.8 %

During FY 2010, refunds increased due to the change in membership.

Retirement Savings Plan			
Deductions by Type			
(Millions)			
	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Refunds	\$ 3.9	\$ 3.7	5.4 %
Administrative expenses	0.2	0.3	(33.3)
	<u>\$ 4.1</u>	<u>\$ 4.0</u>	2.5 %

The expenses related to the Retirement Savings Plan are comprised of refunds and administrative costs. Administrative expenses for FY 2010 totaled \$0.2 million, a decrease of 33.3 percent over FY 2009 levels.

Deferred Compensation Plan			
Deductions by Type			
(Millions)			
	<u>2010</u>	<u>2009</u>	<u>Percentage Change</u>
Refunds	<u>\$ 8.7</u>	<u>\$ 13.4</u>	(35.1) %

During FY 2010, refunds distributed from the Deferred Compensation Plan decreased by 35.1 percent over the FY 2009 level.

For additional information regarding this report, please contact the Board of Investment Trustees at 240-777-8220.

MONTGOMERY COUNTY, MARYLAND
 STATEMENTS OF PLAN NET ASSETS
 JUNE 30, 2010

	Employees' Retirement System	Retirement Savings Plan	Deferred Compensation Plan
ASSETS			
Equity in County's pooled cash and investments	\$ 1,365,399	\$ 990,100	\$ -
Investments:			
Government and agency obligations	235,631,971	-	-
Municipal/Provincial obligations	7,627,603	-	-
Asset-backed securities	9,343,270	-	-
Corporate bonds	519,898,639	-	-
Collateralized mortgage obligations	2,656,570	-	-
Commerical mortgage-backed securities	190,025	-	-
Common and preferred stock	1,063,949,809	-	-
Mutual and commingled funds	123,408,899	130,892,734	228,645,743
Short-term investments	218,146,254	-	-
Cash collateral received under securities lending agreements	229,936,305	-	-
Real estate	76,182,689	-	-
Private equity	167,767,042	-	-
Total investments	<u>2,654,739,076</u>	<u>130,892,734</u>	<u>228,645,743</u>
Dividend, interest, and other receivables	14,260,259	-	-
Contributions receivable	<u>8,854,999</u>	<u>1,649,030</u>	<u>1,378,094</u>
Total assets	<u>2,679,219,733</u>	<u>133,531,864</u>	<u>230,023,837</u>
LIABILITIES			
Payable for collateral received under securities lending agreements	229,936,305	-	-
Benefits payable and other liabilities	<u>6,591,105</u>	<u>70,251</u>	<u>-</u>
Total liabilities	<u>236,527,410</u>	<u>70,251</u>	<u>-</u>
Net assets held in trust for pension benefits	<u><u>\$ 2,442,692,323</u></u>	<u><u>\$ 133,461,613</u></u>	<u><u>\$ 230,023,837</u></u>

See accompanying notes to financial statements.

MONTGOMERY COUNTY, MARYLAND
 STATEMENTS OF CHANGES IN PLAN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010

	Employees' Retirement System	Retirement Savings Plan	Deferred Compensation Plan
ADDITIONS			
Contributions:			
Employer	\$ 113,957,784	\$ 16,400,574	\$ -
Members	20,431,466	8,871,048	17,028,419
Total contributions	<u>134,389,250</u>	<u>25,271,622</u>	<u>17,028,419</u>
Transfer of member account asset balances	31,529,478	(31,529,478)	-
Investment income	319,294,652	14,213,161	19,411,234
Less investment expenses	<u>15,752,831</u>	<u>22,135</u>	<u>-</u>
Net gain from investment activities	<u>303,541,821</u>	<u>14,191,026</u>	<u>19,411,234</u>
Income from securities lending	763,130	-	-
Less securities lending expenses	<u>119,915</u>	<u>-</u>	<u>-</u>
Net income from securities lending	<u>643,215</u>	<u>-</u>	<u>-</u>
Total additions	<u>470,103,764</u>	<u>7,933,170</u>	<u>36,439,653</u>
DEDUCTIONS			
Retiree benefits	122,861,083	-	-
Disability benefits	38,607,638	-	-
Survivor benefits	7,620,034	-	-
Refunds	1,414,893	3,901,699	8,722,755
Administrative expenses	<u>2,906,988</u>	<u>237,093</u>	<u>-</u>
Total deductions	<u>173,410,636</u>	<u>4,138,792</u>	<u>8,722,755</u>
Net increase	<u>296,693,128</u>	<u>3,794,378</u>	<u>27,716,898</u>
Net assets held in trust for benefits:			
Beginning of year	<u>2,145,999,195</u>	<u>129,667,235</u>	<u>202,306,939</u>
End of year	<u>\$ 2,442,692,323</u>	<u>\$ 133,461,613</u>	<u>\$ 230,023,837</u>

See accompanying notes to financial statements.

**MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS
NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2010

INTRODUCTION

The Montgomery County Employee Retirement Plans (Plans) are offered to Montgomery County (County) employees whose eligibility to participate is based on employment status and other factors. Each of the Plans described below was established under a separate section of the Montgomery County Code (Code). The accompanying notes summarize the significant accounting policies and plan provisions for each of the Plans, including the Employees' Retirement System, a defined benefit pension plan; the Retirement Savings Plan, a defined contribution plan; and the Deferred Compensation Plan, a plan established pursuant to Section 457 of the Internal Revenue Code.

EMPLOYEES' RETIREMENT SYSTEM - Defined Benefit Pension Plan

The Montgomery County Employees' Retirement System (System or Plan) is considered part of the County's financial reporting entity and is included in the County's basic financial statements as a pension and other employee benefit trust fund. The accompanying financial statements present only the operations of the System in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to public employee retirement systems. They are not intended to present fairly the financial position and results of operations of the entire County.

The Montgomery County Council passed legislation in FY 2009 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Plan, for employees. During FY 2010 eligible County employees who were members of the Retirement Savings Plan (RSP) were granted the option to elect to participate in the GRIP and to transfer their RSP member account balance to the GRIP and cease being a member of the RSP. For employees who elected to participate in the GRIP, the \$31.5 million transfer of their account balances from the RSP to the GRIP has been reported as movement of member account asset balances in the accompanying Statement of Changes in Plan Net Assets.

A. Plan Description and Contribution Information

Membership. At June 30, 2010, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	5,591
Terminated plan members entitled to but not yet receiving benefits	376
Active plan members	5,786

Plan Description. The System, a cost-sharing multiple-employer defined benefit pension plan, was established in 1965 and is sponsored by the County. Nine other agencies and political subdivisions have elected to participate. The System is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and GRIP participants. All covered full-time employees of the County and participating agencies must become members of the System as a condition of employment. All covered career part-time employees of the County and participating agencies may become members on an individual basis.

Contributions. The System is a contributory plan with employees contributing a percentage of their base annual salary. Contribution rates range from 4 percent to 9.25 percent of regular earnings annually based on group classification and contributions earn interest at the rate of 4 percent per annum as specified under Section 33-39(b) of the Code. The County and each participating agency are required to contribute the remaining amounts necessary to fund the System using the actuarial basis as specified in Section 33-40 of the Code.

The GRIP, as defined in Section 33-35 of the Code, requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-40 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively.

Benefit Provisions. Benefit provisions are established under the Code beginning with Section 33-35. All benefits vest at five years of service. There are different retirement groups within the System. Members enrolled before July 1, 1978, belong to either the optional non-integrated group or the optional integrated group. Members enrolled on or after July 1, 1978, belong to the mandatory integrated group. Within the groups are different retirement membership classes. The retirement group assigned depends upon the job classification of the member (i.e., non public safety, police, fire, sheriffs and correctional staff). Normal and early retirement eligibility, the formula for determining the amount of benefit, and the cost of living adjustment varies depending upon the retirement group and retirement membership class. Normal retirement is a percentage of earnings multiplied by years of credited service. Earnings for optional non-integrated group members and optional integrated group members is defined as the high 12 months and for mandatory integrated plan members, the high 36 months. The percentage of earnings, the maximum years of credited service and the cost of living adjustment varies depending upon the retirement membership class and group. Members who retire early receive normal retirement benefits reduced by a minimum of 2 percent to a maximum of 60 percent depending on the number of years early retirement precedes normal retirement. The System provides options for disability and death benefits to eligible participants. Annual cost-of-living adjustments are provided to retirees and beneficiaries based on the percentage change in the Consumer Price Index.

Legislation enacted by the Montgomery County Council in November 1999 required the Chief Administrative Officer of the County to establish Deferred Retirement Option Plans, or DROP Plans, allowing any employee who is a member of a specified membership group or bargaining unit, and who meets certain eligibility requirements, to elect to “retire” but continue to work for a specified time period, during which pension payments are deferred. When the member’s participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member’s credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff.

For members of the GRIP, employee contributions vest immediately and employer contributions are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant’s benefit is determined based upon the account balance which includes contributions and earnings.

B. Summary of Significant Accounting Policies

Basis of Accounting. The System’s financial statements have been prepared under the accrual basis of accounting. Member and employer contributions are recognized in the period in which the contributions are required to be made as specified under the County Code. Benefits and refunds are recognized when due in accordance with the terms of the Plan. The cost of administering the Plan is paid by the System.

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2010. Fair value for real estate investments is determined using unit values supplied by the issuers, which are based upon the issuers’ appraisals of underlying real estate values. Such values involve subjective judgment and may differ from amounts which would be realized if such real estate was actually sold. The fair value of limited partnership investments are based on valuations of the underlying assets of the limited partnerships as reported by the general partner. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Equity in County’s Pooled Cash and Investments. The System maintains its cash with the County, which invests cash and allocates interest earned, on a quarterly basis to the System based on the System’s average daily balance of its equity in pooled cash. The County’s policy is to fully collateralize the cash maintained in the pool.

Accounting Changes. The System has adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* which did not have a significant impact on the System's financial statements. The System also adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* resulting in additional disclosures in the System's derivatives footnote.

C. Funded Status and Funding Progress

The funded status of the System as of June 30, 2010, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
\$2,791,144,974	\$3,645,576,341	\$854,431,367	76.6%	\$431,226,155	198.1%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation is as follows.

Valuation date	June 30, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of payroll assuming 4% annual payroll growth.
Amortization period	Closed amortization approach. The period was reset to 18 years as of June 30, 2010. Amortization bases created in the future will be amortized over 20 years.
Asset valuation method	5-Year phase-in of market gains/losses
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases depending on age	4% - 9.25%
Cost-of-living adjustments	3%
Post-retirement Increases	Consumer Price Index - by Group
Mortality rates after retirement	RP 2000 projected 30 years, separate tables for males and females

D. Trustees of the Plan

The County established a Board of Investment Trustees (Board) for the System to be responsible for the investment management of the System's assets for the exclusive benefit of the members. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

E. Investments

Section 33-61C of the Code, authorizes the Board to act with the care, skill, prudence and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes. The Code also requires that such investments be diversified so as to minimize the risk of large losses unless it is clearly not prudent to diversify under the circumstances. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets. The overall investment policies do not address specific levels of credit risk, interest rate risk or foreign currency risk. The Board believes that risks can be managed, but not eliminated, by establishing constraints on the investment portfolios and by monitoring the financial markets, the System's asset allocation and the investment managers hired by the System. Each investment manager has a specific benchmark and investment guidelines appropriate for the type of investments they are managing.

Section 33-60 of the Code prohibits the Board from investing in any bonds, notes, or debt instruments issued by Montgomery County, any political subdivision within Montgomery County, any agency supported or financed wholly or partly by taxes levied by the Montgomery County Council, or any agency supported by bond issues underwritten by Montgomery County.

