

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 2015
July 1, 2014 – June 30, 2015**



Government Finance Officers Association

**Certificate of
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Presented to

**Montgomery County
Employee Retirement Plans
Maryland**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

Montgomery County Employee Retirement Plans

Comprehensive Annual Financial Report



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Retirement Savings Plan
Deferred Compensation Plan**
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**Fiscal Year 2015
July 1, 2014 – June 30, 2015**

Prepared by Montgomery County Employee Retirement Plans
101 Monroe Street, 15th Floor
Rockville, Maryland 20850



MONTGOMERY COUNTY, MARYLAND
EMPLOYEE RETIREMENT PLANS
Fiscal Year Ended June 30, 2015
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INTRODUCTION SECTION



OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

December 8, 2015

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, 2015. 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, 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 5,541 active members, including 1,352 in the GRIP, and 6,380 retirees and beneficiaries participating in the System as of June 30, 2015.

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, 2015, there were 3,756 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 2015, the Board continued to implement portfolio adjustments which will result in further diversification of the investment portfolio and better management of the System's risk. Toward this effort, the Board approved new investments in the following sectors: public equities, private equity, private real assets, public real assets, and opportunistic.

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, refunds and distributions 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, 2015.

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 19.8 percent, private equity/debt 7.1 percent, international equities 16.0 percent, global equities 3.7 percent, fixed income 25.0 percent, inflation indexed bonds 10.5 percent, commodities 3.2 percent, opportunistic 3.3 percent, private real assets 5.1 percent, global REITs 5.3 percent and public real assets 1.0 percent. For the twelve months ended June 30, 2015, the total return achieved by the System's investments was a gain of 2.82

percent, compared to the gain recorded by the System's benchmark index of 1.21 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, 2015 valuation, the actuarial value of assets was \$3.6 billion and the aggregate actuarial liability was \$4.1 billion, resulting in a funded status ratio of 89.6%.

The Schedule of Changes in the Employers' Net Pension Liability and Related Ratios, included as Required Supplementary Information in the Financial Section, expresses the System's actuarial value of assets as a percentage of the total pension 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 entry-age normal 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, 2015 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

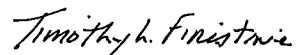
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Montgomery County Employee Retirement Plans for its comprehensive annual financial report for the fiscal year ended June 30, 2014. The Certificate 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 fourteen 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 Montgomery County Employee Retirement Plans' 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

Jennifer E. Barrett

Chair

Retired Employees Representative

Term Expires March 2018

Gino Renne

Vice Chair

OPT/SLT Bargaining Unit Designee

Joseph F. Beach

Secretary

Montgomery County Director of Finance

Ex-Officio Member

Shawn Stokes

Montgomery County Director

Of Human Resources

Ex-Officio Member

Bradley Stelzer

Montgomery County Council Representative

Term Expires March 2018

Jeffrey D. Buddle

Fire & Rescue Bargaining Unit Designee

Stephen B. Farber

Montgomery County Council Administrator

Ex-Officio Member

Jennifer A. Hughes

Montgomery County Director of

Management and Budget

Ex-Officio Member

Jefferi K. Lee

Public Representative

Term Expires March 2017

David J. Locke

Montgomery County Council Representative

Term Expires March 2017

Kelda J.C. Simpson

Police Bargaining Unit Designee

George Willie

Public Representative

Term Expires March 2017

Diane Wurdeman

Non-Bargaining Unit Representative

Term Expires March 2017

ADMINISTRATIVE ORGANIZATION

Professional Services

Actuary

Gabriel Roeder Smith & Company

Auditor

CliftonLarsonAllen LLP

Custodial Bank

The Northern Trust Company

Investment Consultants

Wishire Associates

Franklin Park

Albourne America, LLC

FLAG Capital Management

Investment Managers-Employees' Retirement System

Aberdeen Asset Management, Inc.

Adams Street Partners

AEW Partners

Altaris Capital Partners

Altus Capital Partners

Atlas Capital Resources

Barrow, Hanley, Mewhinney & Strauss

Blackrock Financial Management

Bridgewater Associates

Carmel Partners

Castlelake

Chickasaw Capital Management

CoreCommodity Management

DW Healthcare Partners

Eagle Asset Management

EnerVest Ltd.

First Quadrant LP

FLAG Capital Management

Franklin Park

GMO, LLC

Grosvenor Capital Management

Gryphon International Investment Corporation

Hampshire Companies

HarbourVest Partners

Homestead Capital

Hudson Bay Capital Management LP

Jennison Associates

JP Morgan Investment Management

K1 Investment Management, LLC

KPS Capital Partners, LP

Landmark Partners Inc.

LBA Realty

Levine Leichtman Capital Partners

Lime Rock Resources

Loomis Sayles & Co.

Los Angeles Capital Management

Luxor Capital Partners

Lyme Timber Company

Marathon Asset Management LLP

Mason Wells

Meridian Realty Partners

MKP Opportunity Partners

Mondrian Investment Partners Ltd.

Nomura Asset Management

Och-Ziff Capital Management

Odyssey Investment Partners

Pearlmark Real Estate Partners

Pomona Capital

RhumbLine Advisors

Riverside Partners

Sands Capital Management

Schroder Investment Management

Siris Capital Group LLC

TA Associates

TA Associates Realty LLC

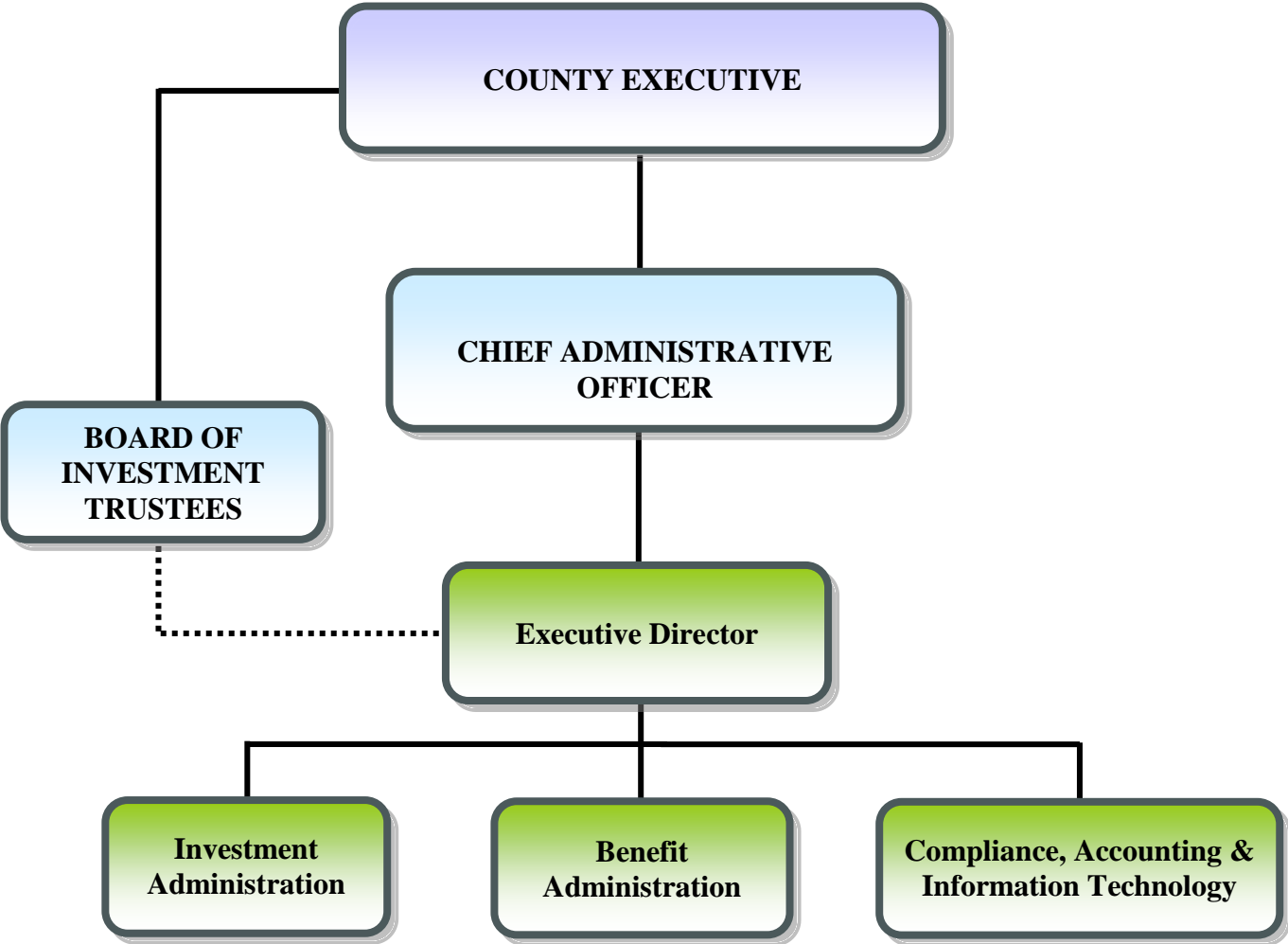
Thoma Bravo

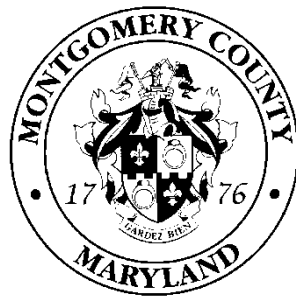
Wellington Management

Wicks Group

* Public equity commission brokers are listed on page 52.