Credit Risk/Concentration of Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policies and guidelines limit the percentage of the total fund and individual manager's account which can be invested in fixed income securities rated below investment grade. In addition, the Board's investment policies and guidelines limit the percentage of each investment manager's account that may be allocated to any one security, position, issuer or affiliated issuer, to less than 5 percent of the fair value of the investment manager's account. The System does not have investments (other than those issued or explicitly guaranteed by the U.S. Government or pooled investments) in any one company that represents 5 percent or more of net assets held in trust for pension benefits.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2010 are as follows:

Type of Investment	Quality Rating	Fair Value	Percentage of Portfolio
U.S. Government Obligations*	AAA	\$ 56,223,580	6.64%
Foreign Government Obligations	AAA	90,699,909	10.72%
	A	18,945,491	2.24%
	BBB	2,488,945	0.29%
	BB	24,931	0.00%
	AAA	7,470,286	0.88%
Asset-Backed Securities	AA	312,726	0.04%
	BBB	907,341	0.11%
	BB	100,000	0.01%
	B	318,285	0.04%
	CC	62,525	0.01%
	Unrated	172,107	0.02%
	Commercial Mortgage-Backed Securities	BBB	190,025
Collateralized Mortgage Obligations	AAA	675,017	0.08%
	BBB	156,759	0.02%
	BB	205,797	0.02%
	B	261,705	0.03%
	CCC	1,356,727	0.16%
	D	565	0.00%
Municipal/Provincial Bonds	AA	2,947,088	0.35%
	A	4,680,515	0.55%
Corporate Bonds	AAA	4,379,056	0.52%
	AA	42,519,121	5.03%
	A	120,156,248	14.20%
	BBB	73,983,706	8.74%
	BB	58,003,236	6.85%
	B	88,018,079	10.40%
	CCC	32,437,298	3.83%
	CC	991,377	0.12%
	C	1,187,437	0.14%
	D	735,452	0.09%
	Unrated	6,009,993	0.71%
Fixed Income Pooled Funds	Unrated	158,726,751	18.76%
Short-term Investments and Other	Unrated	70,910,620	8.38%
Total Fixed Income Securities		\$ 846,258,698	100.00%

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Board's investment policies and guidelines manage interest rate risk by establishing duration constraints on each fixed income manager's portfolio based on the duration of each manager's respective benchmark. Duration is a measure of interest rate risk based on a bond price's sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up by 8 percent. As of June 30, 2010, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

Type of Investment	Effective Duration in Years	Fair Value	Percentage of Portfolio
U.S. Government Obligations	13.07	\$ 56,223,580	6.64%
Foreign Government Obligations	7.25	112,159,276	13.25%
Asset-Backed Securities	5.96	9,343,270	1.11%
Commercial Mortgage-Backed Securities	5.47	190,025	0.02%
Collateralized Mortgage Obligations	0.01	2,656,570	0.31%
Municipal/Provincial Obligations	12.05	7,627,603	0.90%
Corporate Bonds	7.26	428,421,003	50.63%
Fixed Income Pooled Funds	N/A	158,726,751	18.76%
Short-term Investments and other	N/A	70,910,620	8.38%
Total Fixed Income Securities		<u>\$ 846,258,698</u>	<u>100.00%</u>

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board's International Investing Policy's objective is to achieve long-term capital appreciation and current income by investing in diversified portfolios of non-U.S. equities and bonds. The System has indirect exposure to foreign currency risk as follows:

International Securities	Equity	Fixed Income	Short-term and Other	Total Non-U.S. Dollar
European Currency Unit	\$ 103,430,844	\$ 52,791,302	\$ (39,335,990)	\$ 116,886,156
Japanese Yen	97,327,711	-	14,112,229	111,439,940
British Pound Sterling	51,518,546	26,266,264	4,585,693	82,370,503
Swedish Krona	10,629,974	8,629,624	23,847,454	43,107,052
Swiss Franc	18,019,934	-	13,329,221	31,349,155
Hong Kong Dollar	21,222,312	-	-	21,222,312
Danish Krone	7,629,731	-	-	7,629,731
South Korean Won	2,560,327	1,164,485	-	3,724,812
Indonesian Rupiah	1,517,008	1,851,373	-	3,368,381
Philippine Peso	2,772,995	-	-	2,772,995
Other Currencies	16,727,043	21,246,687	(132,555,381)	(94,581,651)
Total International Securities	<u>\$ 333,356,425</u>	<u>\$ 111,949,735</u>	<u>\$ (116,016,774)</u>	<u>\$ 329,289,386</u>

Derivatives. In accordance with the Board's Derivatives Policy, the System regularly invests in derivative financial instruments in the normal course of its investing activities to manage exposure to certain risks within the fund. During FY 2010, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations, exchange-traded futures contracts, forward currency contracts, swaps, and floating rate securities. Investment managers are prohibited from purchasing securities on margin or using leverage unless specifically permitted within the investment manager's guidelines. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments is associated with the creditworthiness of the related parties to the contracts. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Board's Derivatives Policy seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring

procedures. In addition, the System has indirect exposure to market and credit risk through its ownership interests in certain mutual and commingled funds which may hold derivative financial instruments. The System is not a dealer, but an end-user of these instruments.

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types of derivative financial instruments and do not measure the System's exposure to credit or market risk and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

As permitted by the Board's policies, the System holds off-financial statement derivatives in the form of exchange-traded financial futures, interest rate swaps, foreign currency exchange swaps and foreign currency exchange contracts.

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specified financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay. As of June 30, 2010, the System held 34 long US Treasury futures contracts with a fair value of \$4,384,875 and 30 short US Treasury futures contracts with a fair value of (\$3,676,406).

A swap is an agreement in which party commits to pay a fee in exchange for a return linked to the market performance of an underlying security, group of securities, index or other asset. Risks may arise if the counterparty is unable to meet the terms of the contract. Swaps contain market risk resulting from fluctuations in the value of the reference obligation. As of June 30, 2010, the System held a foreign currency swap with a notional value of \$83,400,000.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Foreign exchange contracts contain market risk resulting from fluctuations in currency rates. The credit risk is associated with the creditworthiness of the related parties to the contracts. As of June 30, 2010, the System held \$199,108,790 buy foreign exchange contracts and (\$326,040,335) sell foreign exchange contracts. The unrealized gain on the System's contracts was \$1,958,300.

Securities Lending. Board policy permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the System's securities for collateral of 102 percent for domestic and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from the borrower is invested by the lending agent, as an agent for the System, in a short-term investment pool in the name of the System, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine. The System records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. On November 21, 2008, the Board began restricting the amount of loans the lending agent could make on its behalf. This restriction remained in place at June 30, 2010 and was removed on July 23, 2010. The agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

As of June 30, 2010, the fair value of securities on loan was \$223,007,286. Cash received as collateral and the related liability of \$229,936,305 as of June 30, 2010, is shown on the Statement of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default. Securities lending revenues and expenses amounting to \$763,130 and \$119,915, respectively, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions at June 30, 2010:

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for Cash Collateral:			
U.S. Government Obligations	\$ 44,698,458	\$ -	\$ 45,422,904
Corporate Bonds	75,279,127	-	77,368,741
Equities	102,976,612	-	107,144,660
Lent for Non-Cash Collateral:			
Equities	53,089	54,661	-
Total	<u>\$ 223,007,286</u>	<u>\$ 54,661</u>	<u>\$ 229,936,305</u>

At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeded the amounts the borrowers owe the System. The System is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2010, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

F. Allocated Insurance Contract

On August 1, 1986, the County entered into an agreement with Aetna Life Insurance Company (Aetna) wherein Aetna accepted future responsibility for monthly payments to all members retired prior to January 1, 1986, in exchange for a lump sum payment. The County is liable for cost of living increases effective January 1, 1986, and later. Monthly payments made under this agreement have not been recognized in the System's financial statements.

G. Income Taxes

The Internal Revenue Service issued a determination letter in January 2003, which stated that the System and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and are exempt from federal income taxes. In the opinion of the plan administrator, the System and its underlying trust have operated within the terms of the System and are qualified under the applicable provisions of the Internal Revenue Code.

RETIREMENT SAVINGS PLAN - Defined Contribution Pension Plan

The Montgomery County Retirement Savings Plan (Plan) is considered part of the County’s financial reporting entity and is included in the County’s basic financial statements as a pension and other employee benefit trust fund. The accompanying financial statements present only the operations of the Plan in conformity with GAAP. They are not intended to present fairly the financial position and results of operations of the entire County.

The Montgomery County Council passed legislation in FY 2009 enabling the County to establish and maintain a Guaranteed Retirement Income Plan (GRIP), a cash balance plan that is part of the Employees’ Retirement System, for employees. During FY 2010 eligible County employees who were members of the Retirement Savings Plan (Plan) were granted the option to elect to participate in the GRIP and to transfer their Plan member account balance to the GRIP and cease being a member of the Plan. For employees who elected to participate in the GRIP, the \$31.5 million transfer of their member account balances from the Plan to the GRIP has been reported as movement of member account asset balances in the accompanying Statement of Changes in Plan Net Assets.

A. Plan Description and Contribution Information

Membership. At June 30, 2010 membership in the Plan consisted of:

Active plan members	3,839
Inactive plan members	912

Plan Description. The Plan, a cost-sharing multiple-employer defined contribution plan, was established in 1994 and is sponsored by the County. Eight other agencies or political subdivisions have elected to participate. All non-public safety and certain public safety employees not represented by a collective bargaining agreement and hired on or after October 1, 1994 are covered by the Plan unless they elect to participate in the GRIP. Eligible employees covered by the Montgomery County Employees’ Retirement System may make an irrevocable decision to transfer to this Plan.

Contributions. Under Section 33-116 of the Code, the Plan requires non-public safety employees to contribute 4 percent of regular earnings up to the Social Security wage base and 8 percent above the Social Security wage base. Public safety employees are required to contribute 3 percent of regular earnings up to the Social Security wage base and 6 percent above the Social Security wage base. Section 33-117 of the Code requires the County and each participating agency to contribute 8 percent and 10 percent of regular earnings for non-public safety and public safety employees, respectively. In accordance with IRS regulations and the County Code, \$400,000 in accumulated revenue was used to reduce employer contributions in FY 2010.

Benefit Provisions. Employee contributions and earnings thereon vest immediately and employer contributions and earnings thereon are vested after three years of service or upon death, disability, or reaching retirement age. Members are fully vested upon reaching normal retirement (age 62) regardless of years of service. At separation, a participant’s benefit is determined based upon the account balance which includes contributions and investment earnings.

B. Summary of Significant Accounting Policies

Basis of Accounting. The Plan’s financial statements have been prepared under the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are required to be made as specified in the County Code. Benefits and refunds are recognized when due in accordance with the terms of the Plan. The cost of administering the Plan is paid by the County and participating agencies.

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2010.

Equity in County’s Pooled Cash and Investments. The Plan maintains its cash with the County, which invests cash and allocates interest earned, on a quarterly basis to the Plan based on the Plan’s average daily balance of its equity in pooled cash. The County’s policy is to fully collateralize the cash maintained in the pool.

C. Trustees of the Plan

The County established a Board of Investment Trustees (Board) for the Trust to oversee the investment program. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

D. Investments

Section 33-125 of the Code authorizes the Board to establish a diversified slate of mutual and commingled investment funds from which participants may select an option. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2010, the fair value of the mutual and commingled investment funds was \$130,892,734, of which \$23,070,180 was invested in international mutual funds.

E. Income Taxes

The Internal Revenue Service issued a determination letter in December 2002, which stated that the Plan and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and are exempt from federal income taxes. In the opinion of the plan administrator, the Plan and its underlying trust have operated within the terms of the Plan and are qualified under the applicable provisions of the Internal Revenue Code.

DEFERRED COMPENSATION PLAN

During FY 2005, the Montgomery County Council passed legislation enabling the County to establish and maintain one or more additional deferred compensation plans for employees covered by a collective bargaining agreement. All County non-represented employees, those County represented employees who elected to participate, and employees who were retired at the time of transfer, continue to participate in the Montgomery County Deferred Compensation Plan administered by the County (the County Plan). County represented employees who elected and all represented employees hired after March 1, 2005 participate in the newly created Montgomery County Union Employees Deferred Compensation Plan (the Union Plan) administered by the bargaining units. The purpose of these Plans is to extend to employees deferred compensation plans pursuant to Section 457 of the Internal Revenue Code of 1986, as amended.

The accompanying financial statements present only the operations of the County Plan in conformity with GAAP. They are not intended to present fairly the financial position and results of operations of the entire County. The assets of the Union Plan are not included in the accompanying financial statements since neither the County nor the Board of Investment Trustees (Board) have fiduciary or other responsibility for the Union Plan except as required by federal law, including any regulation, ruling, or other guidance issued under law.

A. Plan Description and Contribution Information

Plan Description and Contributions. During 1999, in accordance with Federal legislation, the assets were placed in Trust for the sole benefit of participants and their beneficiaries. Trust responsibilities for the County Plan are assigned to the Board. The Board has a third-party administrator contract to provide investment vehicles and administrative services to plan participants. Under the County Plan, contributions are sent to the providers for different types of investments as selected by the participants. A separate account, which reflects the monies deferred, investment of the monies, and related investment earnings is maintained for each participant by the third-party administrator. Withdrawals are made upon retirement, termination of employment, death, and/or in unforeseeable emergencies.

B. Summary of Significant Accounting Policies

Basis of Accounting. The County Plan's financial statements have been prepared under the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are made. Distributions are recognized when paid in accordance with the terms of the County Plan, and administrative costs are recognized as incurred.

Method Used to Value Investments. Investments are stated at fair value. The fair value is generally based on quoted market prices at June 30, 2010.

C. Trustees of the Plan

The County established a Board to oversee the investment program of the County Plan. The Board consists of thirteen members appointed by the County Executive and confirmed by the County Council.

D. Investments

The Board is required to establish a diversified slate of mutual and commingled funds from which participants may select investment options. The Board exercises the Standard of Care as delineated in Section 33-61 of the Code. As of June 30, 2010, the fair value of the mutual and commingled investment funds was \$228,645,743, of which \$30,762,259 was invested in international mutual funds.