Montgomery County Employee Retirement Plans Administrative Organization Chart





FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

The Honorable County Council of Montgomery County, Maryland
Board of Investment Trustees
Montgomery County Employee Retirement Plans
Rockville, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the Montgomery County Employee Retirement Plans (the Plans), which comprise the statements of fiduciary net position as of June 30, 2015, and the related statements of changes in fiduciary net position for the year then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plans as of June 30, 2015, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of changes in the employers' net pension liability and related ratios, employer contributions and investment returns and related notes, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's financial statements. The schedules of administrative expenses and investment expenses and the statements of fiduciary net position and changes in fiduciary net position for the employees retirement system, retirement savings plan and the deferred compensation plan (supplementary information), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The introduction, investment, actuarial, and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plans' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
December 8, 2015



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, 2015. 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, and 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 Fiduciary Net Position comprise the Plans' assets and liabilities and provide information about the nature and amount of investments, as well as the liabilities. The Statements of Changes in Fiduciary Net Position report the changes of the Plans' net position, 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 position of the Employees' Retirement System (ERS), Retirement Savings Plan (RSP), and Deferred Compensation Plan (DCP) at June 30:

| Net Position (Millions) | | | | | | |
|----------------------------|-------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
| | ERS | | RSP | | DCP | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Assets: | | | | | | |
| Cash and investments | \$ 3,925.6 | \$ 3,882.8 | \$ 313.8 | \$ 291.3 | \$ 351.9 | \$ 343.6 |
| Receivables | 15.1 | 11.6 | 1.5 | 1.2 | 0.7 | 0.6 |
| Capital assets | 0.6 | 0.9 | - | - | - | - |
| Total assets | <u>3,941.3</u> | <u>3,895.3</u> | <u>315.3</u> | <u>292.5</u> | <u>352.6</u> | <u>344.2</u> |
| Liabilities | 279.6 | 242.4 | - | - | - | - |
| Total net position | <u>\$ 3,661.7</u> | <u>\$ 3,652.9</u> | <u>\$ 315.3</u> | <u>\$ 292.5</u> | <u>\$ 352.6</u> | <u>\$ 344.2</u> |

Shown below is a condensed summary of the changes in net position of the ERS, RSP, and DCP for the years ended June 30:

| Changes in Net Position (Millions) | | | | | | |
|--|---------------|-----------------|----------------|----------------|---------------|----------------|
| | ERS | | RSP | | DCP | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Additions: | | | | | | |
| Employer contributions | \$ 151.3 | \$ 144.7 | \$ 18.5 | \$ 17.1 | \$ - | \$ - |
| Member contributions | 26.6 | 26.5 | 9.7 | 8.7 | 19.2 | 17.0 |
| Net investment income | 67.1 | 534.4 | 7.5 | 42.4 | 15.3 | 48.9 |
| Total additions | <u>245.0</u> | <u>705.6</u> | <u>35.7</u> | <u>68.2</u> | <u>34.5</u> | <u>65.9</u> |
| Deductions: | | | | | | |
| Benefits | 230.6 | 229.7 | - | - | - | - |
| Refunds and distributions | 2.9 | 4.3 | 12.7 | 11.6 | 26.1 | 25.5 |
| Administrative expenses | 2.7 | 3.0 | 0.2 | 0.2 | - | - |
| Total deductions | <u>236.2</u> | <u>237.0</u> | <u>12.9</u> | <u>11.8</u> | <u>26.1</u> | <u>25.5</u> |
| Total change in net position | <u>\$ 8.8</u> | <u>\$ 468.6</u> | <u>\$ 22.8</u> | <u>\$ 56.4</u> | <u>\$ 8.4</u> | <u>\$ 40.4</u> |

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

| Employees' Retirement System Net Position (Millions) | | | |
|--|-------------------|-------------------|--------------------------|
| | 2015 | 2014 | Percentage Change |
| Assets: | | | |
| Cash and investments | \$ 3,925.6 | \$ 3,882.8 | 1.1 % |
| Receivables | 15.1 | 11.6 | 30.2 |
| Capital Assets | 0.6 | 0.9 | (33.3) |
| Total assets | <u>3,941.3</u> | <u>3,895.3</u> | 1.2 |
| Liabilities: | | | |
| Benefits payable and other liabilities | 5.7 | 9.0 | (36.7) |
| Obligations under securities lending agreements | 273.9 | 233.4 | 17.4 |
| Total liabilities | <u>279.6</u> | <u>242.4</u> | 15.3 |
| Total net position | <u>\$ 3,661.7</u> | <u>\$ 3,652.9</u> | 0.2 % |

The table shown above reflects a slight increase of \$8.8 million, a 0.2 percent increase in ERS' net position during fiscal year (FY) 2015.

| Retirement Savings Plan | | | |
|--------------------------------|-----------------|-----------------|--------------------------|
| Net Position | | | |
| (Millions) | | | |
| | <u>2015</u> | <u>2014</u> | <u>Percentage Change</u> |
| Assets: | | | |
| Cash and investments | \$ 313.8 | \$ 291.3 | 7.7 % |
| Receivables | 1.5 | 1.2 | 25.0 |
| Total net position | <u>\$ 315.3</u> | <u>\$ 292.5</u> | 7.8 % |

During FY 2015, net position increased 7.8 percent to \$315.3 million. The change is primarily due to increased employee and employer contributions during FY 2015.

| Deferred Compensation Plan | | | |
|-----------------------------------|-----------------|-----------------|--------------------------|
| Net Position | | | |
| (Millions) | | | |
| | <u>2015</u> | <u>2014</u> | <u>Percentage Change</u> |
| Assets: | | | |
| Investments | \$ 351.9 | \$ 343.6 | 2.4 % |
| Receivables | 0.7 | 0.6 | 16.7 |
| Total net position | <u>\$ 352.6</u> | <u>\$ 344.2</u> | 2.4 % |

Net position of the DCP increased 2.4 percent to \$352.6 million during FY 2015. The change is attributable to increased employee contributions during FY 2015.

ADDITIONS

The primary sources of additions for the Plans include member and employer (where applicable) contributions and investment income. The following tables compare the source and amount of additions for each Plan during FY 2015 and FY 2014.

| Employees' Retirement System | | | |
|--|-----------------|-----------------|--------------------------|
| Contributions and Investment Income | | | |
| (Millions) | | | |
| | <u>2015</u> | <u>2014</u> | <u>Percentage Change</u> |
| Employer contributions | \$ 151.3 | \$ 144.7 | 4.6 % |
| Member contributions | 26.6 | 26.5 | 0.4 |
| Net investment income | 67.1 | 534.4 | (87.4) |
| | <u>\$ 245.0</u> | <u>\$ 705.6</u> | (65.3) % |

Investment income decreased by 87.4 percent during FY 2015 due to the weakness of the financial markets.

The net investment income for the ERS totaled \$67.1 million for FY 2015, comprised of \$22.8 million in net appreciation in fair value of investments, \$65.7 million in dividends and interest, \$1.1 million from securities lending activities, and \$22.5 million

related to investment expenses. This is compared to net investment income of \$534.4 million in FY 2014. The decrease in investment earnings compared to the previous fiscal year is due to the weaker financial markets in FY 2015.

| Retirement Savings Plan | | | |
|--|----------------|----------------|--------------------------|
| Contributions and Investment Income | | | |
| (Millions) | | | |
| | <u>2015</u> | <u>2014</u> | <u>Percentage Change</u> |
| Employer contributions | \$ 18.5 | \$ 17.1 | 8.2 % |
| Member contributions | 9.7 | 8.7 | 11.5 |
| Net investment income | 7.5 | 42.4 | (82.3) |
| | <u>\$ 35.7</u> | <u>\$ 68.2</u> | (47.7) % |

Employer contributions to the RSP were \$18.5 million in FY 2015, an increase of 8.2 percent from FY 2014 due to salary increases and increased enrollment of employees. The lower investment income in FY 2015 is primarily attributable to the weakness of the financial markets.

| Deferred Compensation Plan | | | |
|--|----------------|----------------|--------------------------|
| Contributions and Investment Income | | | |
| (Millions) | | | |
| | <u>2015</u> | <u>2014</u> | <u>Percentage Change</u> |
| Member contributions | \$ 19.2 | \$ 17.0 | 12.9 % |
| Net investment income | 15.3 | 48.9 | (68.7) |
| | <u>\$ 34.5</u> | <u>\$ 65.9</u> | (47.6) % |

Member contributions to the DCP were \$19.2 million for FY 2015, an increase of 12.9 percent from the FY 2014 level due to higher rollover contributions.

Net investment income for the DCP was \$15.3 million compared to \$48.9 million in the previous fiscal year. The lower level in FY 2015 is primarily due to weaker returns from the 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 distributions, and administrative expenses. The following tables show the use and amount of deductions for each plan during FY 2015 and 2014.

| Employees' Retirement System | | | |
|-------------------------------------|-----------------|-----------------|--------------------------|
| Deductions by Type | | | |
| (Millions) | | | |
| | <u>2015</u> | <u>2014</u> | <u>Percentage Change</u> |
| Benefits | \$ 230.6 | \$ 229.7 | 0.4 % |
| Refunds | 2.9 | 4.3 | (32.6) |
| Administrative expenses | 2.7 | 3.0 | (10.0) |
| | <u>\$ 236.2</u> | <u>\$ 237.0</u> | (0.3) % |

During FY 2015, refunds decreased by \$1.4 million largely due to less DROP distributions during FY2015 compared to FY2014.

| Retirement Savings Plan | | | |
|--------------------------------|----------------|----------------|--------------------------|
| Deductions by Type | | | |
| (Millions) | | | |
| | <u>2015</u> | <u>2014</u> | <u>Percentage Change</u> |
| Distributions | \$ 12.7 | \$ 11.6 | 9.5 % |
| Administrative expenses | 0.2 | 0.2 | - |
| | <u>\$ 12.9</u> | <u>\$ 11.8</u> | 9.3 % |

The expenses related to the RSP are comprised of distributions and administrative costs. The 9.5 percent increase in distributions is due to employee turnover.

| Deferred Compensation Plan | | | |
|-----------------------------------|----------------|----------------|--------------------------|
| Deductions by Type | | | |
| (Millions) | | | |
| | <u>2015</u> | <u>2014</u> | <u>Percentage Change</u> |
| Distributions | <u>\$ 26.1</u> | <u>\$ 25.5</u> | <u>2.4 %</u> |

During FY 2015, distributions paid from the DCP increased 2.4% over the FY 2014 level.

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

MONTGOMERY COUNTY, MARYLAND
 STATEMENTS OF FIDUCIARY NET POSITION
 JUNE 30, 2015

| | Employees' Retirement System | Retirement Savings Plan | Deferred Compensation Plan |
|---|---|--|---|
| ASSETS | | | |
| Equity in County's pooled cash and investments | \$ 981,456 | \$ 671,139 | \$ - |
| Investments: | | | |
| Government and agency obligations | 395,527,073 | - | - |
| Municipal/Provincial obligations | 12,358,783 | - | - |
| Asset-backed securities | 3,464,339 | - | - |
| Corporate bonds | 656,471,268 | - | - |
| Common and preferred stock | 1,455,833,853 | - | - |
| Mutual and commingled funds | 365,620,792 | 313,170,346 | 351,892,072 |
| Short-term investments | 119,853,979 | - | - |
| Cash collateral received under securities lending agreements | 273,912,882 | - | - |
| Real assets | 380,180,632 | - | - |
| Private equity/debt | 261,364,506 | - | - |
| Total investments | <u>3,924,588,107</u> | <u>313,170,346</u> | <u>351,892,072</u> |
| Dividend, interest, and other receivables | 6,640,354 | - | - |
| Contributions receivable | 8,443,224 | 1,483,331 | 754,780 |
| Capital assets | 900,043 | - | - |
| Less depreciation | 300,014 | - | - |
| Net Capital assets | <u>600,029</u> | <u>-</u> | <u>-</u> |
| Total assets | <u>3,941,253,170</u> | <u>315,324,816</u> | <u>352,646,852</u> |
| LIABILITIES | | | |
| Payable for collateral received under securities lending agreements | 273,912,882 | - | - |
| Benefits payable and other liabilities | 5,679,044 | 23,900 | - |
| Total liabilities | <u>279,591,926</u> | <u>23,900</u> | <u>-</u> |
| Net position restricted for pensions | <u>\$ 3,661,661,244</u> | <u>\$ 315,300,916</u> | <u>\$ 352,646,852</u> |

See accompanying notes to financial statements.