REQUIRED SUPPLEMENTARY INFORMATION

Historical trend information about the Employees' Retirement System (System) defined benefit pension plan is presented below as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/05	\$ 2,100,532,623	\$ 2,775,047,412	\$ 674,514,789	75.7 %	\$ 328,459,150	205.4 %
6/30/06	2,222,724,295	2,918,336,073	695,611,778	76.2	340,333,414	204.4
6/30/07	2,469,933,200	3,100,637,723	630,704,523	79.7	352,636,518	178.9
6/30/08	2,701,119,470	3,341,549,425	640,429,955	80.8	372,214,906	172.1
6/30/09	2,736,010,044	3,489,057,559	753,047,515	78.4	376,895,171	199.8
6/30/10	2,791,144,974	3,645,576,341	854,431,367	76.6	431,226,155	198.1

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	\$ 74,655,371	100 %
2006	88,184,159	100
2007	109,436,001	100
2008	117,686,375	100
2009	109,567,014	100
2010	113,957,784	100

SCHEDULE OF ADMINISTRATIVE EXPENSES
EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2010

Personnel Services:	
Salaries and wages	\$ 1,270,716
Retirement contributions	109,351
Insurance	121,894
Social security	89,200
Total personnel services	<u>1,591,161</u>
Professional Services:	
Actuarial	296,444
Independent public accountants	37,376
Outside legal	143,409
Computer technical support	58,228
Temporary	20,827
Total professional services	<u>556,284</u>
Benefit Processing:	
Disbursement services	429,663
Disability management	249,644
Total benefit processing	<u>679,307</u>
Due diligence and continuing education	<u>26,706</u>
Office Management:	
Office equipment and supplies	53,372
Miscellaneous	158
Total office management	<u>53,530</u>
Total administrative expenses	<u>\$ 2,906,988</u>

SCHEDULE OF INVESTMENT EXPENSES
EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2010

Investment Management Expenses:	
Aetna Life Insurance Company	\$ 5,208
BlackRock Financial Management	285,669
Bridgewater Associates	2,231,280
First Quadrant	1,690,332
FX Concepts	1,100,686
Goldman Sachs	469,622
Gryphon International Investment	799,337
Jennison Associates LLC	129,429
JP Morgan Investment Management	1,686,821
Loomis Sayles	603,187
Marathon London	1,225,364
Mondrian Investment Partners Ltd.	695,887
Nomura Asset Management	513,394
Numeric Investors	932,757
OFI Trust Company	371,156
RhumbLine Advisors	10,810
Schroder Investment	671,295
STW	305,687
Systematic Financial Management	378,060
Wellington Management	584,840
The Northern Trust Company	299,125
Bloomberg Financial Systems	19,080
Wilshire Associates	267,300
Abel/Noser Corp.	5,000
KLD Research & Analytics	2,875
Franklin Park	468,630
	<hr/>
Total investment management expenses	15,752,831
	<hr/>
Securities lending borrower rebates	(40,627)
Securities lending agent fees	160,542
	<hr/>
Total securities lending expenses	119,915
	<hr/>
Total investment expenses	\$ 15,872,746
	<hr/> <hr/>

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Equity in County's pooled cash and investments	\$ 1,365,399	\$ 523,857
Investments:		
Government and agency obligations	235,631,971	316,739,428
Asset-backed securities	7,627,603	12,163,832
Municipal/Provincial bonds	9,343,270	-
Corporate bonds	519,898,639	322,886,763
Collateralized mortgage obligations	2,656,570	9,104,627
Commercial mortgage-backed securities	190,025	15,131,578
Common and preferred stock	1,063,949,809	995,018,436
Mutual and commingled funds	123,408,899	73,055,687
Short-term investments	218,146,254	195,559,877
Cash collateral received under securities lending agreements	229,936,305	138,201,569
Real estate	76,182,689	72,158,654
Private equity	167,767,042	139,209,558
Total investments	<u>2,654,739,076</u>	<u>2,289,230,009</u>
Dividend, interest, and other receivables	14,260,259	11,080,736
Contributions receivable	<u>8,854,999</u>	<u>8,584,565</u>
Total assets	<u>2,679,219,733</u>	<u>2,309,419,167</u>
LIABILITIES		
Payable for collateral received under securities lending agreements	229,936,305	138,201,569
Benefits payable and other liabilities	<u>6,591,105</u>	<u>25,218,403</u>
Total liabilities	<u>236,527,410</u>	<u>163,419,972</u>
Net assets held in trust for pension benefits	<u>\$ 2,442,692,323</u>	<u>\$ 2,145,999,195</u>

EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
ADDITIONS		
Contributions:		
Employer	\$ 113,957,784	\$ 109,567,014
Members	20,431,466	18,244,976
	<u>134,389,250</u>	<u>127,811,990</u>
Total contributions		
	<u>134,389,250</u>	<u>127,811,990</u>
Transfer of member account asset balances	31,529,478	-
	<u>31,529,478</u>	<u>-</u>
Investment Income:		
Net appreciation (depreciation) in fair value of investments	246,284,158	(490,726,802)
Dividends and interest	73,010,494	73,066,612
	<u>319,294,652</u>	<u>(417,660,190)</u>
Total income (loss) from investment activities		
	<u>319,294,652</u>	<u>(417,660,190)</u>
Less investment expenses	15,752,831	12,669,404
	<u>15,752,831</u>	<u>12,669,404</u>
Net income (loss) from investment activities		
	<u>303,541,821</u>	<u>(430,329,594)</u>
Income from securities lending	763,130	4,295,939
Less securities lending expenses	119,915	2,490,951
	<u>643,215</u>	<u>1,804,988</u>
Net income from securities lending		
	<u>643,215</u>	<u>1,804,988</u>
Total additions	<u>470,103,764</u>	<u>(300,712,616)</u>
DEDUCTIONS		
Retiree benefits	122,861,083	123,560,071
Disability benefits	38,607,638	37,724,912
Survivor benefits	7,620,034	7,333,268
Refunds	1,414,893	668,160
Administrative expenses	2,906,988	2,803,217
	<u>173,410,636</u>	<u>172,089,628</u>
Total deductions		
	<u>173,410,636</u>	<u>172,089,628</u>
Net increase (decrease)	296,693,128	(472,802,244)
	<u>296,693,128</u>	<u>(472,802,244)</u>
Net assets - beginning of year	<u>2,145,999,195</u>	<u>2,618,801,439</u>
Net assets - end of year	<u>\$2,442,692,323</u>	<u>\$2,145,999,195</u>

RETIREMENT SAVINGS PLAN
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Equity in County's pooled cash and investments	\$ 990,100	\$ 521,775
Investments	130,892,734	127,577,002
Contributions receivable	<u>1,649,030</u>	<u>1,610,148</u>
Total assets	<u>133,531,864</u>	<u>129,708,925</u>
LIABILITIES		
Accrued expenses	<u>70,251</u>	<u>41,690</u>
Net assets held in trust for pension benefits	<u><u>\$ 133,461,613</u></u>	<u><u>\$ 129,667,235</u></u>

RETIREMENT SAVINGS PLAN
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
ADDITIONS		
Contributions:		
Employers	\$ 16,400,574	\$ 20,625,065
Members	8,871,048	11,262,814
Total contributions	25,271,622	31,887,879
Transfer of member account asset balances	(31,529,478)	-
Investment income (loss)	13,655,212	(27,068,724)
Other income	557,949	371,852
Net investment income (loss)	14,213,161	(26,696,872)
Less investment expenses	22,135	25,185
Total additions	7,933,170	5,165,822
DEDUCTIONS		
Refunds	3,901,699	3,669,059
Administrative expenses	237,093	300,190
Total deductions	4,138,792	3,969,249
Net increase	3,794,378	1,196,573
Net assets - beginning of year	129,667,235	128,470,662
Net assets - end of year	\$ 133,461,613	\$ 129,667,235

DEFERRED COMPENSATION PLAN
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Investments	\$ 228,645,743	\$ 201,253,401
Contributions receivable	<u>1,378,094</u>	<u>1,053,538</u>
Total assets and net assets held in trust for pension benefits	<u>\$ 230,023,837</u>	<u>\$ 202,306,939</u>

DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
ADDITIONS		
Contributions - members	\$ 17,028,419	\$ 18,057,590
Investment income (loss)	<u>19,411,234</u>	<u>(44,478,616)</u>
Total additions	<u>36,439,653</u>	<u>(26,421,026)</u>
DEDUCTIONS		
Member refunds	<u>8,722,755</u>	<u>13,390,844</u>
Total deductions	<u>8,722,755</u>	<u>13,390,844</u>
Net increase (decrease)	27,716,898	(39,811,870)
Net assets - beginning of year	<u>202,306,939</u>	<u>242,118,809</u>
Net assets - end of year	<u><u>\$ 230,023,837</u></u>	<u><u>\$ 202,306,939</u></u>



INVESTMENT SECTION

Employees' Retirement System

EMPLOYEES' RETIREMENT SYSTEM

INVESTMENT PERFORMANCE, POLICY, STATISTICS AND ACTIVITY

The Board of Investment Trustees (Board) and the investment staff are responsible for managing the \$2.4 billion fund, Employees' Retirement System (the System), invested solely in the interests of its beneficiaries. It is a significant responsibility due to the majority of the average retiree benefit coming from investment earnings on contributions from members, the County, and participating agencies. According to Wilshire Associates, a national consulting firm, the median return among U.S. public pension plans over \$1 billion in size in FY 2010 was a gain of 13.50%, net of fees. The System's return for the fiscal year was a gain of 13.88% net of fees, ranking at the median of this universe of comparable pension funds. The study also ranked the System's three-year loss of 2.30% in the top quartile (20th percentile) and its five-year return of 3.72% in the top quartile (23rd percentile). The gross returns for the one-year period exceeded the performance benchmark established by the Board by 94 basis points, with returns for the three-year and five-year periods both exceeding the performance benchmarks by 67 basis points and 70 basis points, respectively. The key drivers of the performance for the twelve month period ending June 30, 2010 were the System's public equity, fixed income and global inflation-protected bond managers.

In the investment of public funds, adequate funding of employee retirement benefits at a reasonable and affordable cost is a paramount concern. An appropriate balance must be struck between risks taken and returns sought to ensure the long term health of the System. The Board has adopted an investment policy that works to control the extent of downside risk to which the System is exposed while maximizing the potential for long term increases in the value of assets.

Specific investment objectives include:

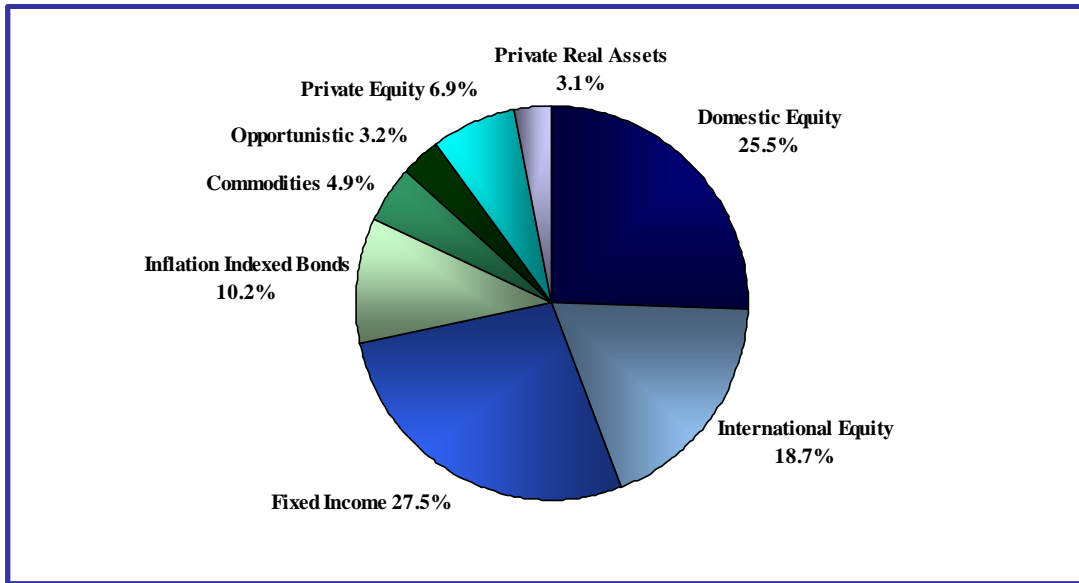
- To realize the actuarial assumed rate of return of 7.5 percent, annually.
- To manage portfolio risk so as to limit potential downside fluctuations in the value of the total System assets.
- To realize as high a rate of total return as possible consistent with the above.

To achieve these objectives, the following investment policies are employed:

- Allocate System assets to a broad array of investment sectors and strategies.
- Maintain the asset allocation within a range of +/-3% from the target.
- Monitor the individual investment manager's market value to ensure compliance with the Board's Manager Funding Policy.
- Evaluate the performance of all investment managers against their specific performance and style objectives, assigned risk, and the returns achieved by other similar managers.
- Evaluate the System's overall risk exposure and modify investments through rebalancing when necessary.

During FY 2010, the Board of Investment Trustees (Board) conducted an asset/liability study for the ERS which will result in further diversification of the investment portfolio and better management of the System's risk through restructuring the fixed income and real assets portfolios. Toward this effort, the Board approved new investments in the following sectors: long duration fixed income, absolute return strategies, private equity and private real assets. The Board also continued to build risk budgeting capabilities to provide support for recommendations on asset allocation, portfolio structure and manager weightings.