MONTGOMERY COUNTY, MARYLAND
 STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2015

| | Employees' Retirement System | Retirement Savings Plan | Deferred Compensation Plan |
|---|---|--|---|
| ADDITIONS | | | |
| Contributions: | | | |
| Employer | \$151,301,867 | \$ 18,502,353 | \$ - |
| Members | 26,627,493 | 9,728,222 | 19,228,978 |
| Total contributions | <u>177,929,360</u> | <u>28,230,575</u> | <u>19,228,978</u> |
| Investment income | 88,488,213 | 7,498,168 | 15,258,958 |
| Less investment expenses | <u>22,506,400</u> | <u>5,437</u> | <u>-</u> |
| Net gain from investment activities | <u>65,981,813</u> | <u>7,492,731</u> | <u>15,258,958</u> |
| Income from securities lending | 1,156,632 | - | - |
| Less securities lending expenses | <u>68,012</u> | <u>-</u> | <u>-</u> |
| Net income from securities lending | <u>1,088,620</u> | <u>-</u> | <u>-</u> |
| Total additions | <u>244,999,793</u> | <u>35,723,306</u> | <u>34,487,936</u> |
| DEDUCTIONS | | | |
| Retiree benefits | 171,784,946 | - | - |
| Disability benefits | 49,879,651 | - | - |
| Survivor benefits | 8,982,132 | - | - |
| Refunds and distributions | 2,874,357 | 12,693,995 | 26,122,796 |
| Administrative expenses | <u>2,684,560</u> | <u>235,300</u> | <u>-</u> |
| Total deductions | <u>236,205,646</u> | <u>12,929,295</u> | <u>26,122,796</u> |
| Increase in net position | <u>8,794,147</u> | <u>22,794,011</u> | <u>8,365,140</u> |
| Net position restricted for pensions | | | |
| Beginning of year | <u>3,652,867,097</u> | <u>292,506,905</u> | <u>344,281,712</u> |
| End of year | <u>\$ 3,661,661,244</u> | <u>\$ 315,300,916</u> | <u>\$ 352,646,852</u> |

See accompanying notes to financial statements.

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

YEAR ENDED JUNE 30, 2015

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.

A. Plan Description and Contribution Information

Plan Membership. At June 30, 2015, the date of the latest actuarial valuation, membership in the System consisted of:

| | |
|--|-------|
| Retirees and beneficiaries receiving benefits | 6,380 |
| Terminated plan members entitled to but not yet receiving benefits | 402 |
| Active plan members | 5,541 |

Plan Administration. The System, a cost-sharing multiple-employer defined benefit pension plan, was established in 1965 and is sponsored by the County. Eight 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 6 percent to 11.25 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. Employee contributions for the Elected Officials' Plan are 4 percent of regular earnings.

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.

Deferred Retirement Option Plans (DROP). 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. The balance of amounts held by the System pursuant to DROP Plans at June 30, 2015 was \$11,439,991.

For members of the GRIP, 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. 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, 2015. Fair value for private investments funds, including private equity and private real assets, is determined using unit values supplied by the fund managers, which are based upon the fund managers’ appraisals of the funds’ underlying holdings. Such values involve subjective judgment and may differ from amounts which would be realized if such holdings were 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 short-term 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.

Capital Assets. The System reports capital assets, which include computer software, in the Statements of Fiduciary Net Position. The System defines capital assets as assets with an initial, individual cost of \$10,000

or more, and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. An asset's cost basis may be adjusted after acquisition due to improvements or impairments to the asset. However, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Accounting Changes. GASB Statement No. 68, Accounting and Financial Reporting for Pensions, (GASB 68) is effective for fiscal years beginning after June 15, 2014. This Statement provides accounting and reporting guidance for employers participating in pension plans falling under the guidance of GASB 67. Participating employers will recognize their proportionate share of the collective pension amounts as of a measurement date no earlier than the end of the employer's prior fiscal year. The provisions of GASB 68 do not apply to the plan, however the plan issued a separate report as of June 30, 2015 to provide to its participating employers with the information needed to implement GASB 68 in their respective financial statements.

C. Net Pension Liability

The components of the net pension liability of the System as of June 30, 2015, were as follows:

| Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a-b) | Plan Fiduciary Net Position as a % of Total Pension Liability (b/a) |
|--|--|--|--|
| \$4,082,394,812 | \$3,661,661,244 | \$420,733,568 | 89.69% |

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

| | |
|---|--|
| Valuation date | June 30, 2015 |
| Actuarial cost method | Individual Entry Age Normal |
| Amortization method for funding | Level percentage of payroll, separate closed period bases for Public Safety and GRIP, single closed period amortization base for non-Public Safety. |
| Amortization period for funding | For Public Safety and GRIP: Initial amortization period of 20 years for the base established July 1, 2015. Initial amortization period of 20 years for subsequent bases. For non-Public Safety: Single closed amortization period of 9 years established July 1, 2015. Average amortization period of 11.7 years for total ERS. |
| Asset valuation method | Market Value |
| Actuarial assumptions: | |
| Investment rate of return | 7.50% per year |
| Projected salary increases depending on service | 3.25%-9.50% |
| Cost-of-living (inflation rate) adjustments | 2.75% on the benefit attributable to credited service earned prior to June 30, 2011. 2.3% on the benefit attribution to credited service earned on or after July 1, 2011, reflecting the 2.5% cap. |
| Post-retirement Increases | Consumer Price Index - by Group |
| Mortality rates after retirement | RP-2014 Healthy Annuitant Mortality Table, sex-distinct for healthy mortality. Rates are set forward six years for male disabled mortality and eight years for the female disabled mortality assumption. To provide a margin for future mortality improvements, generational mortality improvements from 2014 using projection scale MP-2014 was used. |

An experience study was conducted for the period July 1, 2009 to July 1, 2014 in September 2015. The results of the experience study have been incorporated into the FY2015 financial statements where applicable. An actuarial experience study is conducted every five years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the System's investment policy) are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------------|---|
| Long Duration Fixed Income | 2.10 % |
| High Yield Fixed Income | 3.40 |
| Credit Opportunities | 5.40 |
| TIPS | 1.20 |
| Domestic Equity | 4.55 |
| International Equity | 4.55 |
| Emerging Equity | 4.55 |
| Global Equity | 4.75 |
| Private Markets | 7.20 |
| Global REITs | 3.60 |
| Commodities | 2.00 |
| Master Limited Partnerships | 7.50 |
| Cash | 0.00 |
| Hedge Funds | 4.35 |

Discount Rate. The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and contributions from the County and other participating agencies will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the System calculated using the discount rate of 7.5%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

| | 1% Decrease 6.50% | Current Discount Rate 7.50% | 1% Increase 8.50% |
|-----------------------|------------------------------|--|------------------------------|
| Net pension liability | \$888,145,312 | \$420,733,568 | \$29,532,075 |

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.

The following was the Board's adopted asset allocation policy as of June 30, 2015:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|-----------------------------|--------------------------|
| Long Duration Fixed Income | 12.50 % |
| High Yield Fixed Income | 8.00 |
| Credit Opportunities | 2.00 |
| TIPS | 10.00 |
| Domestic Equity | 15.75 |
| International Equity | 12.50 |
| Emerging Equity | 3.25 |
| Global Equity | 3.50 |
| Private Markets | 18.00 |
| Global REITs | 2.50 |
| Commodities | 4.00 |
| Master Limited Partnerships | 2.00 |
| Cash | 1.00 |
| Hedge Funds | 5.00 |
| Total | <u>100.00 %</u> |

Rate of Return. The annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, for FY 2015 was 2.19%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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, 2015, the System's fixed income portfolio had the following sensitivity to changes in interest rates:

| <u>Type of Investment</u> | <u>Effective Duration in Years</u> | <u>Fair Value</u> | <u>Percentage of Portfolio</u> |
|-------------------------------------|--|-------------------------|------------------------------------|
| U.S. Government Obligations | 16.10 | \$ 128,828,385 | 10.86 % |
| Foreign Government Obligations | 3.35 | 10,536,018 | 0.89 |
| Asset-Backed Securities | 12.98 | 3,464,339 | 0.29 |
| Municipal/Provincial Obligations | 13.93 | 12,358,783 | 1.04 |
| Corporate Bonds | 7.03 | 588,867,097 | 49.63 |
| Fixed Income Pooled Funds | N/A | 323,766,841 | 27.28 |
| Short-term Investments and Others * | N/A | 118,827,948 | 10.01 |
| Total Fixed Income Securities | | <u>\$ 1,186,649,411</u> | <u>100.00 %</u> |

*Short-term investments consist of U.S. Treasury and government sponsored securities, money market funds, commercial paper, certificates of deposit, repurchase agreements, asset backed securities, notes and bonds issued by U.S. corporations, and other allowable instruments that meet short-term maturity or average life, diversification, and credit quality restrictions.

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, for the majority of public fund managers, 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.

The quality ratings of investments in fixed income securities as described by nationally recognized rating organizations as of June 30, 2015 are as follows:

| Type of Investment | Quality Rating | Fair Value | Percentage of Portfolio |
|--------------------------------------|-----------------------|-------------------------|--------------------------------|
| U.S. Government Obligations* | AAA | \$ 128,828,385 | 10.86 % |
| Foreign Government Obligations | AAA | 783,288 | 0.07 |
| | AA | 398,286 | 0.03 |
| | A | 4,446,272 | 0.37 |
| | BBB | 1,833,805 | 0.15 |
| | CCC | 51,018 | 0.01 |
| | Unrated | 3,023,349 | 0.26 |
| Asset-Backed Securities | AAA | 3,464,339 | 0.29 |
| Municipal/Provincial Bonds | AAA | 1,665,080 | 0.14 |
| | AA | 9,383,201 | 0.79 |
| | A | 1,310,502 | 0.11 |
| Corporate Bonds | AAA | 5,801,132 | 0.49 |
| | AA | 34,339,675 | 2.89 |
| | A | 142,478,179 | 12.01 |
| | BBB | 133,990,218 | 11.29 |
| | BB | 96,243,298 | 8.11 |
| | B | 115,243,787 | 9.71 |
| | CCC | 41,528,208 | 3.50 |
| | CC | 128,500 | 0.01 |
| | D | 764,862 | 0.07 |
| | Unrated | 18,349,238 | 1.55 |
| Fixed Income Pooled Funds | Unrated | 323,766,841 | 27.28 |
| Short-term Investments and others | Unrated | 118,827,948 | 10.01 |
| Total Fixed Income Securities | | \$ 1,186,649,411 | 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.