ASSET ALLOCATION – JUNE 30, 2010



INVESTMENT PERFORMANCE SUMMARY

ANNUALIZED DATA FOR PERIOD ENDING JUNE 30, 2010

	1 Year	3 Year	5 Year
Total Fund Time-Weighted Returns			
MCERS	14.45 %	(1.98) %	4.08 %
Policy Benchmark	13.51	(2.65)	3.38
Total Domestic Equities Return			
MCERS	16.52	(8.56)	0.41
Russell 3000	15.72	(9.47)	(0.48)
Total Private Equities Return			
MCERS	12.10*	(1.90)*	2.00*
Russell 3000 + 300 Bpts	17.30*	(4.80)*	(0.60)*
Total International Equities			
MCERS	15.12	(6.26)	6.53
MSCI All Country World X US	10.43	(10.70)	3.38
Total Private Real Assets			
MCERS	(22.82)*	(17.68)*	N/A
CPI + 500 Bpts	5.99**	6.12**	N/A
Total Fixed Income			
MCERS	19.00	6.64	5.50
Policy Benchmark	15.10	7.88	6.23
Total Commodities			
MCERS	2.54	N/A	N/A
Policy Benchmark	2.75	N/A	N/A
Total Global Inflation Indexed Bonds			
MCERS	14.87	10.50	6.98
Custom IIB Benchmark	8.29	7.35	5.00

Return data for the System was calculated on a time weighted basis (except where noted). Returns shown are provided by the System's custodian bank, The Northern Trust Company. Valuations are based on published national securities exchange prices, where available, and all valuations are reconciled between the various investment managers and the custodian bank. Returns are gross of fees paid to investment managers except where noted.

*Returns computed on dollar-weighted basis and are net of investment management fees.

** Benchmark comparison is not meaningful at this time due to the short investment history of the System private real assets program.

PORTFOLIO HIGHLIGHTS

PUBLIC EQUITY

The market value of the total Public Equity Portfolio as of June 30, 2010 represented approximately 44.2% of the total fund, split between Domestic Equity at 25.5% and International Equity at 18.7%. The Domestic Equity Portfolio outperformed the Russell 3000 Benchmark by 0.80% for the one year ending June 30, 2010. The United States economy continued to recover during the fiscal year from one of the deepest recessions on record. The equity markets rallied strongly during the first three quarters; however, the last quarter saw a decline as weaker economic reports, along with the European debt crises and a slowing economy in China raised concerns about the global economic recovery.

The International Equity Portfolio was allocated as follows: 78.8% active EAFE, 4.6% passive EAFE and 16.6% active emerging markets (EM). The International Equity Portfolio outperformed the MSCI ACWI ex US benchmark by 4.69% for the one year ending June 30, 2010. The international markets ended the fiscal year in positive territory with the emerging markets outperforming their developed counterparts. The strong momentum of the international markets continued until the fourth quarter of the fiscal year when the economic crises in the eurozone drove global risk aversion higher and threatened global growth.

Equity: Top 15 Holdings

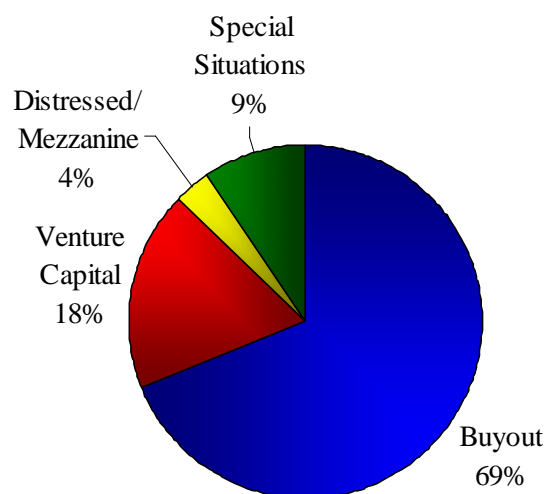
The top 15 holdings in the Public Equity Portfolio comprised 3.1% of ERS assets at June 30, 2010. In comparison to the top 15 holdings of last year, Novartis, Li & Fung, BNP Paribas, Heineken, Fresenius, Schneider Electric, Inditex, Johnson & Johnson, Terumo, Microsoft remained and Apple, Kingboard Chemical, Siemens, General Electric, and Pepsico were added.

Equity	Shares	Value
Novartis AG	129,516	\$ 6,317,561
Li & Fung	1,334,800	6,025,082
Apple Inc.	22,216	5,587,990
BNP Paribas	101,285	5,554,345
Heineken NV	121,276	5,179,972
Fresenius	74,828	4,972,382
Schneider Electric	48,153	4,933,305
Inditex	84,369	4,865,933
Kingboard Chemical	1,084,000	4,705,085
Siemens Ag	50,755	4,601,808
Johnson & Johnson	75,250	4,444,265
Terumo Corp	87,800	4,246,627
General Electric	290,040	4,182,377
Microsoft Corp	181,740	4,181,837
Pepsico	66,737	4,067,620

PRIVATE EQUITY

The System began investing in private equity in 2003 to achieve returns greater than those available in the public equity markets and to gain exposure to diversified alpha sources. At June 30, 2010, the Private Equity Portfolio comprised 6.9% of total fund assets. Approximately 56% of the dollars committed have been called. The Private Equity program seeks to outperform the Russell 3000 Index by 3% annually. System returns are calculated on a dollar-weighted or internal rate-of-return basis, and the annualized return since inception (2003) through June 30, 2010 was 2.2%. By comparison, the dollar-weighted return for the Russell 3000 Index plus 3% for the same period was -0.1%.

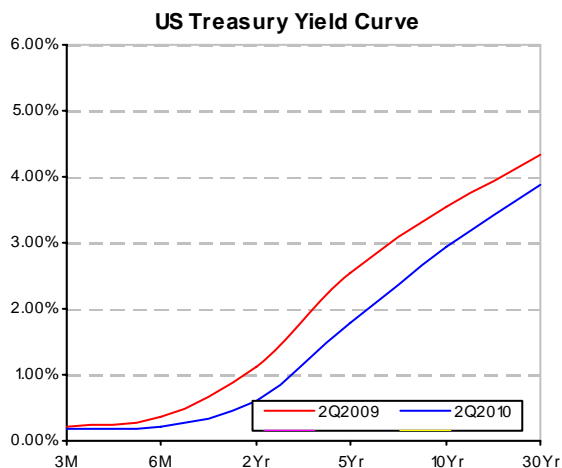
During the fiscal year, credit market conditions improved which allowed the volume and average size of private equity deals to increase compared to the prior year. Exit activity for portfolio companies also increased, with corporate acquisitions, transactions between private equity firms, and public offerings all rising.



PORTFOLIO HIGHLIGHTS

FIXED INCOME

The System invests a portion of its portfolio in fixed income securities to reduce total fund volatility, produce income and provide a measure of protection in the event of a slowing economic environment, where these lower volatility assets should provide downside protection. The market value of the Fixed Income Portfolio as of June 30, 2010 represented approximately 26.7% of the total fund. The Fixed Income Portfolio returned 19.00%, outperforming the benchmark return of 15.10% during the fiscal year. Returns were strong as Treasury yields fell and investor risk appetite returned in search of higher yields. Credit spreads narrowed from extremely wide levels while Treasury yields remained at historically low levels.



The last twelve months for the fixed income markets has been a period of recovery from the credit crisis. The markets saw improved liquidity, fundamentals, and investor sentiment throughout the fiscal year. The Federal Reserve kept the Fed Funds Rate at a target range of 0% to 0.25% and reiterated their view that current economic conditions warrant exceptionally low levels for an extended period of time. The Fed also continued quantitative easing measures to keep longer interest rates low in an effort to stimulate the economy. The change in the US Treasury Yield Curve (see above) reflects a move to safety on investor concerns the global economic recovery may not be as strong and take longer than anticipated.

Fixed Income: Top 15 Holdings

Fifteen Largest Fixed Income Holdings	Interest Rate	Maturity Date	Fair Value
United States Treasury Bonds	4.375 %	November 15, 2039	\$ 17,585,560
United States Treasury Bonds	6.250	August 15, 2023	14,213,381
Wachovia Bank Medium Term Note	6.600	January 15, 2023	5,349,698
United States Treasury STRIPS	0.000	November 15, 2021	5,233,642
HSBC Bank Medium Term Note	7.000	January 15, 2039	5,209,188
United States Treasury Bonds	3.500	February 15, 2039	4,658,464
Kraft Foods	6.500	February 9, 2040	4,600,806
France Index Linked Government Bonds	2.250	July 25, 2020	4,576,618
General Electric Medium Term Note	6.875	January 10, 2039	4,438,611
France Index Linked Government Bonds	1.000	July 25, 2017	4,335,350
Citigroup	8.125	July 15, 2039	4,263,700
ConocoPhillips	6.500	February 15, 2039	4,130,057
Canada Index Linked Government Bonds	4.000	December 1, 2031	4,080,133
Dow Chemical	9.400	May 15, 2039	4,068,061
Met Life Inc.	7.717	February 15, 2019	4,040,797

A complete list of the portfolio holdings can be obtained by contacting the Board of Investment Trustees office.

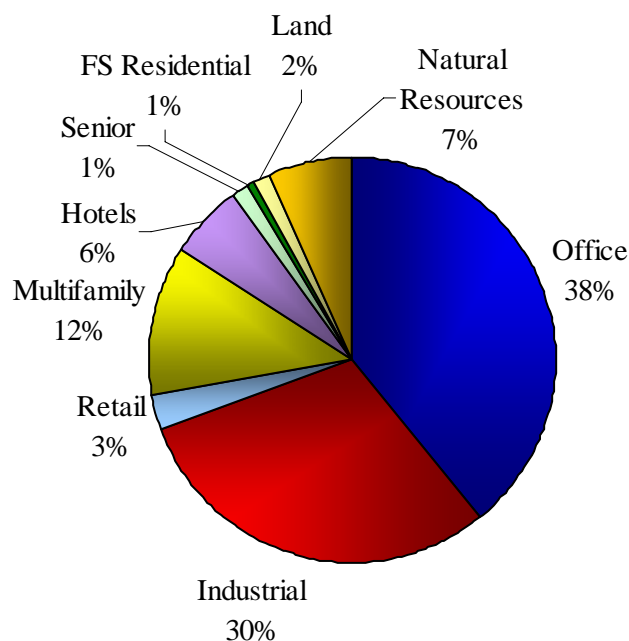
PORTFOLIO HIGHLIGHTS

REAL/INFLATION HEDGE ASSETS

Private Real Assets

The System began investing in value-added and opportunistic private real estate and natural resources in 2006 to attain real returns less correlated with the broad securities markets. Returns are computed on a dollar-weighted or internal rate-of-return basis, and from inception (2006) to June 30, 2010 the investments generated an annualized loss of 16.6%. By comparison, the dollar-weighted return for the benchmark CPI + 5% for the same period was a gain of 6.2%. The Private Real Assets Portfolio comprised 3.1% of the ERS portfolio at June 30, 2010 with approximately 53% of the total capital committed to private real assets being contributed.

During the fiscal year, there was a global rebound in real estate transaction activity, led by emerging markets like China and high-quality, stabilized assets in developed countries. In the U.S., real estate fundamentals still appear weak. The long-term nature of lease contracts makes real estate a lagging economic indicator and the prolonged period of high unemployment may translate to further deterioration in property income. Energy investment markets have shown significantly improved deal volume, as many industry participants divest from conventional properties and redirect resources toward unconventional ones.



Global Inflation-Indexed Bonds

The System allocates a portion of fund assets to inflation-indexed bonds which provide protection against inflation risk as well as providing a diversified return stream to manage volatility. The Inflation-Indexed Bond Portfolio represented 10.2% of the total fund. The Portfolio, which also includes an absolute return fund, returned 14.87% during the fiscal year, outperforming the benchmark by 6.58%.

The returns on Global Inflation-Indexed bonds were positive overall during the fiscal year. Performance of our portfolio benefited from opportunistic allocations to developed market currencies, developed market nominal bonds and certain commodity positions through the manager's actively managed portfolio.

Inflation-Indexed Bonds - Country Exposures	
United States	40.4 %
Euroland	29.9
United Kingdom	14.9
Sweden	4.9
Canada	9.9

PORTFOLIO HIGHLIGHTS

Commodities

The System began investing in commodities in January 2009 to further diversify the portfolio to reduce risk and to provide a hedge against unexpected inflation. The Commodities Portfolio represented 4.9% of the total fund as of June 30, 2010. The Portfolio returned 2.5%, underperforming the benchmark by 0.21% for the one year ending June 30, 2010.

The commodities markets advanced during the first half of the fiscal year as the world economy shifted into recovery mode. However, advances were reversed during the second half of the fiscal year as concerns surfaced about the strength of the recovery. The strong gains in the metals sector were offset by the decline of the energy sector during the fiscal year ending June 30, 2010.

INVESTMENT MANAGERS

The diversified investment structure as of June 30, 2010 is reflected in the following table, which lists MCERS managers by investment sector and style.

Public Equity	Investment Style	Foreign Currency	Investment Style
Domestic Equity		First Quadrant*	Foreign Currency
BlackRock Russell 1000 Fund*	Russell 1000 Index	FX Concepts*	Foreign Currency
RhumbLine Advisors	Russell 1000 Index		
Numeric Investors*	Amplified Core	Commodities	Investment Style
JP Morgan*	Large Cap Core Plus	OFI Institutional*	Active
Systematic Financial Mgt.	Large Cap Value	Schroder Investment Mgt.*	Active
Goldman Sachs	Large Cap Growth		
Wellington	Small Cap Value	Opportunistic	Investment Style
Numeric Investors	Small Cap Growth	Grosvenor*	Fund-of-Funds
International Equity		Private Equity	Investment Style
Marathon	EAFE	Adams Street*	Fund-of-Funds
Gryphon	EAFE	HarbourVest*	Fund-of-Funds
Mondrian*	Emerging Markets	KPS Capital Partners*	Turnaround
BlackRock EAFE Fund*	EAFE Index	Landmark*	Fund-of-Funds
		Mason Wells*	Buyouts
Fixed Income	Investment Style	Odyssey Inv. Partners.*	Buyouts
JP Morgan	Core Plus	Pomona Capital*	Fund-of-Funds
BlackRock	Core Plus	Riverside Partners*	Buyouts
STW	Long Duration	TA Associates*	Growth Equity
Jennison Associates	Long Duration		
Nomura	High Yield	Private Real Assets	Investment Style
Loomis Sayles	High Yield	AEW Capital*	Opportunistic
BlackRock US Debt Fund*	BC US Aggregate Index	Carmel Partners*	Value-Added
		FLAG Capital Mgt.*	Fund-of-Funds
Inflation-Indexed Bonds	Investment Style	Hampshire Companies*	Value-Added
Bridgewater*	Inflation Indexed Bonds	LBA Realty*	Value-Added
		TA Associates Realty*	Value-Added
		Transwestern Inv. Co.*	Value-Added

* Pooled Funds

PORTFOLIO HIGHLIGHTS

PUBLIC EQUITY COMMISSIONS

JULY 1, 2009 THROUGH JUNE 30, 2010

Brokers	Commissions (thousands)
Liquidnet Inc.	\$ 87
Investment Technology Group, Inc.	75
Merrill Lynch Pierce Fenner & Smith, Inc.	73
Morgan Stanley & Co., Inc.	69
Credit Suisse First Boston Corporation	54
Goldman Executing & Clearing	52
Barclays Capital LE	38
UBS Warburt LLC	32
Jefferies & Company, Inc.	31
Instinet	27
Other Brokers (137 brokers)	320
Total	\$ 858





ACTUARIAL SECTION
Employees' Retirement System



Board of Investment Trustees
Montgomery County Government Retirement System
101 Monroe Street
Rockville, MD 20850

November 29, 2010

Subject: July 1, 2010 Actuarial Valuation Report

Dear Members of the Board:

Mercer annually performs an actuarial valuation of the Montgomery County Employees' Retirement System. The most recent actuarial valuation performed was as of July 1, 2010. The actuarial valuation report was prepared exclusively for the following purposes:

- Review experience under the Plan for the year ending June 30, 2010
- Determine the liabilities of the Plan as of July 1, 2010
- Determine the contribution to be paid biweekly during the fiscal year ending June 30, 2012

The actuarial information in this letter is provided in detail in our valuation report.

Valuation Results

Sections II through IV of the valuation report detail the results of the 2010 valuation, including a breakdown by employee group and plan. This valuation uses the new demographic and economic assumptions based on the recent experience study.

County Contributions

Contributions are computed using the Projected Unit Credit method of funding. The objective of this method is to fund each participant's benefits under the Plan, as they would accrue, taking into consideration future salary increases. Thus, the total pension to which each participant is expected to become entitled is broken down into units, each associated with a year of past or future credited service.

If all actuarial assumptions are met in the future and if there are no plan changes, the County contribution as a percentage of the payroll covered by this plan may begin to slowly decrease. This is because the closure of the plans to new non-public safety members, which had been in effect for many years, ended effective July 1, 2009. Members of the defined contribution plan on that date and future hires are able to elect to participate in the Guarantee Retirement Income Plan, a cash balance form of benefits in this plan.

The July 1, 2010 actuarial valuation sets the County's contribution rates for the fiscal year ending June 30, 2012. The rates are set separately for public safety, non-public safety, and GRIP-participating employee groups and will be applied to each group's total covered payroll for the fiscal year 2012. Thus, the exact dollar amount of the required contribution will not be known until the end of the fiscal year 2012. The contribution rates for fiscal year 2012 were determined based on the total payroll at July 1, 2010, with the understanding that no general wage adjustments were given for FY11.

Investments

During the 2009-2010 plan year, the rate of return after investment expenses on the market value of assets was 14.10%. On a market value basis, the return was \$131.6 million more than the 8% assumed rate of return. This \$131.6 million gain is phased in over a five-year period. Gains and losses from 2009-2010 and prior years produced a net loss on an actuarial value of assets basis. As of July 1, 2010, net investment losses of \$348.5 million had not yet been recognized in the actuarial value of assets.

The 2010 valuation was based on an actuarial value of assets of \$2,791,144,974. The FY2012 contribution would be \$25.3 million higher if based on the market value of assets.

To prepare the valuation report, Mercer has used and relied on financial data supplied by the County and summarized in the valuation report.

Aetna Contract

The value of the Aetna non-participating group-annuity contract is excluded from all calculations.

Plan Provisions

The July 1, 2010 valuation reflects the following plan changes applicable to groups A, E, F, G and H.

- Elimination of Imputed Pay: Employees on July 1, 2010 in all groups receive benefits based on their actual gross pay except that imputed pay is included for the 2009-2010 plan year.
- Unreduced benefit commencement date provision clarification for current and future terminated vested members: The unreduced benefit commencement date for groups A and H is age 60. The comparable date for groups E, F, and G members is age 70 ½ for members who are not 55 years old with 15 years of service at their termination date.
- Retirement Incentive Program: The Retirement Incentive Program provided enhanced benefits to 64 group A and H participants. Each retiree received up to a \$35,000 lump sum payment. The early retirement reductions that would normally apply were reduced for some participants and eliminated for others.

Actuarial Assumptions and Methods

In order to quantify plan liabilities, a number of actuarial assumptions need to be set. The 2010 valuation reflects the several changes in assumptions and a change in method arising from the recent experience study.

Please see the Actuarial Assumptions and Methods section of this CAFR for details.

All other assumptions and methods are the same as in the 2009 valuation. The actuarial assumptions used in the current valuation as well as changes in actuarial assumptions since the 2009 valuation are described in detail in Section VI of the valuation report.

Participant Data (including GRIP data as of June 30, 2010)

Between June 30, 2009 (excluding GRIP) and June 30, 2010 (including GRIP), there was an 8.4% increase in the number of plan members. The total number of active members increased by 15.4%, from 5,012 to 5,786 (including 1,008 GRIP members as of June 30, 2010), and their total payroll increased from \$376.0 million to \$431.2 million (including \$67.6 million in GRIP payroll as of June 30, 2010).

Aetna provided the retiree data, including benefits. The County provided data on active and terminated vested members. To prepare the valuation report, Mercer has used and relied on participant data supplied by the County and Aetna and summarized in the valuation report. The County is responsible for ensuring that such participant data provides an accurate description of all persons who are participants under the terms of the plan or otherwise entitled to benefits as of June 30, 2010 that is sufficiently comprehensive and accurate for the purposes of the valuation report. Although Mercer has reviewed the data in accordance with Actuarial Standards of Practice No. 23, Mercer has not verified or audited any of the data or information provided.

Supplementary Information

The July 1, 2010 actuarial valuation report also provides supplemental information, including the schedule of funding progress. This schedule is presented in the financial section of this Comprehensive Annual Financial Report (CAFR). This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and to provide a means for making comparisons with other public employee retirement systems.

The County extracted the information from the July 1, 2010 valuation report for the following schedules in the actuarial section and the statistical section of this CAFR.

- Summary of Results
- System Contribution
- Membership
- Actuarial Assumptions and Methods
- Solvency Test

Important Notices

A valuation report is a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a plan's future financial condition or its ability to pay benefits in the future. Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, plan expenses and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date, but are assumed to fall within a reasonable range of possibilities.

Because modeling all aspects of a situation is not possible or practical, we may use summary information, estimates, or simplifications of calculations to facilitate the modeling of future events in an efficient and cost-effective manner. We may also exclude factors or data that are immaterial in our judgment. Use of such simplifying techniques does not, in our judgment, affect the reasonableness of valuation results for the plan.

To prepare the valuation report, actuarial assumptions are used in a forward looking financial and demographic model to select a single scenario from a wide range of possibilities; the results based on that single scenario are included in the valuation. The actuarial assumptions are described in the valuation report. The future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material because these results are very sensitive to the assumptions made and, in some cases, to the interaction between the assumptions.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a very long period of time, no one projection is uniquely "correct" and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different

views of the future. A "sensitivity analysis" shows the degree to which results would be different if we substitute alternative assumptions within the range of possibilities for those utilized in this report. We have not been engaged to perform such a sensitivity analysis and thus the results of such an analysis are not included in the valuation report.

Actuarial assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. A change in assumptions is not an indication that prior assumptions were unreasonable when made.

Because valuations are a snapshot in time and are based on estimates and assumptions that are not precise and will differ from actual experience, contribution calculations are inherently imprecise. There is no uniquely "correct" level of contributions for a plan year.

Valuations do not affect the ultimate cost of the System, only the timing of contributions into the System. Plan funding occurs over time. Contributions not made this year, for whatever reason, including errors, remain the responsibility of the System sponsor and can be made in later years. If the contribution levels over a period of years are lower or higher than necessary, it is normal and expected practice for adjustments to be made to future contribution levels to take account of this with a view to funding the plan over time.

The assumptions used are based on the 2010 experience study, as adopted by the County. The County is responsible for selecting the plan's funding policy, actuarial valuation methods, asset valuation methods, and assumptions. The policies, methods and assumptions used in this valuation are those that have been so prescribed and are described in the valuation report. The County is solely responsible for communicating to Mercer any changes required thereto.

Mercer has also used and relied on the plan documents, including amendments, and interpretations of plan provisions, supplied by the County. We have assumed for purposes of this valuation that copies of any official plan document including all amendments and collective bargaining agreements as well as any interpretations of any such document have been provided to Mercer along with a written summary of any other substantive commitments. The County is solely responsible for the validity, accuracy and comprehensiveness of this information. If any data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this report. Moreover, plan documents may be susceptible to different interpretations, each of which could be reasonable, and that the different interpretations could lead to different valuation results.

Professional qualifications

I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in the valuation report. I am not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, that would impair the objectivity of Mercer's work.

Respectfully submitted,



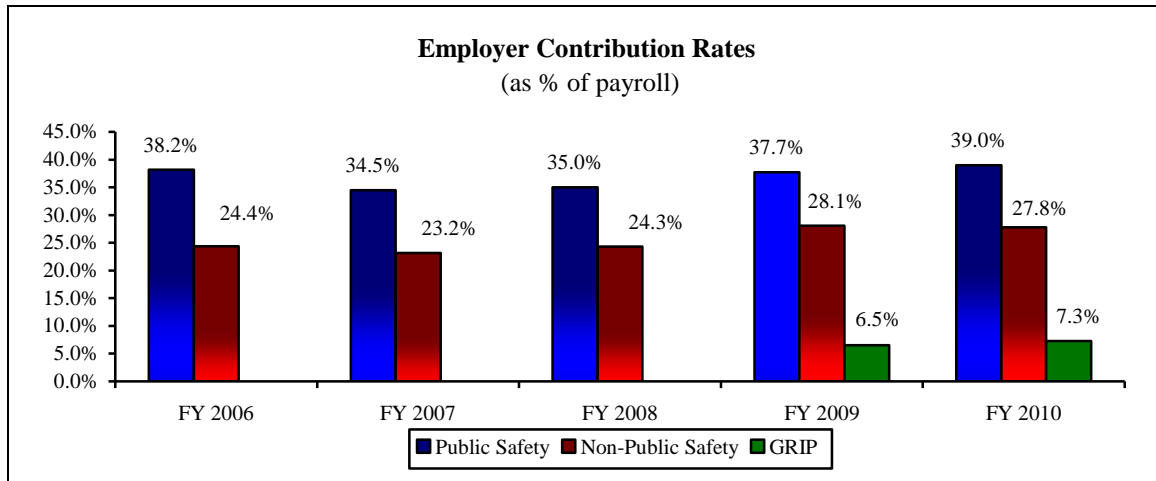
Douglas L. Rowe, FSA, EA, MAAA
Principal