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 |
|---------------------------------------|-----------------------|----------------------|-----------------------------|------------------------------|
| Euro | \$ 136,581,467 | \$ 1,247,131 | \$ 71,856,795 | \$ 209,685,393 |
| Japanese yen | 137,758,990 | - | 62,341,850 | 200,100,840 |
| Norwegian krone | 1,899,876 | - | 45,255,217 | 47,155,093 |
| Australian dollar | 3,035,321 | 1,190,470 | 34,703,717 | 38,929,508 |
| Swiss franc | 34,528,124 | - | - | 34,528,124 |
| British pound sterling | 91,823,952 | - | (67,060,362) | 24,763,590 |
| Danish krone | 14,882,743 | - | - | 14,882,743 |
| Hong Kong dollar | 13,431,089 | - | 462,787 | 13,893,876 |
| Swedish krona | 15,768,783 | - | (9,415,951) | 6,352,832 |
| Mexican peso | - | 4,056,504 | - | 4,056,504 |
| Other Currencies | 6,092,024 | 4,786,649 | (142,773,148) | (131,894,475) |
| Total International Securities | \$ 455,802,369 | \$ 11,280,754 | \$ (4,629,095) | \$ 462,454,028 |

Derivatives. In accordance with the Board's Statement of Investment Policy and Objectives, 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 2015, the System invested directly in various derivatives including exchange-traded futures contracts, forward currency contracts, and swaps. 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 Statement of Investment Policy and Objectives 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, 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, 2015, the System held 427 long US Treasury futures contracts with a fair value of \$54,890,820 and 561 short US Treasury futures contracts with a fair value of (\$110,485,125).

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, 2015, the System held \$653,090,415 buy foreign exchange contracts and (\$673,033,045) sell foreign exchange contracts. The unrealized loss on the System's contracts was \$1,534,370.

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 fiduciary net position. 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, 2015, the fair value of securities on loan was \$390,940,192. Cash received as collateral and the related liability of \$273,912,882 as of June 30, 2015, is shown on the Statement of Fiduciary Net Position. 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 \$1,156,632 and \$68,012, 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, 2015:

| Securities Lent | Underlying Securities | Non-Cash Collateral Value | Cash Collateral Investment Value |
|-------------------------------|------------------------------|----------------------------------|---|
| Lent for Cash Collateral: | | | |
| U.S. Government Obligations | \$ 87,710,859 | \$ - | \$ 89,511,877 |
| Corporate Bonds | 80,386,134 | - | 82,053,823 |
| Equities | 100,063,899 | - | 102,347,182 |
| Lent for Non-Cash Collateral: | | | |
| U.S. Government Obligations | 2,199,242 | 2,243,149 | - |
| Corporate Bonds | 4,383,667 | 4,477,281 | - |
| Equities | 116,196,391 | 124,743,197 | - |
| Total | <u>\$ 390,940,192</u> | <u>\$ 131,463,627</u> | <u>\$ 273,912,882</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, 2015, there were no funds held by a counterparty that was acting as the System's agent in securities lending transactions.

F. Capital Assets

On June 30, 2014, the Employees' Retirement System purchased a computer software system, which was depreciated during FY2015 as shown below:

| | Balance 6/30/2014 | Increases | Decreases | Balance 6/30/2015 |
|-----------------------------|------------------------------|------------------|-------------------|------------------------------|
| Depreciable Capital Assets: | | | | |
| Capital Assets | <u>\$ 900,043</u> | <u>\$ -</u> | <u>\$ 300,014</u> | <u>\$ 600,029</u> |

G. 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.

H. Income Taxes

The Internal Revenue Service issued a determination letter in September 2013, 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.

A. Plan Description and Contribution Information

Membership. At June 30, 2015 membership in the Plan consisted of:

| | |
|-----------------------|-------|
| Active plan members | 3,756 |
| Inactive plan members | 853 |

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. For fiscal year 2015, under Section 33-116 of the Code, the Plan required 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.

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, refunds and distributions 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, 2015.

Equity in County’s Pooled Cash and Investments. The Plan maintains its short-term 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 RSP 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, 2015, the fair value of the mutual and commingled investment funds was \$313,170,346, of which \$75,654,256 was invested in international mutual funds.

E. Income Taxes

The Internal Revenue Service issued a determination letter in December 2010, 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. 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.

Plan Contributions. In accordance with Section 457 of the IRC, the Plan limits the amount of an employee's annual contributions to an amount not to exceed the lesser of \$17,500 in 2014 and \$18,000 in 2015 or 100% of the employee's eligible compensation. The Plan also provides certain catch-up contribution provisions for participants age 50 or older and for participants within three years of their normal retirement age. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. Under Section 33-11 of the County Code, all eligible employees hired after July 1, 2008 are automatically enrolled in the Plan with a 1% contribution unless they elect out within 60 days from the date of hire. If they do not opt out of the Plan within 60 days from the date of hire, they begin making a contribution equivalent to 1% of their salary.

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, 2015.

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, 2015, the fair value of the mutual and commingled investment funds was \$351,892,072, of which \$43,773,219 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 CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS

| Fiscal year ending June 30, | 2015 | 2014 |
|---|------------------|------------------|
| Total Pension Liability | | |
| Service Cost | \$ 74,984,370 | \$ 70,019,055 |
| Interest on the Total Pension Liability | 291,040,049 | 281,988,785 |
| Benefit Changes | 3,626,601 | - |
| Difference between Expected and Actual Experience | 602,431 | - |
| Assumption Changes | (12,706,870) | - |
| Benefit Payments | (230,646,729) | (229,664,720) |
| Refunds | (2,874,357) | (4,329,834) |
| Net Change in Total Pension Liability | 124,025,495 | 118,013,286 |
| Total Pension Liability - Beginning | 3,958,369,317 | 3,840,356,031 |
| Total Pension Liability - Ending (a) | \$ 4,082,394,812 | \$ 3,958,369,317 |
| Plan Fiduciary Net Position | | |
| Employer Contributions | \$ 151,301,867 | \$ 144,709,675 |
| Member Contributions | 26,627,493 | 26,462,839 |
| Pension Plan Net Investment Income | 67,070,433 | 534,397,733 |
| Benefit Payments | (230,646,729) | (229,664,720) |
| Refunds | (2,874,357) | (4,329,834) |
| Pension Plan Administrative Expense | (2,684,560) | (2,953,807) |
| Other | - | - |
| Net Change in Plan Fiduciary Net Position | 8,794,147 | 468,621,886 |
| Plan Fiduciary Net Position - Beginning | 3,652,867,097 | 3,184,245,211 |
| Plan Fiduciary Net Position - Ending (b) | \$ 3,661,661,244 | \$ 3,652,867,097 |
| Net Pension Liability - Ending (a) - (b) | \$ 420,733,568 | \$ 305,502,220 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 89.69% | 92.28% |
| Covered Employee Payroll | \$ 418,728,584 | \$ 402,899,096 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 100.48% | 75.83% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Fiscal Year Ended June 30 | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|------------------------------------|---|------------------------|--|--------------------|--|
| 2006 | \$ 88,184,159 | \$ 88,184,159 | - | \$ 340,333,414 | 25.91 % |
| 2007 | 109,436,001 | 109,436,001 | - | 352,636,518 | 31.03 |
| 2008 | 117,686,375 | 117,686,375 | - | 372,214,906 | 31.62 |
| 2009 | 109,567,014 | 109,567,014 | - | 376,895,171 | 29.07 |
| 2010 | 113,957,784 | 113,957,784 | - | 431,226,155 | 26.43 |
| 2011 | 109,343,933 | 109,343,933 | - | 405,336,529 | 26.98 |
| 2012 | 107,855,595 | 107,855,595 | - | 398,460,248 | 27.07 |
| 2013 | 127,887,620 | 127,887,620 | - | 395,988,026 | 32.30 |
| 2014 | 144,709,675 | 144,709,675 | - | 402,899,096 | 35.92 |
| 2015 | 151,301,867 | 151,301,867 | - | 418,728,584 | 36.13 |

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

Valuation Date: July 1, 2014

Notes Actuarially determined contribution rates are calculated as of July 1, 2013 which is 24 months prior to the end of the fiscal year in which contributions are reported. Assumptions were updated in the 2015 valuation, which first affects fiscal year 2017 contributions.

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Individual Entry Age Normal |
| Amortization Method | Level percentage of pay, separate closed period bases |
| Remaining Amortization Period | Initial amortization period of 18 years for the base established July 1, 2010. Initial amortization period of 20 years for subsequent bases. Average amortization period of 13 years. |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 2.75% per year |
| Salary Increases | 3.25%-9.50% |
| Investment Rate of Return | 7.50% per year |
| Retirement Age | Experience-based table of rates that are specific to the type of eligibility condition and years of service. Last updated for the 2015 valuation pursuant to an experience study of the period 2009-2014. |
| Mortality | RP-2014 Healthy Annuitant Mortality Table, sex-distinct for healthy mortality. Rates are set forward six years for the male disabled mortality and eight years for the female disabled mortality assumption. To provide a margin for future mortality improvements, generational mortality improvements from 2014 using projection scale MP-2014 was used. |

Other Information:

Notes Effective July 1, 2015, a DROP was implemented for eligible uniformed correctional officers and sworn deputy sheriffs participating in Group E. Effective July 1, 2015, updated actuarial assumptions were used in the valuation, which first affect fiscal year 2017 contributions and are summarized above.