SUMMARY OF VALUATION RESULTS EMPLOYEES' RETIREMENT SYSTEM

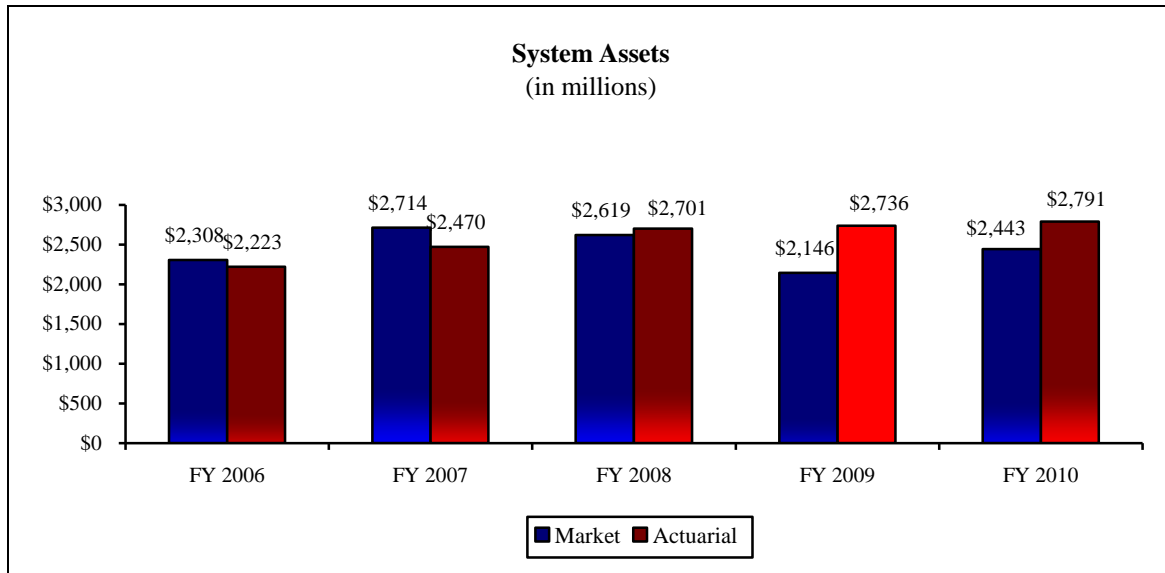
A. Overview

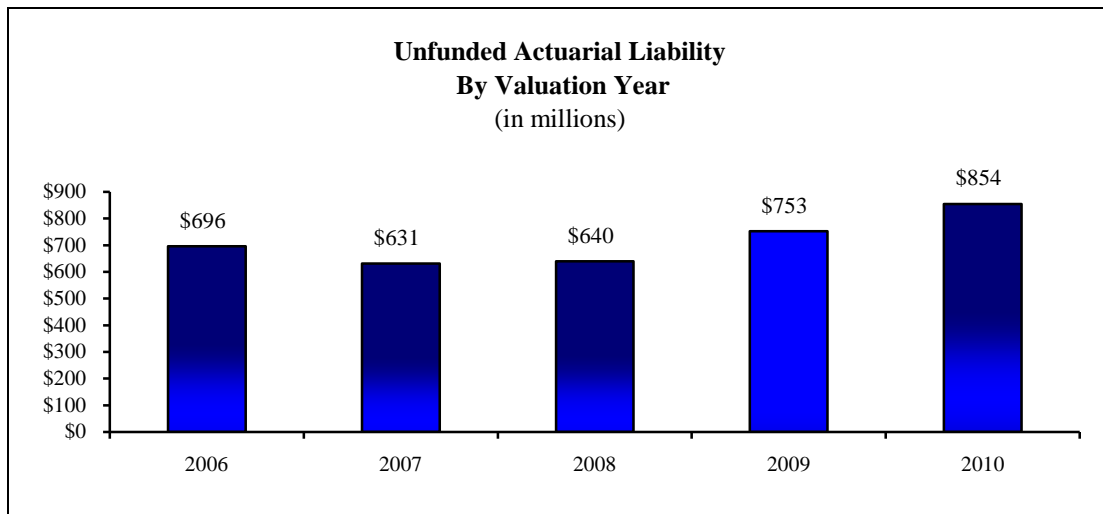
This report presents the results of our June 30, 2010 actuarial valuation of the Montgomery County Employees' Retirement System.

The major findings of the valuation are summarized in the following charts:

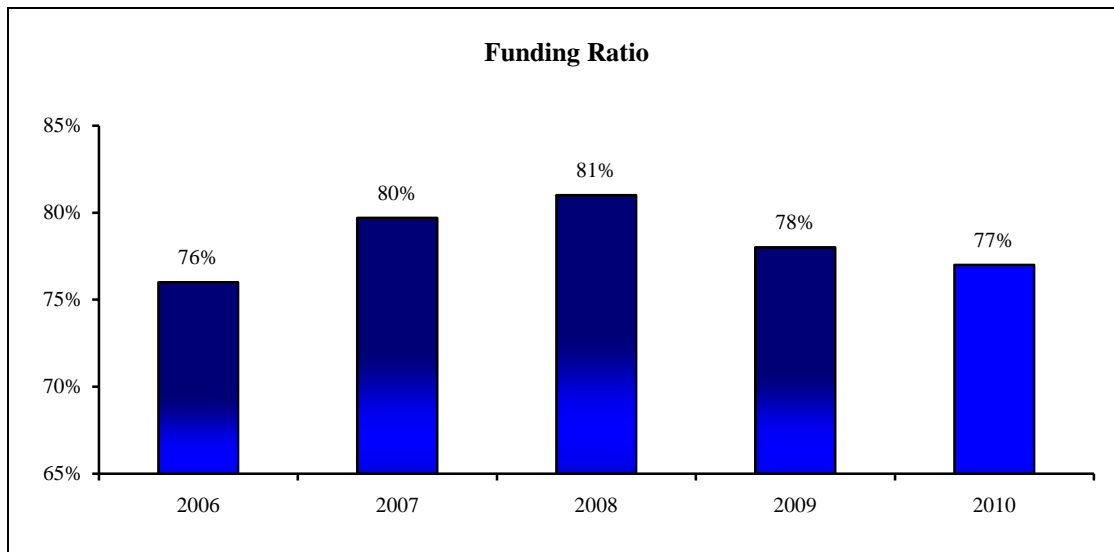


The change in the employer contribution rate in FY 2010 was due to actual System experience versus actuarial assumptions.





The unfunded actuarial liability increased in FY 2010 primarily due to assumption changes and the loss on the actuarial value of assets.



The ratio of actuarial assets to the actuarial accrued liability decreased primarily due to the changes in assumption and the amortization method.

B. Summary of Results

	<u>July 1, 2009</u>	<u>July 1, 2010</u>
Actuarial Liability		
a. Active Members	\$ 1,596,725,763	\$ 1,590,626,458
b. Retired Members and Beneficiaries	1,851,383,029	2,036,668,015
c. Vested Former Members	40,948,767	18,281,868
d. Total	<u>\$ 3,489,057,559</u>	<u>\$ 3,645,576,341</u>
Valuation Assets	\$ 2,736,010,044	\$ 2,791,144,974
Unfunded Actuarial Liability	\$ 753,047,515	\$ 854,431,367
Normal Cost		
a. Gross Normal Cost	\$ 77,017,229	\$ 84,240,513
b. Anticipated Employee Contributions	\$ 17,368,159	\$ 19,413,128
c. County Normal Cost (a -b)	<u>\$ 59,649,070</u>	<u>\$ 64,827,385</u>
Amortization Payment	\$ 66,994,871	\$ 61,973,847
County Contribution at date shown	\$ 126,643,941	\$ 126,801,232
County FY 2009/FY 2010 Contribution (as a % of covered payroll)		
Public Safety Employee	37.72%	38.97%
Non-Public Safety Employees	28.08%	27.80%
Guaranteed Retirement Income Plan	6.53%	7.27%

C. Valuation Highlights

1. System Assets

As of June 30, 2010, the System had assets, valued at market, of \$2.443 billion, as compared to \$2.146 billion at June 30, 2009. The increase of \$297 million was attributable to the following:

- a. An increase of \$134 million from employer and employee contributions;
- b. An increase of \$32 million from transfer of member account asset balances;
- c. An increase of \$304 million from investment gain;
- d. A decrease of \$173 million due to the payment of benefits to System participants and administrative expenses.

When measured on an actuarial basis, System assets were \$2.791 billion at June 30, 2010, and \$2.736 billion at June 30, 2009. The asset valuation method smoothes the fluctuations generated by intermittent market gains and losses. This method phases-in investment gains and losses arising during and after the 1994 fiscal year over a five-year period from the date established. Effective July 1, 1997, the calculation of the actuarial value of assets was changed to exclude the present value of estimated accrued contributions.

2. System Liabilities

The Unfunded Actuarial Liability increased \$101 million, from \$753 million at July 1, 2009, to \$854 million at July 1, 2010, as follows:

Unfunded Actuarial Liability at beginning of year	\$ 753,047,515
Unfunded Actuarial Liability at end of year	<u>854,431,367</u>
Increase in Unfunded Actuarial Liability	<u>\$ (101,383,852)</u>

The increase in Unfunded Actuarial Liability for the year ended June 30, 2010, is comprised of the following:

Increase due to loss on actuarial value of assets	\$ (155,831,291)
Decrease due to demographic gain and other factors	101,116,874
Increase due to normal cost, interest and contributions	(4,481,209)
Decrease due to plan changes	60,187,953
Increase due to assumption changes	<u>(102,376,179)</u>
Increase in Unfunded Actuarial Liability	<u>\$ (101,383,852)</u>

3. System Contributions

Contributions to the System include a “normal cost” rate which covers the portion of projected liabilities related to service of members. In addition, an amortization payment is made to fund the unfunded liability related to changes made to benefits in previous years which are being funded over a specific period of time.

The increase in the employer contribution rate is attributable to the following:

	<u>Public Safety</u> <u>(non-GRIP)</u>	<u>Non-Public</u> <u>Safety</u> <u>(non-GRIP)</u>	<u>GRIP</u>
Employer contribution rate - June 30, 2009	37.71 %	28.07 %	6.53 %
Increase due to loss on actuarial value of assets	3.71	2.98	-
Decrease due to actuarial gains & losses	(0.89)	(1.00)	-
Decrease due to plan changes	(1.38)	(0.89)	-
Increase/Decrease due to assumption and method changes	<u>(0.18)</u>	<u>(1.36)</u>	<u>0.74</u>
Employer contribution rate - June 30, 2010	<u><u>38.97 %</u></u>	<u><u>27.80 %</u></u>	<u><u>7.27 %</u></u>

4. Membership

The active membership of the System increased from 5,012 at June 30, 2009 to 5,786 at June 30, 2010 primarily due to the transfer of participants to the GRIP. The System was closed to all new employees hired after October 1, 1994, except public safety, bargaining unit employees and GRIP participants. Inactive members, including retirees and beneficiaries, increased from 5,379 at June 30, 2009 to 5,591 at June 30, 2010 and the number of former members with vested rights decreased from 452 to 376.

**SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
EMPLOYEES' RETIREMENT SYSTEM**

A. Funding Method

The funding method used for the System's valuation is the "Projected Unit Credit" actuarial cost method. The objective of this method is to allocate the total pension benefit to which each participant is expected to become entitled at retirement to the participant's past and future service. The allocation is accomplished by applying the plan's accrual formula to projected final salary at retirement. An *actuarial liability* is calculated at the valuation date as the present value of benefits allocated to service prior to that date. The *Unfunded Actuarial Liability* at the valuation date is the excess of the actuarial liability over the assets of the System.

B. Actuarial Value of Assets

The actuarial value of assets is used for purposes of determining the County's contribution to the System. The asset adjustment method dampens the volatility of asset values that could occur because of short term fluctuations in market conditions. Use of an asset smoothing method is consistent with the long term nature of the actuarial valuation process. Assets are valued at market value but with a phase-in of investment gains and losses arising after July 1, 1994, over a 5-year period. The gains and losses are net of expenses. Effective July 1, 1997, the calculation of the actuarial value of assets does not include the present value of accrued contributions.

**ACTUARIAL ASSUMPTIONS AND METHODS
EMPLOYEES' RETIREMENT SYSTEM**

A. Demographic Assumptions

1. Mortality

**RP2000 projected 30 years, separate tables for males and females
Annual Deaths per 1,000 Members**

Age	Male Deaths	Female Deaths	Age	Male Deaths	Female Deaths
20	0	0	65	8	8
25	0	0	70	14	14
30	0	0	75	25	22
35	1	0	80	48	37
40	1	0	85	90	65
45	1	1	90	163	120
50	1	1	95	252	183
55	2	2	100	334	230
60	4	4	105	398	293

2. Termination of Employment (prior to retirement eligibility)

Annual Terminations per 1,000 Members (non-GRIP)

Years of Service	Non-Public Safety	Public Safety
0 – 4	52	80 – 35
5 – 9	42.5	31 – 22
10 – 14	32.5	20 – 10
15 – 19	31 – 20	9 – 6
20 – 25	17 – 9	6
26+	9	NA

It is assumed that 25% of all vested participants who terminate elect to receive a refund of their contributions with interest instead of a deferred benefit regardless of their age at termination.

Annual Terminations per 1,000 Members (GRIP)

Years of Service	Non-Public Safety
0 – 1	95
2 – 3	60
4	50
5	42.5
6 – 7	30
8+	25

3. Disability

Annual Disabilities per 1,000 Members								
Non-Public Safety Employees			Public Safety Employees					
Age			Group E		Group F		Group G	
	Male	Female	Male	Female	Male	Female	Male	Female
20	1	0	1	1	1	1	1	2
25	2	1	2	2	3	3	2	4
30	2	2	4	5	6	8	4	11
35	3	3	5	7	8	12	5	16
40	3	3	6	10	10	16	7	23
45	6	3	11	13	19	44	13	31
50	7	5	19	18	40	59	22	41
55	5	6	23	19	48	62	27	43
60	9	6	28	19	59	63	47	44

4. Deaths

Annual Deaths per 1,000 Disabled Members		
Age	Male	Female
25	0	0
30	1	0
35	1	1
40	1	1
45	2	1
50	3	3
55	6	5
60	11	9
65	19	16

5. Retirement

Age	Non-Public	Public Safety Employees		
	Safety	Group E	Group F	Group G
	Employees			
Under 40	0%	3.5%	15%	20%
41	0%	3.5%	15%	20%
42	0%	3.5%	15%	20%
43	0%	3.5%	15%	20%
44	0%	3.5%	15%	20%
45	0%	3.5%	15%	20%
46	0%	15%	15%	20%
47	0%	15%	15%	20%
48	0%	15%	15%	20%
49	0%	15%	15%	20%
50	0%	20%	15%	20%
51	0%	20%	15%	20%
52	0%	20%	15%	30%
53	0%	20%	15%	30%
54	0%	20%	15%	30%
55	20%	50%	45%	40%
56	20%	50%	45%	40%
57	20%	50%	45%	40%
58	20%	50%	45%	40%
59	20%	50%	45%	40%
60	15%	100%	100%	100%
61	15%	100%	100%	100%
62	15%	100%	100%	100%
63	15%	100%	100%	100%
64	15%	100%	100%	100%
65	50%	100%	100%	100%
66	50%	100%	100%	100%
67	75%	100%	100%	100%
68	100%	100%	100%	100%
69	100%	100%	100%	100%
70	100%	100%	100%	100%

6. Sick Leave Credit

Service credit is increased by 2% for non public safety employees, 2.4% for Group E employees, 4.5% for Group F employees and 3.2% for Group G employees to account for additional credit from unused sick leave. Sick leave is capped at 2 years.

7. Marital assumption

80% of active participants are assumed to be married. Women are assumed to be three years younger than their spouses.

B. Economic Assumptions

- 1. Investment Return: 7.5% compound per annum
- 2. Cost-of-Living Increases: 3.0% compound per annum
- 3. Increase in Social Security Wage Base: 4.0% compound per annum
- 4. Expense load: Anticipated administrative expense equal to the average of the prior three years of administrative expenses. For FY 2012 this figure is \$2,553,000.
- 5. Salary Increase: Merit and promotional increases assumed to be based on service as shown below:

Service	Non Public Safety *	Public Safety
0 – 4	6.00%	9.25%
5 – 9	6.00%	8.25%
10 – 14	6.00%	6.25%
15 – 19	6.00%	5.50%
20 – 24	4.25%	5.00%
25 – 29	4.00%	4.50%
30+	4.00%	4.25%

* Includes GRIP

ANALYSIS OF FINANCIAL EXPERIENCE

Gains and Loss in Accrued Liability During Years Ended June 30 Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	2007	2008	2009	2010
Investment gain (loss)	\$ 84,209,271	\$ 47,850,027	\$ (135,184,312)	\$ (155,831,291)
Combined liability experience	<u>(27,653,662)</u>	<u>(33,474,433)</u>	<u>79,021,213</u>	<u>84,758,321</u>
Gain (loss) during year	<u>\$ 56,555,609</u>	<u>\$ 14,375,594</u>	<u>\$ (56,163,099)</u>	<u>\$ (71,072,970)</u>

SOLVENCY TEST

Aggregate Accrued Liability

Valuation Date	(1) Active Members Contributions	(2) Retirees, Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
					(1)	(2)	(3)
6/30/2003	\$ 155,686,014	\$ 1,247,359,872	\$ 1,008,446,838	\$ 2,029,314,438	100 %	100 %	62 %
6/30/2004	160,523,789	1,354,272,329	1,046,532,114	2,045,098,796	100	100	51
6/30/2005	166,078,802	1,426,030,001	1,182,938,609	2,100,532,623	100	100	43
6/30/2006	177,391,695	1,578,703,590	1,162,240,788	2,222,724,295	100	100	40
6/30/2007	187,104,227	1,661,692,386	1,251,841,110	2,469,933,200	100	100	50
6/30/2008	186,171,030	1,847,516,034	1,307,862,361	2,701,119,470	100	100	51
6/30/2009	200,669,572	1,892,331,796	1,396,056,191	2,736,010,044	100	100	46
6/30/2010	213,191,851	2,054,949,883	1,377,434,607	2,791,144,974	100	100	38

SCHEDULE OF RETIREES AND SURVIVORS
During Years Ended June 30

	New Retirees and Disableds	Survivors	Total
July 1, 2003	4,020	350	4,370
New retirements & disabilities	304	0	304
Deaths with beneficiaries	(26)	26	0
Deaths/benefits ended	(99)	(16)	(115)
July 1, 2004	4,199	360	4,559
New retirements & disabilities	216	0	216
Deaths with beneficiaries	(20)	20	0
Deaths/benefits ended	(99)	(11)	(110)
July 1, 2005	4,296	369	4,665
New retirements & disabilities	266	0	266
Deaths with beneficiaries	(22)	22	0
Deaths/benefits ended	(57)	(26)	(83)
July 1, 2006	4,483	365	4,848
New retirements & disabilities	242	0	242
Deaths with beneficiaries	(22)	22	0
Deaths/benefits ended	(67)	(26)	(93)
July 1, 2007	4,636	361	4,997
New retirements & disabilities	382	0	382
Deaths with beneficiaries	(28)	28	0
Deaths/benefits ended	(64)	(9)	(73)
July 1, 2008	4,926	380	5,306
New retirements & disabilities	186	0	186
Deaths with beneficiaries	(24)	24	0
Deaths/benefits ended	(95)	(18)	(113)
July 1, 2009	4,993	386	5,379
New retirements & disabilities	328	0	328
Deaths with beneficiaries	(22)	22	0
Deaths/benefits ended	(88)	(28)	(116)
July 1, 2010	5,211	380	5,591

**SCHEDULE OF ANNUAL ALLOWANCE
During Years Ended June 30**

	<u>New Retirees and Disableds</u>	<u>Survivors</u>	<u>Total</u>
July 2003	\$ 105,733,166	\$ 4,406,205	\$ 110,139,371
Average Annual Allowance	26,302	12,589	25,204
Annual Allowances Added to the Rolls	11,570,789	572,318	12,143,107
Annual Allowances Removed From the Rolls	(2,180,663)	(308,637)	(2,489,300)
July 2004	\$ 115,123,292	\$ 4,669,886	\$ 119,793,178
Average Annual Allowance	27,417	12,972	26,276
Annual Allowances Added to the Rolls	10,396,825	797,535	11,194,360
Annual Allowances Removed From the Rolls	(1,963,577)	(313,742)	(2,277,319)
July 2005	\$ 123,556,540	\$ 5,153,679	\$ 128,710,219
Average Annual Allowance	28,761	13,967	27,591
Annual Allowances Added to the Rolls	14,424,755	305,259	14,730,014
Annual Allowances Removed From the Rolls	(1,611,828)	(127,575)	(1,739,403)
July 2006	\$ 136,369,467	\$ 5,331,363	\$ 141,700,830
Average Annual Allowance	30,419	14,606	29,229
Annual Allowances Added to the Rolls	10,498,059	580,630	11,078,089
Annual Allowances Removed From the Rolls	(2,335,705)	(478,216)	(2,813,321)
July 2007	\$ 144,531,821	\$ 5,433,777	\$ 149,965,598
Average Annual Allowance	31,176	15,052	30,011
Annual Allowances Added to the Rolls	20,518,024	1,056,444	21,574,468
Annual Allowances Removed From the Rolls	(2,344,133)	(422,864)	(2,766,997)
July 2008	\$ 162,705,712	\$ 6,067,357	\$ 168,773,069
Average Annual Allowance	33,030	15,467	31,808
Annual Allowances Added to the Rolls	4,887,240	453,616	5,340,856
Annual Allowances Removed From the Rolls	(3,242,232)	(370,344)	(3,612,576)
July 2009	\$ 164,350,720	\$ 6,150,629	\$ 170,501,349
Average Annual Allowance	32,916	15,934	31,698
Annual Allowances Added to the Rolls	13,218,960	304,035	13,522,995
Annual Allowances Removed From the Rolls	(1,306,672)	(419,291)	(1,725,963)
July 2010	\$ 176,263,008	\$ 6,035,373	\$ 182,298,381
Average Annual Allowance	33,825	15,883	32,606

Schedule of Active Member Valuation Data

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase in Average Pay</u>
July 1, 2003	5,876	\$336,019,788	\$57,185	2.606%
July 1, 2004	5,670	\$341,629,327	\$60,252	5.363%
July 1, 2005	5,628	\$355,105,993	\$63,096	4.721%
July 1, 2006	5,362	\$357,361,131	\$66,647	5.627%
July 1, 2007	5,294	\$374,792,608	\$70,796	6.225%
July 1, 2008	5,060	\$376,002,333	\$74,309	4.962%
July 1, 2009	5,012	\$376,014,994	\$75,023	0.961%
July 1, 2010	5,786	\$431,226,155	\$74,529	-0.658%



STATISTICAL SECTION

Employee Retirement Plans

STATISTICAL SECTION

The Statistical Section presents detailed information in the areas shown below, as a context for understanding what the information in the Financial Section says about the overall financial health of the Employee Retirement Plans:

FINANCIAL TRENDS INFORMATION

- Changes in Net Assets
- Benefit and Refund Deductions from Net Assets

OPERATING INFORMATION

- Principal Participating Employers
- Retired Members by Benefit Type
- Average Benefit Amounts
- Retired Members by Type of Retirement
- Average Benefit Payments and Average Final Valuation Pay
- Schedule of Participating Agencies and Political Subdivisions

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGE IN NET ASSETS
JUNE 30, 2010
LAST TEN FISCAL YEARS
(dollars in thousands)

	2001	2002	2003	2004	2005
Additions					
Member contributions	\$ 11,292	\$ 12,944	\$ 14,770	\$ 14,762	\$ 15,326
Employer contributions	43,345	39,168	55,206	61,927	74,655
Transfer of member account asset balances	-	-	-	-	-
Investment income (loss) (net of expenses)	<u>(81,375)</u>	<u>(124,177)</u>	<u>82,174</u>	<u>286,895</u>	<u>197,433</u>
Total additions	<u>(26,738)</u>	<u>(72,065)</u>	<u>152,150</u>	<u>363,584</u>	<u>287,414</u>
Deductions					
Benefit payments	78,434	85,323	100,381	111,646	115,635
Refunds	1,067	681	739	796	762
Administrative expenses	<u>1,689</u>	<u>2,092</u>	<u>2,007</u>	<u>2,066</u>	<u>1,857</u>
Total deductions	<u>81,190</u>	<u>88,096</u>	<u>103,127</u>	<u>114,508</u>	<u>118,254</u>
Change in net assets	<u>\$ (107,928)</u>	<u>\$ (160,161)</u>	<u>\$ 49,023</u>	<u>\$ 249,076</u>	<u>\$ 169,160</u>

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE
JUNE 30, 2010
LAST TEN FISCAL YEARS
(dollars in thousands)

	2001	2002	2003	2004	2005
Type of Benefit					
Service benefits:					
Retirees	\$ 58,415	\$ 64,030	\$ 77,009	\$ 87,123	\$ 102,641
Survivors	3,785	4,041	4,811	5,032	2,087
Disability	<u>16,234</u>	<u>17,251</u>	<u>18,560</u>	<u>19,491</u>	<u>10,907</u>
Total benefits	<u>\$ 78,434</u>	<u>\$ 85,322</u>	<u>\$ 100,380</u>	<u>\$ 111,646</u>	<u>\$ 115,635</u>
Refund of Contributions	\$ 1,067	\$ 681	\$ 739	\$ 796	\$ 762

*Allocation method used in FY 2007 was changed to reflect the actual classification of benefits.