SCHEDULE OF INVESTMENT RETURNS

| <u>Fiscal year ending June 30</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|
| Annual money weighted rate of return, net of investment expense | 2.19% | 16.95% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF ADMINISTRATIVE EXPENSES
EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2015

| | |
|--|---------------------|
| Personnel Services: | |
| Salaries and wages | \$ 1,106,591 |
| Retirement contributions | 70,915 |
| Insurance | 107,645 |
| Social security | 73,763 |
| Total personnel services | <u>1,358,914</u> |
| Professional Services: | |
| Actuarial | 235,786 |
| Independent public accountants | 25,014 |
| Outside legal | 1,355 |
| Computer technical support | 152,235 |
| Other professional services | 571 |
| Temporary | 1,665 |
| Total professional services | <u>416,626</u> |
| Benefit Processing: | |
| Disbursement services | 48,590 |
| Recordkeeping services | 73,924 |
| Disability management | 363,069 |
| Total benefit processing | <u>485,583</u> |
| Due diligence and continuing education | <u>28,432</u> |
| Office Management: | |
| Office equipment and supplies | 92,910 |
| Depreciation expense | 300,014 |
| Miscellaneous | 2,081 |
| Total office management | <u>395,005</u> |
| Total administrative expenses | <u>\$ 2,684,560</u> |

SCHEDULE OF INVESTMENT EXPENSES
EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2015

| | |
|--------------------------------------|---------------|
| Investment Management Expenses: | |
| Aberdeen Asset Management Inc | \$ 1,131,841 |
| Barrow Hanley Mewhinney & Straus LLC | 492,140 |
| BlackRock Financial Management | 368,286 |
| Bridgewater Associates | 7,043,391 |
| Chickasaw Capital Management LLC | 48,917 |
| CoreCommodity Management LLC | 187,327 |
| Eagle Asset Management | 524,272 |
| E.I.I. Capital Management | 166,955 |
| First Quadrant L.P. | 939,409 |
| Gryphon International Investment | 901,097 |
| Jennison Associates LLC | 603,283 |
| JP Morgan Investment Management | 1,434,502 |
| Los Angeles Capital Management | 426,842 |
| Loomis Sayles | 877,070 |
| Marathon London | 1,263,582 |
| Mondrian Investment Partners Ltd. | 781,055 |
| Nomura Asset Management | 876,303 |
| RhumbLine Advisors | 14,925 |
| Sands Capital Management | 708,456 |
| Schroder Investment Management | 453,962 |
| Systematic Financial Management | 16,431 |
| Wellington Management | 611,413 |
| Wellington Trust Company | 424,446 |
| The Northern Trust Company | 419,657 |
| Abel Noser Corp. | 5,000 |
| Aetna Life Insurance Company | 3,145 |
| Albourne America LLC | 400,000 |
| Bloomberg Financial Systems | 21,263 |
| Flag Capital Management LLC | 525,000 |
| Franklin Park | 525,000 |
| MSCI | 8,105 |
| Wilshire Associates | 303,325 |
| | <hr/> |
| Total investment management expenses | 22,506,400 |
| | <hr/> |
| Securities lending borrower rebates | (151,638) |
| Securities lending agent fees | 219,650 |
| | <hr/> |
| Total securities lending expenses | 68,012 |
| | <hr/> |
| Total investment expenses | \$ 22,574,412 |
| | <hr/> |

EMPLOYEES' RETIREMENT SYSTEM
 STATEMENTS OF FIDUCIARY NET POSITION
 JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|---|-------------------------|-------------------------|
| ASSETS | | |
| Equity in County's pooled cash and investments | \$ 981,456 | \$ 971,114 |
| Investments: | | |
| Government and agency obligations | 395,527,073 | 359,793,807 |
| Municipal/Provincial bonds | 12,358,783 | 58,203,905 |
| Asset-backed securities | 3,464,339 | 3,345,101 |
| Corporate bonds | 656,471,268 | 632,632,391 |
| Collateralized mortgage obligations | - | 419,500 |
| Common and preferred stock | 1,455,833,853 | 1,391,796,570 |
| Mutual and commingled funds | 365,620,792 | 453,648,456 |
| Short-term investments | 119,853,979 | 99,565,286 |
| Cash collateral received under securities lending agreements | 273,912,882 | 233,431,419 |
| Real assets | 380,180,632 | 391,199,845 |
| Private equity/debt | 261,364,506 | 257,774,913 |
| Total investments | <u>3,924,588,107</u> | <u>3,881,811,193</u> |
| Dividend, interest, and other receivables | 6,640,354 | 3,875,781 |
| Contributions receivable | 8,443,224 | 7,717,664 |
| Capital assets | 900,043 | 900,043 |
| Less depreciation | 300,014 | - |
| Net Capital Assets | <u>600,029</u> | <u>900,043</u> |
| Total assets | <u>3,941,253,170</u> | <u>3,895,275,795</u> |
| LIABILITIES | | |
| Payable for collateral received under securities lending agreements | 273,912,882 | 233,431,419 |
| Benefits payable and other liabilities | 5,679,044 | 8,977,279 |
| Total liabilities | <u>279,591,926</u> | <u>242,408,698</u> |
| Net Position restricted for pensions | <u>\$ 3,661,661,244</u> | <u>\$ 3,652,867,097</u> |

EMPLOYEES' RETIREMENT SYSTEM
 STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|---|-------------------------|-------------------------|
| ADDITIONS | | |
| Contributions: | | |
| Employer | \$ 151,301,867 | \$ 144,709,675 |
| Members | 26,627,493 | 26,462,839 |
| Total contributions | <u>177,929,360</u> | <u>171,172,514</u> |
| Investment Income: | | |
| Net appreciation in fair value of investments | 22,807,866 | 483,192,812 |
| Dividends and interest | 65,680,347 | 70,406,663 |
| Total income from investment activities | <u>88,488,213</u> | <u>553,599,474</u> |
| Less investment expenses | 22,506,400 | 20,357,819 |
| Net income from investment activities | <u>65,981,813</u> | <u>533,241,655</u> |
| Income from securities lending | 1,156,632 | 1,077,992 |
| Less securities lending expenses | 68,012 | (78,086) |
| Net income from securities lending | <u>1,088,620</u> | <u>1,156,078</u> |
| Total additions | <u>244,999,793</u> | <u>705,570,247</u> |
| DEDUCTIONS | | |
| Retiree benefits | 171,784,946 | 172,472,289 |
| Disability benefits | 49,879,651 | 48,606,540 |
| Survivor benefits | 8,982,132 | 8,585,891 |
| Refunds and distributions | 2,874,357 | 4,329,834 |
| Administrative expenses | 2,684,560 | 2,953,807 |
| Total deductions | <u>236,205,646</u> | <u>236,948,361</u> |
| Net increase in net position | 8,794,147 | 468,621,886 |
| NET POSITION RESTRICTED FOR PENSIONS | | |
| Beginning of year | <u>3,652,867,097</u> | <u>3,184,245,211</u> |
| Ending of year | <u>\$ 3,661,661,244</u> | <u>\$ 3,652,867,097</u> |

RETIREMENT SAVINGS PLAN
 STATEMENTS OF FIDUCIARY NET POSITION
 JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|--|------------------------------|------------------------------|
| ASSETS | | |
| Equity in County's pooled cash and investments | \$ 671,139 | \$ 586,404 |
| Investments | 313,170,346 | 290,735,529 |
| Contributions receivable | <u>1,483,331</u> | <u>1,215,635</u> |
| Total assets | <u>315,324,816</u> | <u>292,537,568</u> |
| LIABILITIES | | |
| Accrued expenses | <u>23,900</u> | <u>30,663</u> |
| Net position held in trust for pension benefits | <u><u>\$ 315,300,916</u></u> | <u><u>\$ 292,506,905</u></u> |

RETIREMENT SAVINGS PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|----------------------------------|-----------------------|-----------------------|
| ADDITIONS | | |
| Contributions: | | |
| Employers | \$ 18,502,353 | \$ 17,117,342 |
| Members | <u>9,728,222</u> | <u>8,694,887</u> |
| Total contributions | <u>28,230,575</u> | <u>25,812,229</u> |
| Investment income | 7,050,419 | 42,040,389 |
| Other income | <u>447,749</u> | <u>396,592</u> |
| Net investment income | <u>7,498,168</u> | <u>42,436,981</u> |
| Less investment expenses | <u>5,437</u> | <u>4,800</u> |
| Total additions | <u>35,723,306</u> | <u>68,244,410</u> |
| DEDUCTIONS | | |
| Distributions | 12,693,995 | 11,681,985 |
| Administrative expenses | <u>235,300</u> | <u>197,453</u> |
| Total deductions | <u>12,929,295</u> | <u>11,879,438</u> |
| Net increase | 22,794,011 | 56,364,972 |
| Net position - beginning of year | <u>292,506,905</u> | <u>236,141,933</u> |
| Net position - end of year | <u>\$ 315,300,916</u> | <u>\$ 292,506,905</u> |

DEFERRED COMPENSATION PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|---|------------------------------|------------------------------|
| ASSETS | | |
| Investments | \$ 351,892,072 | \$ 343,639,371 |
| Contributions receivable | <u>754,780</u> | <u>642,341</u> |
| Total position and net position held in trust for pension benefits | <u><u>\$ 352,646,852</u></u> | <u><u>\$ 344,281,712</u></u> |

DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|----------------------------------|------------------------------|------------------------------|
| ADDITIONS | | |
| Contributions - members | \$ 19,228,978 | \$ 17,011,184 |
| Investment income | <u>15,258,958</u> | <u>48,863,366</u> |
| Total additions | <u>34,487,936</u> | <u>65,874,550</u> |
| DEDUCTIONS | | |
| Distributions | <u>26,122,796</u> | <u>25,505,605</u> |
| Total deductions | <u>26,122,796</u> | <u>25,505,605</u> |
| Net increase | 8,365,140 | 40,368,945 |
| Net position - beginning of year | <u>344,281,712</u> | <u>303,912,767</u> |
| Net position - end of year | <u><u>\$ 352,646,852</u></u> | <u><u>\$ 344,281,712</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 \$3.7 billion 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's 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 2015 was a gain of 3.43%, gross of fees. The System's return for the fiscal year was a gain of 2.82% gross of fees, ranking below median in the universe. The private equity sector of the System's portfolio produced the strongest returns for FY15. The same study ranked the System's three-year gain of 10.28% and its five-year return of 11.45% in the top quartile of this universe. The gross returns for the one-year period exceeded the performance benchmark established by the Board by 161 basis points, with returns for the three-year and five-year periods exceeding the performance benchmarks by 186 basis points and 142 basis points, respectively. Returns for the System are calculated on a time weighted basis (except where noted on page 46). The key drivers of the performance for the twelve month period ending June 30, 2015 were the System's both private equity and private real assets, and public equities holdings.

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.
- 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.

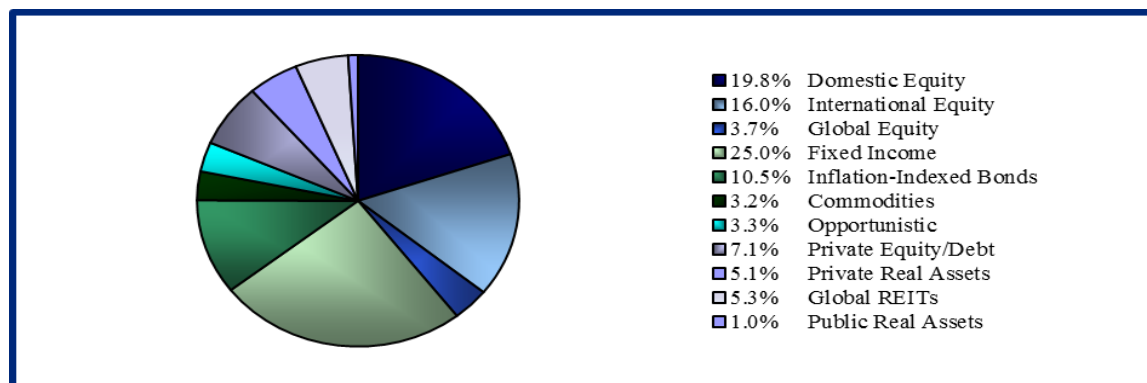
To achieve these objectives, the following investment policies are employed:

- Allocate System assets to a broad array of investment sectors and strategies.
- Maintain the asset allocation in compliance with the Board's rebalancing policy (+/- 5% for major asset classes and +/- 1.5% to 3% for sub-asset classes).
- Monitor the individual investment managers' 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 2015, the Board continued to implement portfolio adjustments which will result in further diversification of the investment portfolio and better management of the System's risk. Toward this effort, the Board approved new investments in the following sectors: public equities, private equity, private real assets, public real assets, and opportunistic.

The following pages reflect comments on the investment portfolio and were prepared by the Board.

ASSET ALLOCATION – JUNE 30, 2015



INVESTMENT PERFORMANCE SUMMARY

ANNUALIZED DATA FOR PERIOD ENDING JUNE 30, 2015

| | 1 Year | 3 Year | 5 Year |
|---|---------------------|----------------------|----------------------|
| Total Fund Time-Weighted Returns | | | |
| MCERS | 2.82 ^A % | 10.28 ^A % | 11.45 ^A % |
| Policy Benchmark | 1.21 ^A | 8.42 ^A | 10.03 ^A |
| Total Domestic Equities Return | | | |
| MCERS | 9.67 | 19.51 | 18.52 |
| Russell 3000 | 7.29 | 17.73 | 17.54 |
| Total Private Equities Return | | | |
| MCERS | 15.10 ^B | 14.60 ^B | 13.90 ^B |
| Russell 3000 + 300 Bpts | 9.70 ^B | 21.4 ^B | 20.90 ^B |
| Total International Equities | | | |
| MCERS | (1.59) | 11.75 | 9.87 |
| MSCI All Country World X US | (5.26) | 9.44 | 7.76 |
| Total Global Equities | | | |
| MCERS | (7.90) | N/A | N/A |
| MSCI All Country World | 0.71 | N/A | N/A |
| Total Private Real Assets | | | |
| MCERS | 11.40 ^B | 12.42 ^B | 11.26 ^B |
| CPI + 500 Bpts | 5.16 ^C | 6.35 ^C | 6.74 ^C |
| Total Fixed Income | | | |
| MCERS | 1.82 | 6.03 | 8.45 |
| Custom Fixed Income Benchmark | 1.07 | 4.24 | 7.02 |
| Total Opportunistic | | | |
| MCERS | 1.32 ^D | 6.09 ^D | 4.87 ^D |
| HFRI Fund of Funds Composite | 3.84 | 6.23 | 4.08 |
| Total Commodities | | | |
| MCERS | (22.90) | (8.59) | (3.23) |
| DJ UBS Commodities Index | (23.71) | (8.76) | (3.91) |
| Total Global Inflation Indexed Bonds | | | |
| MCERS | 9.13 | 7.45 | 14.63 |
| Custom IIB Benchmark | 5.33 | 3.16 | 7.99 |

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.

A: Total Fund returns utilize lagged valuations for private equity and private real assets investments.

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

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

D: Returns computed net of investment management fees.

PORTFOLIO HIGHLIGHTS

PUBLIC EQUITY

The market value of the total Public Equity Portfolio as of June 30, 2015 represented approximately 39.5% of the total Fund, split between Domestic Equity at 19.8%, International Equity at 16.0%, and Global Equity at 3.7%. The Domestic Equity Portfolio outperformed the Russell 3000 Benchmark by 2.38% for the one year ending June 30, 2015. The U.S. equity markets rallied throughout the fiscal year on signs of stronger-than-expected economic reports while investors kept their eye on the timing of the Fed's interest rate hike. Despite the impacts of declining oil prices on the energy sector and a stronger dollar weighing on multi-national companies, the markets continued to perform strongly each quarter with the S&P 500 Index reaching an all time high during the fiscal year.

As of June 30, 2015, the International Equity Portfolio was allocated as follows: 81.6% active EAFE and 18.4% active emerging markets. The International Equity Portfolio outperformed the MSCI ACWI ex U.S. benchmark by 3.67% for the fiscal year ending June 30, 2015. International markets started the fiscal year on a negative note on growing concerns about geopolitical events in Ukraine and the Middle East. With the IMF cutting its global growth forecast and the ECB reducing forecast for growth in the European region, international markets continue to decline towards the mid-year. However, with the Eurozone showing signs of economic recovery and the European central banks easing globally, the markets started to advance strongly in the second half of the fiscal year. Emerging markets trailed both the U.S. and international developed markets on concerns over geopolitical events and China's growth trajectory.

Equity: Top 15 Holdings

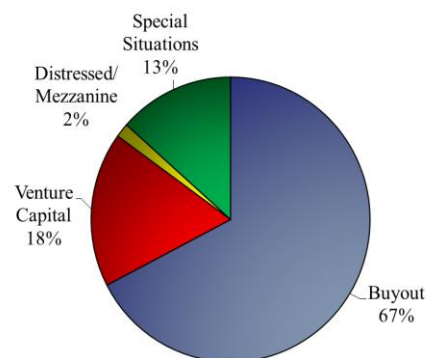
The top 15 holdings in the Public Equity Portfolio comprised 3.6% of ERS assets at June 30, 2015. In comparison to the top 15 holdings of last year, Novartis, Fresenius, BNP Paribas, ING Groep, VISA, Toyota, Seven & I Holdings, Inditex, and Ericsson remained and Adecco, Barclays, Facebook, Koninklijke Ahold, Salesforce.com, and Smith were added.

| Equity | Shares | Value |
|---------------------|-----------|---------------|
| Novartis | 126,827 | \$ 12,505,600 |
| Fresenius | 173,810 | 11,145,082 |
| ING Groep | 666,815 | 11,003,316 |
| Adecco | 119,450 | 9,701,198 |
| VISA Inc. | 143,994 | 9,669,197 |
| Toyota Motor Corp. | 129,700 | 8,694,717 |
| BNP Paribas | 142,901 | 8,621,779 |
| Barclays PLC | 2,104,441 | 8,621,649 |
| Seven & I Holdings | 186,600 | 8,021,215 |
| Facebook Inc. | 93,010 | 7,977,003 |
| Koninklijke Ahold | 414,270 | 7,754,538 |
| Salesforce Com Inc. | 111,282 | 7,748,566 |
| Ericsson | 679,833 | 7,037,982 |
| Inditex | 215,705 | 6,323,142 |
| Smith(DS) | 1,144,215 | 6,946,097 |

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, 2015, the Private Equity Portfolio comprised 6.8% of total Fund assets, and approximately 69.5% of the dollars committed had been called. On a long-term basis, the Private Equity program seeks to outperform the Russell 3000 Index by 3%. System returns are calculated on a dollar-weighted or internal rate-of-return basis, and the annualized return since inception (2003) through June 30, 2015 was 9.1%. By comparison, the dollar-weighted return for the Russell 3000 Index plus 3% for the same period was 12.0%.

As compared to the prior fiscal year, private equity investment activity related to buyout deals saw a decline. Conversely, venture capital deals raised more capital than the previous fiscal year. The exit environment of both buyout and venture investments slowed after an active 2014. Purchase valuations were up versus the prior fiscal year while leverage fell slightly from previous year's peak.



PORTFOLIO HIGHLIGHTS

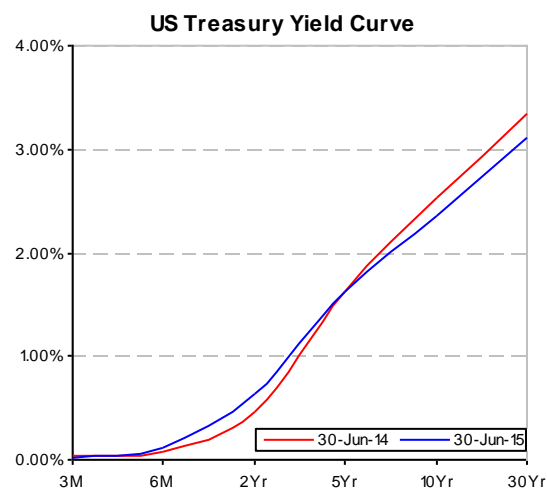
PRIVATE DEBT

The System began investing a portion of its portfolio in Private Debt in FY14 to enhance returns and further diversify the portfolio. The market value of the Private Debt Portfolio as of June 30, 2015 represented approximately 0.3% of the total Fund. Bank loan issuances remained high relative to historical averages. Leverage on mid-market LBOs receded slightly from last year's post-crisis peak.

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, in which these lower volatility assets should provide downside protection. The market value of the Fixed Income Portfolio as of June 30, 2015 represented approximately 25.0% of the total Fund. The Fixed Income Portfolio returned 1.82%, outperforming the benchmark return of 1.07% during the fiscal year. Positive performance was driven by the high yield and long duration investments, representing approximately 9.6% and 12.3%, of total Fund assets, respectively.

During the fiscal year, the Federal Reserve officially concluded its latest round of bond purchases, designed to keep yields low and stimulate wealth by boosting other risk financial assets such as equities. Since that time, domestic economic data has pointed to an environment of moderate expansion, while global growth rates have been revised downwards due primarily to a slowdown in China, the world's second largest economy. As a result of unimpressive U.S. economic indicators and rising global growth concerns, the Fed has so far been reluctant to move the Fed Funds Rate off its 0% base. The flattening of the U.S. Treasury Yield Curve (see chart above) and a rise in short-term rates reflects investor's anticipation of looming Fed rate hikes, while a drop in the long end of the curve may signal retracted long-term inflation expectations.