2006	2007	2008	2009	2010
\$ 16,085	\$ 16,362	\$ 18,851	\$ 18,245	\$ 20,431
88,184	109,436	117,686	109,567	113,958
-	-	-	-	31,530
<u>187,004</u>	<u>420,847</u>	<u>(81,746)</u>	<u>(428,525)</u>	<u>304,185</u>
<u>291,273</u>	<u>546,645</u>	<u>54,791</u>	<u>(300,713)</u>	<u>470,104</u>
125,818	136,833	147,027	168,618	169,089
635	793	673	668	1,415
<u>1,920</u>	<u>2,431</u>	<u>2,557</u>	<u>2,803</u>	<u>2,907</u>
<u>128,373</u>	<u>140,057</u>	<u>150,257</u>	<u>172,089</u>	<u>173,411</u>
<u>\$ 162,900</u>	<u>\$ 406,588</u>	<u>\$ (95,466)</u>	<u>\$ (472,802)</u>	<u>\$ 296,693</u>

2006	2007*	2008	2009	2010
\$ 112,210	\$ 98,653	\$ 105,369	\$ 123,560	\$ 122,861
1,483	5,952	6,723	7,333	7,620
<u>12,125</u>	<u>32,228</u>	<u>34,935</u>	<u>37,725</u>	<u>38,608</u>
<u>\$ 125,818</u>	<u>\$ 136,833</u>	<u>\$ 147,027</u>	<u>\$ 168,618</u>	<u>\$ 169,089</u>
\$ 635	\$ 793	\$ 673	\$ 668	\$ 1,415

MONTGOMERY COUNTY, MARYLAND
 RETIREMENT SAVINGS PLAN
 SCHEDULE OF CHANGE IN NET ASSETS
 JUNE 30, 2010
 LAST TEN FISCAL YEARS
 (dollars in thousands)

	2001	2002	2003	2004	2005
Additions					
Member contributions	\$ 2,582	\$ 3,308	\$ 3,750	\$ 4,208	\$ 4,820
Employer contributions	4,867	5,791	6,799	6,468	8,758
Transfer of member account asset balances	-	-	-	-	-
Investment income (loss) (net of expenses)	<u>(2,360)</u>	<u>(3,200)</u>	<u>1,967</u>	<u>6,354</u>	<u>4,668</u>
Total additions	<u>5,089</u>	<u>5,899</u>	<u>12,516</u>	<u>17,030</u>	<u>18,246</u>
Deductions					
Refunds	1,517	945	867	1,382	2,441
Administrative expenses	<u>49</u>	<u>87</u>	<u>210</u>	<u>247</u>	<u>231</u>
Total deductions	<u>1,566</u>	<u>1,032</u>	<u>1,077</u>	<u>1,629</u>	<u>2,672</u>
Change in net assets	<u>\$ 3,523</u>	<u>\$ 4,867</u>	<u>\$ 11,439</u>	<u>\$ 15,401</u>	<u>\$ 15,574</u>

MONTGOMERY COUNTY, MARYLAND
 RETIREMENT SAVINGS PLAN
 SCHEDULE OF REFUND DEDUCTIONS FROM NET ASSETS
 JUNE 30, 2010
 LAST TEN FISCAL YEARS
 (dollars in thousands)

	2001	2002	2003	2004	2005
Refund of Contributions	\$ 1,517	\$ 945	\$ 867	\$ 1,382	\$ 2,441

	2006	2007	2008	2009	2010
\$	5,860	\$ 6,798	\$ 8,118	\$ 11,263	\$ 8,871
	9,437	11,227	13,583	20,625	16,401
	-	-	-	-	(31,530)
	<u>8,237</u>	<u>17,174</u>	<u>(8,383)</u>	<u>(26,722)</u>	<u>14,191</u>
	<u>23,534</u>	<u>35,199</u>	<u>13,319</u>	<u>5,166</u>	<u>7,933</u>
	4,306	4,455	5,216	3,669	3,902
	<u>243</u>	<u>293</u>	<u>258</u>	<u>300</u>	<u>237</u>
	<u>4,549</u>	<u>4,748</u>	<u>5,474</u>	<u>3,969</u>	<u>4,139</u>
\$	<u><u>18,985</u></u>	<u><u>30,451</u></u>	<u><u>7,844</u></u>	<u><u>1,197</u></u>	<u><u>3,794</u></u>

	2006	2007	2008	2009	2010
\$	4,306	\$ 4,455	\$ 5,216	\$ 3,669	\$ 3,902

MONTGOMERY COUNTY, MARYLAND
 DEFERRED COMPENSATION PLAN
 SCHEDULE OF CHANGE IN NET ASSETS
 JUNE 30, 2010
 LAST TEN FISCAL YEARS
 (dollars in thousands)

	2001	2002	2003	2004	2005
Additions					
Member contributions	\$ 18,615	\$ 20,086	\$ 21,062	\$ 21,610	\$ 19,929
Investment income (loss) (net of expenses)	<u>(27,692)</u>	<u>(25,497)</u>	<u>4,660</u>	<u>29,456</u>	<u>14,587</u>
Total additions	<u>(9,077)</u>	<u>(5,411)</u>	<u>25,722</u>	<u>51,066</u>	<u>34,516</u>
Deductions					
Refunds	4,758	9,898	11,104	9,634	10,216
Administrative expenses	<u>61</u>	<u>49</u>	<u>17</u>	<u>6</u>	<u>16</u>
Total deductions	<u>4,819</u>	<u>9,947</u>	<u>11,121</u>	<u>9,640</u>	<u>10,216</u>
Change in net assets	<u>\$ (13,896)</u>	<u>\$ (15,358)</u>	<u>\$ 14,601</u>	<u>\$ 41,426</u>	<u>\$ 24,300</u>

MONTGOMERY COUNTY, MARYLAND
 DEFERRED COMPENSATION PLAN
 SCHEDULE OF REFUND DEDUCTIONS FROM NET ASSETS
 JUNE 30, 2010
 LAST TEN FISCAL YEARS
 (dollars in thousands)

	2001	2002	2003	2004	2005
Refund of Contributions	\$ 4,758	\$ 9,898	\$ 11,104	\$ 9,634	\$ 10,216

2006	2007	2008	2009	2010
\$ 16,562	\$ 16,649	\$ 17,294	\$ 18,058	\$ 17,029
<u>20,486</u>	<u>32,394</u>	<u>(9,378)</u>	<u>(44,479)</u>	<u>19,411</u>
<u>37,048</u>	<u>49,043</u>	<u>7,915</u>	<u>(26,421)</u>	<u>36,440</u>
11,226	12,410	15,714	13,391	8,723
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>11,226</u>	<u>12,410</u>	<u>15,714</u>	<u>13,391</u>	<u>8,723</u>
<u>\$ 25,822</u>	<u>\$ 36,633</u>	<u>\$ (7,799)</u>	<u>\$ (39,812)</u>	<u>\$ 27,717</u>

2006	2007	2008	2009	2010
\$ 11,226	\$ 12,410	\$ 15,714	\$ 13,391	\$ 8,723

MONTGOMERY COUNTY, MARYLAND
 EMPLOYEES' RETIREMENT SYSTEM
 PRINCIPAL PARTICIPATING EMPLOYERS
 CURRENT YEAR AND FIVE YEARS AGO
 JUNE 30, 2010

Participating Government	2010*		2005**	
	Covered Employees	Percentage of Total System	Covered Employees	Percentage of Total System
Montgomery County***	5,554	95.8%	5,419	96.2%
Town of Chevy Chase	6	0.1%	5	0.1%
Strathmore Hall	11	0.2%	7	0.1%
Housing Opportunities Commission	189	3.3%	159	2.8%
Revenue Authority	13	0.2%	17	0.3%
Washington Suburban Transit Commission	1	0.1%	2	0.1%
Montgomery County Employees Federal Credit Union	8	0.1%	8	0.2%
State Department of Assessment and Taxation	3	0.1%	6	0.1%
District Court	1	0.1%	5	0.1%
Total	5,786	100%	5,628	100%

* Includes GRIP participants

**The information for principal participating employers is not available for 2004 and prior.

***Includes Independent Fire/Rescue Corporations

MONTGOMERY COUNTY, MARYLAND
 EMPLOYEES' RETIREMENT SYSTEM
 SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE
 JUNE 30, 2010

Fiscal Year	Retiree	Disability	Survivor	Total
2001	2,918	759	312	3,989
2002	3,002	783	330	4,115
2003	3,203	817	350	4,370
2004	3,348	851	360	4,559
2005	3,443	853	369	4,665
2006	3,564	919	365	4,848
2007*	3,661	975	361	4,997
2008	3,905	1,021	380	5,306
2009	3,957	1,036	386	5,379
2010	4,132	1,079	380	5,591

*Allocation method used in FY 2007 was changed to reflect the actual classification of benefits.

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF AVERAGE BENEFIT AMOUNTS
JUNE 30, 2010

Fiscal Year	Retiree	Disability	Survivor	Total
2001	\$ 20,019	\$ 21,389	\$ 12,132	\$ 19,663
2002	21,329	22,031	12,247	20,734
2003	24,043	22,717	13,747	22,970
2004	26,022	22,904	13,978	24,489
2005	29,812	12,786	5,655	24,788
2006	31,484	13,193	4,063	25,953
2007*	26,947	33,055	16,487	27,383
2008	26,983	34,216	17,692	27,710
2009	31,226	36,414	18,997	31,347
2010	29,734	35,781	20,052	30,243

*Allocation method used in FY 2007 was changed to reflect the actual classification of benefits.

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF RETIRED MEMBERS BY TYPE OF RETIREMENT
AS OF JUNE 30, 2010

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement^a			Option Selected^b					
		1	2	3	1	2	3	4	5	6
Deferred	376									
\$ 1 – \$ 250	198	169	25	4	110	46	31	1	6	4
251 – 500	323	260	53	10	182	71	57	1	5	7
501 – 750	285	224	50	11	151	64	48	6	8	8
751 – 1,000	314	234	51	29	153	56	69	10	13	13
1,001 – 1,250	322	237	47	38	158	71	67	7	5	14
1,251 – 1,500	280	199	32	49	126	64	50	11	9	20
1,501 – 1,750	299	210	29	60	133	62	56	17	14	17
1,751 – 2,000	259	189	16	54	120	68	38	14	5	14
Over 2,000	3,311	2,410	77	824	1,226	1,038	249	276	96	426
Total	5,967	4,132	380	1,079	2,359	1,540	665	343	161	523

Notes:

^a Type of retirement:
1—Retiree
2—Beneficiary
3—Disabled Retiree

^b Option selected:
Option 1—Modified Cash Refund
Option 2—Certain and Continuous
Option 3—Life Annuity
Option 4—Joint and Survivor 50%
Option 5—Joint and Survivor 100%
Option 6—Other Joint and Survivor Percentage

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF AVERAGE BENEFIT PAYMENTS AND AVERAGE FINAL VALUATION PAY
LAST EIGHT FISCAL YEARS

	Years Credited Service						
	0 – 5	5 – 10	10 – 15	15 – 20	20 – 25	25 – 30	30 +
Retirement Effective Dates							
Period 7/1/2002 to 6/30/2003							
Average monthly benefit*	\$ 2,701	\$ 1,623	\$ 1,413	\$ 1,737	\$ 1,833	\$ 3,490	\$ 3,750
Average final valuation pay**	\$ 44,695	\$ 44,840	\$ 56,082	\$ 59,937	\$ 56,253	\$ 71,048	\$ 68,955
Number of retired members***	1	7	29	35	28	91	79
Period 7/1/2003 to 6/30/2004							
Average monthly benefit*	\$ 1,156	\$ 915	\$ 1,809	\$ 1,420	\$ 2,549	\$ 3,406	\$ 4,337
Average final valuation pay**	\$ 37,309	\$ 45,048	\$ 55,552	\$ 60,530	\$ 65,550	\$ 65,919	\$ 72,119
Number of retired members***	2	4	15	43	34	69	79
Period 7/1/2004 to 6/30/2005							
Average monthly benefit*	\$ 2,521	\$ 1,984	\$ 1,479	\$ 1,870	\$ 2,573	\$ 3,371	\$ 4,392
Average final valuation pay**	\$ 48,620	\$ 50,470	\$ 59,743	\$ 63,910	\$ 64,026	\$ 72,618	\$ 75,577
Number of retired members***	2	4	21	37	23	35	66
Period 7/1/2005 to 6/30/2006							
Average monthly benefit*	\$ 2,491	\$ 2,801	\$ 1,752	\$ 2,356	\$ 2,928	\$ 3,649	\$ 4,594
Average final valuation pay**	\$ 43,375	\$ 55,641	\$ 55,619	\$ 67,299	\$ 68,683	\$ 73,731	\$ 77,143
Number of retired members***	2	6	28	58	49	55	50
Period 7/1/2006 to 6/30/2007							
Average monthly benefit*	\$ 2,760	\$ 2,115	\$ 2,163	\$ 2,425	\$ 3,100	\$ 3,744	\$ 4,438
Average final valuation pay**	\$ 48,664	\$ 58,211	\$ 72,411	\$ 74,925	\$ 80,599	\$ 79,607	\$ 76,689
Number of retired members***	1	4	18	40	27	37	39
Period 7/1/2007 to 6/30/2008							
Average monthly benefit*	\$ 2,994	\$ 3,061	\$ 1,180	\$ 2,287	\$ 2,927	\$ 3,466	\$ 4,330
Average final valuation pay**	\$ 50,803	\$ 66,024	\$ 62,986	\$ 73,335	\$ 78,696	\$ 74,908	\$ 74,647
Number of retired members***	1	8	18	58	60	57	87
Period 7/1/2008 to 6/30/2009							
Average monthly benefit*	\$ -	\$ -	\$ 2,821	\$ 2,760	\$ 3,560	\$ 4,309	\$ 5,425
Average final valuation pay**	\$ -	\$ -	\$ 77,385	\$ 77,304	\$ 88,521	\$ 87,167	\$ 98,906
Number of retired members***	-	-	5	20	21	16	12
Period 7/1/2009 to 6/30/2010							
Average monthly benefit*	\$ -	\$ 3,212	\$ 2,747	\$ 2,815	\$ 3,548	\$ 4,008	\$ 5,289
Average final valuation pay**	\$ -	\$ 63,839	\$ 82,064	\$ 83,152	\$ 85,524	\$ 83,495	\$ 86,947
Number of retired members***	-	6	6	43	49	39	68

* Based on current benefits only. Does not take into account any future benefits.

** Pay used for last valuation (when member was an active employee).

*** Only includes participants who changed from active to retiree status.

**SCHEDULE OF PARTICIPATING AGENCIES
AND POLITICAL SUBDIVISIONS
EMPLOYEES' RETIREMENT SYSTEM
RETIREMENT SAVINGS PLAN**

Town of Chevy Chase
Strathmore Hall Foundation, Inc.
Housing Opportunities Commission of Montgomery County
Montgomery County Revenue Authority
Washington Suburban Transit Commission
Montgomery County Employees Federal Credit Union
Independent Fire/Rescue Corporations

Certain employees of the:
State Department of Assessments and Taxation
District Court of Maryland



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