Fixed Income: Top 15 Holdings

| Fifteen Largest Fixed Income Holdings | Interest Rate | Maturity Date | Fair Value |
|---------------------------------------|---------------|-------------------|---------------|
| United States Treasury Bonds | 4.500 % | February 15, 2036 | \$ 29,634,341 |
| United States Treasury Bonds | 2.875 | May 15, 2043 | 25,248,914 |
| United States Treasury Bonds | 3.750 | November 15, 2043 | 13,610,950 |
| United States Treasury Bonds | 3.125 | August 15, 2044 | 12,793,960 |
| United States Treasury Bonds | 2.500 | February 15, 2045 | 10,912,992 |
| United States Treasury Bonds | 2.250 | November 15, 2024 | 7,951,248 |
| United States Treasury Bonds | 3.625 | February 15, 2044 | 7,839,320 |
| HSBC | 7.000 | January 15, 2039 | 7,331,054 |
| United States Treasury Bonds | 3.000 | November 15, 2044 | 6,028,665 |
| Citigroup Inc. | 8.125 | July 15, 2039 | 5,981,153 |
| Wells Fargo | 5.606 | January 15, 2044 | 5,813,249 |
| Bank of America | 6.000 | October 15, 2036 | 5,698,094 |
| United States Treasury Bonds | 2.750 | August 15, 2042 | 5,559,086 |
| General Electric | 6.875 | January 10, 2039 | 5,122,301 |
| Verizon Communications Inc | 4.672 | March 15, 2055 | 4,368,909 |

PORTFOLIO HIGHLIGHTS

OPPORTUNISTIC

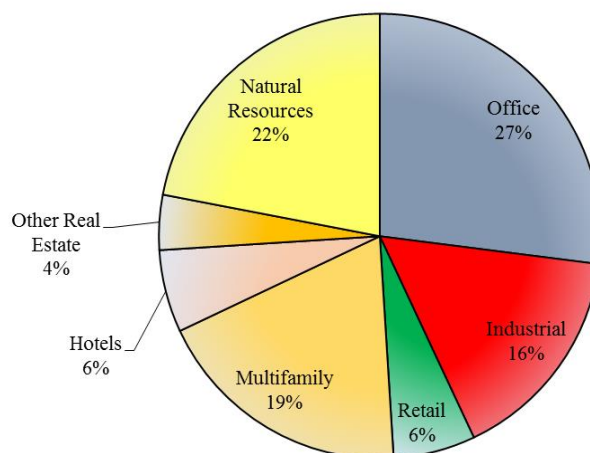
The System invests a portion of its portfolio in absolute return strategies (hedge funds) to enhance returns and reduce total fund volatility. The market value of the Opportunistic Portfolio as of June 30, 2015 represented approximately 3.3% of the total Fund. The Portfolio returned 1.32%, underperforming the benchmark return of 3.84% during the fiscal year.

Within the hedge fund universe, performance for most strategies was positive for the one year period ending June 30, 2015. The HFRI Activist Index returned 9.29% over the period and the HFRI Macro Systematic Diversified Index recorded an 8.68% return. On a regional basis, Asia performed strongly with both the HFRI Japan Index and the HFRI Emerging Markets Asia ex-Japan Index up 10.87% and 15.49%, respectively. Equity strategies were generally positive whereas Event Driven strategies were more mixed with weakness in the Distressed/Restructuring Index, which recorded a loss of 5.89% as credit suffered across most sectors, energy in particular. Most Relative Value strategies generated positive though modest returns over the period.

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, 2015 the investments generated an annualized gain of 4.2%. By comparison, the dollar-weighted return for the benchmark CPI + 5% for the same period was a gain of 6.7%. The Private Real Assets Portfolio comprised 5.1% of the Fund at June 30, 2015 with approximately 84% of the dollars committed called.

During the fiscal year, real estate transaction activity increased significantly and capitalization rates declined across all major property types (multi-family, industrial, retail and office) in the United States. Domestic energy investments declined noticeably as many upstream oil and gas companies decreased capital expenditure programs due to lower energy prices.



PUBLIC REAL ASSETS

Global Real Estate Securities

The System began investing in global real estate securities in November 2012 to attain liquid public market exposure to real estate. As of June 30, 2015, the Global Real Estate Securities Portfolio represented 5.3% of the total Fund. For the fiscal year, the portfolio returned a loss of 0.92%, underperforming the benchmark by 0.56%.

Listed global real estate securities began the fiscal year under pressure due to rising interest rates in the U.S. and weak economic data out of Europe and Asia. Global REIT security prices generally recovered as dovish global monetary bank policies provided tailwinds to the sector and strong capital flows were prevalent from investors seeking higher yielding assets. Performance in Q2 2015 pushed REITs into the negative territory for the fiscal year due to the threat of rising U.S. interest rates weighing heavily on domestic security returns.

PORTFOLIO HIGHLIGHTS

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 10.5% of total Fund assets at June 30, 2015. The Portfolio, which also includes an absolute return fund, returned 9.13% during the fiscal year, outperforming the benchmark by 3.80%.

The returns on global inflation-indexed bonds were positive during the fiscal year as real yields declined primarily due to strong central bank stimulation in Europe and Japan. Performance of the total portfolio benefited from the opportunistic allocations made by the absolute return fund to nominal bonds, developed market equities, currencies, and corporate credit.

| Inflation-Indexed Bonds - Country Exposures | |
|--|------|
| United States | 45 % |
| United Kingdom | 20 |
| Canada | 10 |
| France | 10 |
| Germany | 7 |
| Sweden | 5 |
| Australia | 3 |

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 3.2% of the total Fund as of June 30, 2015. The Portfolio outperformed the benchmark by 0.81% for the year ended June 30, 2015.

The commodities markets declined precipitously during the fiscal year. Weak global growth and demand, below average inflation, low interest rates and an appreciating dollar pushed commodity prices lower. Energy prices declined on crude oversupply concerns due to production growth from OPEC nations and US shale. US dollar appreciation hurt precious metals and industrial metals fell on weakening global industrial production. Agriculture prices declined as favorable weather conditions led to abundant production which created oversupply conditions.

INVESTMENT MANAGERS

The diversified investment structure as of June 30, 2015 is reflected in the following table, which lists System managers by asset class and style.

| Public Equity | Investment Style | Opportunistic | Investment Style |
|-------------------------------------|-------------------------|---------------------------------------|-------------------------|
| Domestic Equity | | GMO, LLC* | Global Macro |
| Eagle Asset Management | Small Cap Growth | Grosvenor Capital Management* | Fund-of-Funds |
| Barrow, Hanley, Mewhinney & Strauss | Large Cap Value | Hudson Bay Capital Mgmt* | Relative Value |
| JP Morgan Investment Management* | Large Cap Core Plus | Luxor Capital Partners* | Event Driven |
| Los Angeles Capital Management* | Large Cap Alpha | MKP Opportunity Partners* | Global Macro |
| RhumbLine Advisors | Russell 1000 Index | Och-Ziff Capital Mgt* | Multi-Strategy |
| Sands Capital Management | Large Cap Growth | | |
| Wellington Management | Small Cap Value | | |
| International Equity | | Private Equity | Investment Style |
| Gryphon Int'l Investment Corp. | EAFE | Adams Street Partners* | Fund-of-Funds |
| Marathon Asset Management LLP | EAFE | Altus Capital Partners* | Buyout |
| Mondrian Investment Partners Ltd* | Emerging Markets | Altaris Capital Partners* | Buyout |
| | | Atlas Capital Resources* | Turnaround |
| Global Equity | | DW Healthcare Partners* | Buyout |
| Aberdeen Asset Management* | Global | Franklin Park* | Fund-of-Funds |
| | | HarbourVest Partners* | Fund-of-Funds |
| | | K1 Investment Mgmt. LLC* | Growth/Buyout |
| | | KPS Capital Partners* | Turnaround |
| | | Landmark Partners, Inc.* | Fund-of-Funds |
| | | Mason Wells* | Buyout |
| | | Odyssey Inv. Partners* | Buyout |
| | | Pomona Capital* | Fund-of-Funds |
| | | Riverside Partners* | Buyout |
| | | Siris Capital Group LLC* | Buyout |
| | | TA Associates* | Growth Equity |
| | | Thoma Bravo* | Buyout |
| | | Wicks Group* | Buyout |
| Fixed Income | Investment Style | Private Debt | Investment Style |
| BlackRock Financial Mgt.* | Core | Castlelake* | Distressed |
| Loomis Sayles & Co. | High Yield | Levine Leichtman Capital Partners* | Structured Equity |
| Jennison Associates | Long Duration | | |
| Nomura Asset Management | High Yield | | |
| Schroder Investment Mgt. | Long Duration | | |
| Inflation-Indexed Bonds | Investment Style | Private Real Assets | Investment Style |
| Bridgewater Associates* | Inflation Indexed Bonds | AEW Partners* | Real Estate |
| | | Carmel Partners* | Real Estate |
| | | EnerVest, Ltd.* | Energy |
| | | FLAG Capital Mgt.* | Fund-of-Funds |
| | | Hampshire Companies* | Real Estate |
| | | Homestead Capital* | Agriculture |
| | | LBA Realty* | Real Estate |
| | | Lime Rock Resources* | Energy |
| | | Lyme Timber Company* | Timber |
| | | Meridian Realty Partners* | Real Estate |
| | | Pearlmark Real Estate Ptrs* | Real Estate |
| | | TA Associates Realty LLC* | Real Estate |
| Foreign Currency | Investment Style | | |
| First Quadrant LP* | Foreign Currency | | |
| Global REIT | Investment Style | | |
| BlackRock Financial Mgt.* | Passive | | |
| Commodities | Investment Style | | |
| BlackRock Financial Mgt.* | Passive | | |
| CoreCommodity Mgt.* | Active | | |
| Wellington Management* | Active | | |
| Public Real Assets | Investment Style | | |
| Chickasaw Capital Management | Active | | |

* Pooled Funds

PUBLIC EQUITY COMMISSIONS

January 1, 2014 Through December 31, 2014

| Brokers | Commissions (thousands) |
|-------------------------------------|----------------------------|
| Lynch Jones & Ryan | \$ 37 |
| Society Generale | 30 |
| Deutsche Bank | 29 |
| Sanford Bernstein | 13 |
| Joh. Berenberg, Gossler | 11 |
| Exane S.A | 11 |
| Citigroup | 9 |
| Credit Suisse | 8 |
| Merrill Lynch Pierce Fenner & Smith | 8 |
| Instinet | 6 |
| UBS | 6 |
| Goldman Sachs | 5 |
| Other Brokers (81 brokers) | 69 |
| Total | \$ 242 |

INVESTMENT SUMMARY

| | 2015 Fair Value | Percent of Total Value | | 2014 Fair Value | Percent of Total Value |
|-------------------------------------|-------------------------|---------------------------|----|----------------------|---------------------------|
| Government and agency obligations | \$ 395,527,073 | 10.84 % | \$ | 359,793,807 | 9.86 % |
| Municipal/Provincial obligations | 12,358,783 | 0.34 | | 58,203,905 | 1.60 |
| Asset-backed securities | 3,464,339 | 0.09 | | 3,345,101 | 0.09 |
| Corporate bonds | 656,471,268 | 17.98 | | 632,632,391 | 17.34 |
| Collateralized mortgage obligations | 0 | 0.00 | | 419,500 | 0.01 |
| Common and preferred stock | 1,455,833,853 | 39.88 | | 1,391,796,570 | 38.15 |
| Mutual and commingled funds | 365,620,792 | 10.02 | | 453,648,456 | 12.43 |
| Short-term investments | 119,853,979 | 3.28 | | 99,565,286 | 2.73 |
| Real assets | 380,180,632 | 10.41 | | 391,199,845 | 10.72 |
| Private equity/debt | 261,364,506 | 7.16 | | 257,774,913 | 7.07 |
| Total | \$ 3,650,675,225 | 100.00 % | \$ | 3,648,379,774 | 100.00 % |

Cash collateral received under securities lending agreements is not included in the investment summary shown above.



ACTUARIAL SECTION
Employees' Retirement System

December 8, 2015

Ms. Linda Herman
Executive Director
Montgomery County Employee Retirement Plans
101 Monroe Street, 15th Floor
Rockville, MD 20850

Dear Linda:

At your request, we have performed an actuarial valuation for funding purposes and a separate actuarial valuation for accounting purposes of the Montgomery County Employees' Retirement System ("System") as of July 1, 2015. The purpose of the funding actuarial valuation, which is performed annually, is to determine the funding status and annual contribution requirements of the System. The actuarial valuations were performed specifically at your request and are intended for use by the System and Montgomery County ("County") and those designated by the System and the County. This report may be provided to parties other than the System and County only in its entirety and only with the permission of the System and County. GRS is not responsible for reliance upon this valuation for any other purpose, or by any other party.

Funding Objective

The funding objective for the System is to collect employer and employee contributions sufficient to pay the benefits of the Montgomery County Employees' Retirement System when due and to achieve a funded ratio of 100 percent at the end of the amortization period. The total contribution rate is equal to the normal cost rate plus amortization of the unfunded liability as a level percentage of payroll. The unfunded liability as of July 1, 2015, was amortized over a single 9-year closed period for the non-Public Safety groups and single closed 20-year periods for the Public Safety groups and the Guaranteed Retirement Income Plan ("GRIP"). Any additional unfunded liability from subsequent actuarial valuations for the Public Safety groups and GRIP will be amortized over separate 20-year closed periods. The equivalent single amortization period for the total System is about 12 years as of the July 1, 2015 valuation. This funding policy is consistent with generally accepted actuarial standards for the funding of retirement systems. The total contribution rate minus the average employee contribution rate equals the County contribution rate. The valuation as of July 1, 2015, establishes the County contribution rate for fiscal year beginning July 1, 2016.

Actuarial Assumptions and Methods

The actuarial cost method used in this valuation is the same as the method used in the prior actuarial valuation. The actuarial method utilized by the System for both non-GRIP and GRIP members is the individual Entry-Age Normal method. The objective of this method is to finance the benefits of the System as a level percentage of payroll over the members' careers. Any Unfunded Actuarial Accrued Liability (UAAL) under this method is separately financed. All

actuarial gains and losses under this method are reflected in the UAAL. The actuarial assumptions have changed since the prior valuation and are based on an experience review for the five-year period ending July 1, 2014.

The actuarial assumptions and methods used, including the economic and demographic assumptions, the actuarial cost method and asset method, are in conformity with the Actuarial Standards of Practice issued by the Actuarial Standards Board for the funding of public sector pension plans and are set by the County. Assumptions and methods required by GASB Statement 67 and 68 were used in the preparation of the accounting disclosures and schedules required by GASB 67 and 68.

Benefit Provisions

Effective July 1, 2015, a DROP was implemented for eligible uniformed correctional officers and sworn deputy sheriffs participating in Group E. There have been no other plan changes reflected in the valuation as of July 1, 2015, since the actuarial valuation at July 1, 2014.

Participant Data

A total of 5,541 active members (excluding DRSP and DROP) were included in the valuation as of July 1, 2015. Between the 2014 and 2015 valuations, the number of active employees increased by six members, or 0.1 percent. The average annual valuation pay (excluding DRSP and DROP) increased by 3.8 percent, from \$72,791 to \$75,569 between the 2014 and 2015 valuation. The number of benefit recipients (including DRSP and DROP) increased from 6,242 to 6,380, or 2.2 percent, since the last valuation. The average monthly benefit increased by 0.4 percent, from \$3,065 to \$3,077.

Aetna Contract

There is a group of retirees that have benefits that are insured by Aetna. The total benefit amounts reported for these members in the valuation report include the insured benefit amount. The actuarial liabilities calculated in the valuation report exclude the value of the insured benefits. The liabilities for these members that are included in the actuarial valuation are for the cost of living adjustments provided and are paid by the Montgomery County Employees' Retirement System.

Valuation Assets

On a market value basis, the Plan assets had an investment return of approximately 2.82 percent (net of investment expenses). Partial recognition of investment gains during fiscal years ending 2011, 2013 and 2014 were partially offset by recognition of the fiscal year end 2012 and 2015 investment losses, which resulted in an estimated net asset rate of return of 10.74 percent on an actuarial value of assets basis, which compares to the assumed rate of return of 7.50 percent.

Reliance on Others

The valuation was based upon information furnished by the County Staff, concerning benefits provided by the Montgomery County Employees' Retirement System, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for

Ms. Linda Herman
Montgomery County Employee Retirement Plans
December 8, 2015

internal and year-to-year consistency, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by the County Staff.

The trend data in the Financial Section and the schedules and other data in this Section are prepared by County Staff with our input.

Accounting Schedules Under GASB Statement Nos. 67 and 68

The total pension liability (actuarial accrued liability) is based on a measurement date of July 1, 2014, with results projected to July 1, 2015, assuming no liability gains and losses, under the Entry Age Normal actuarial cost method. A single discount rate of 7.50 percent, which is the same rate that is used in the funding valuation, was used to measure the total pension liability. All other assumptions and methods used in the funding valuation for calculation of the actuarial accrued liabilities as of July 1, 2015, were used in the GASB 67/68 valuation for calculation of the total pension liability for fiscal year ending June 30, 2015.

The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position (market value of assets) as of June 30, 2015.

Certification

To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the Montgomery County Employees' Retirement System as of the valuation date of July 1, 2015, based on the data and actuarial techniques described above and applicable statutes. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. Lance Weiss and Amy Williams are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

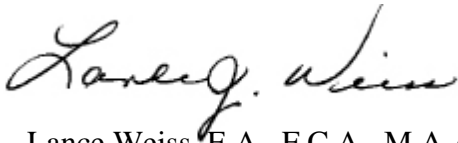
Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of such future measurements in this report.

This report should not be relied on for any purpose other than the purpose stated.

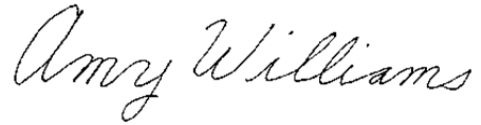
The signing actuaries are independent of the plan sponsor.

Ms. Linda Herman
Montgomery County Employee Retirement Plans
December 8, 2015

Respectfully submitted,
Gabriel, Roeder, Smith & Company



Lance Weiss, E.A., F.C.A., M.A.A.A.
Senior Consultant



Amy Williams, A.S.A., M.A.A.A.
Consultant

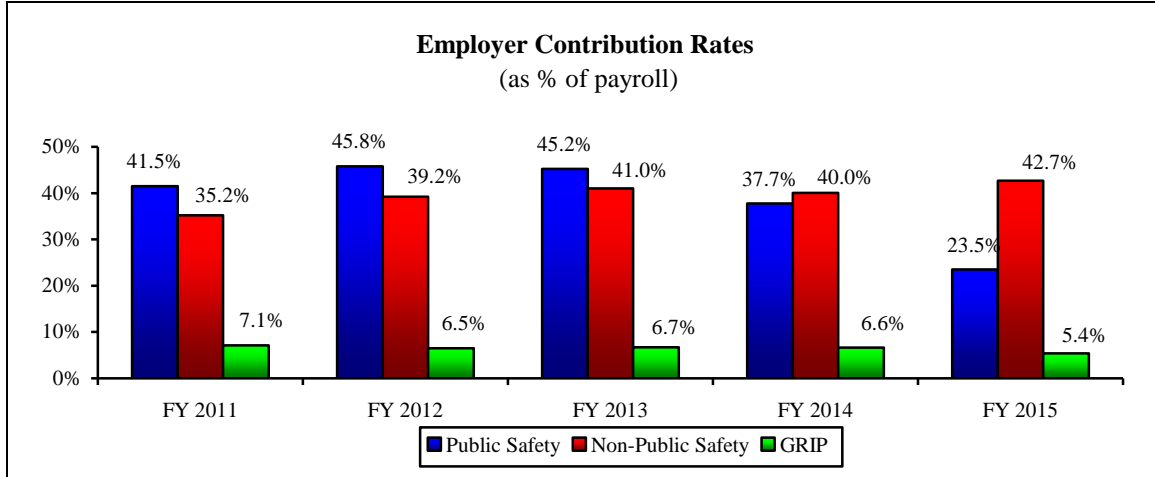
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**SUMMARY OF VALUATION RESULTS
EMPLOYEES' RETIREMENT SYSTEM**

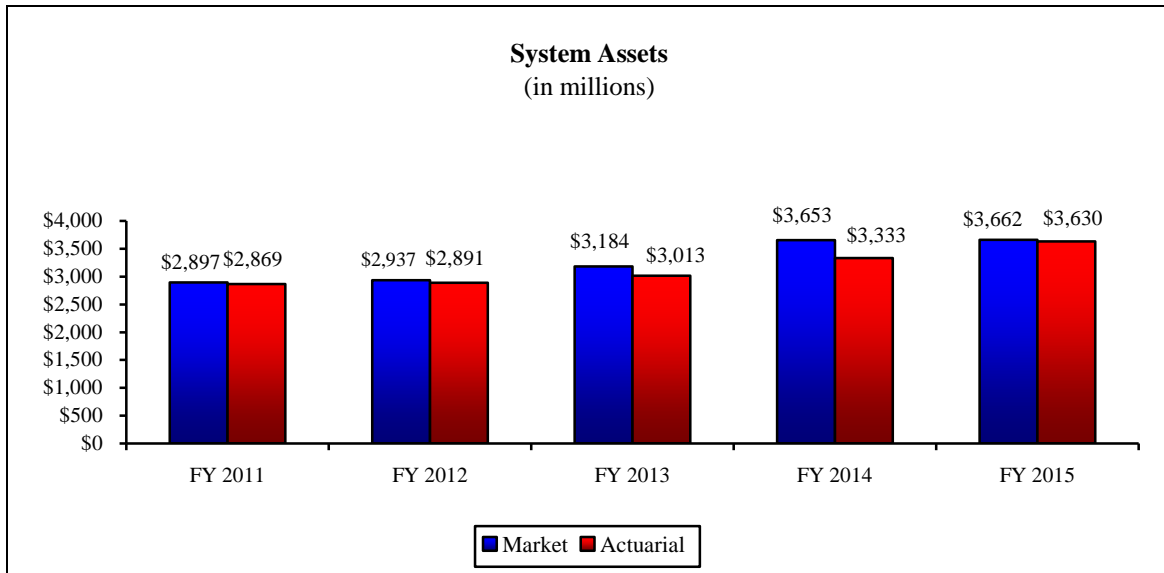
A. Overview

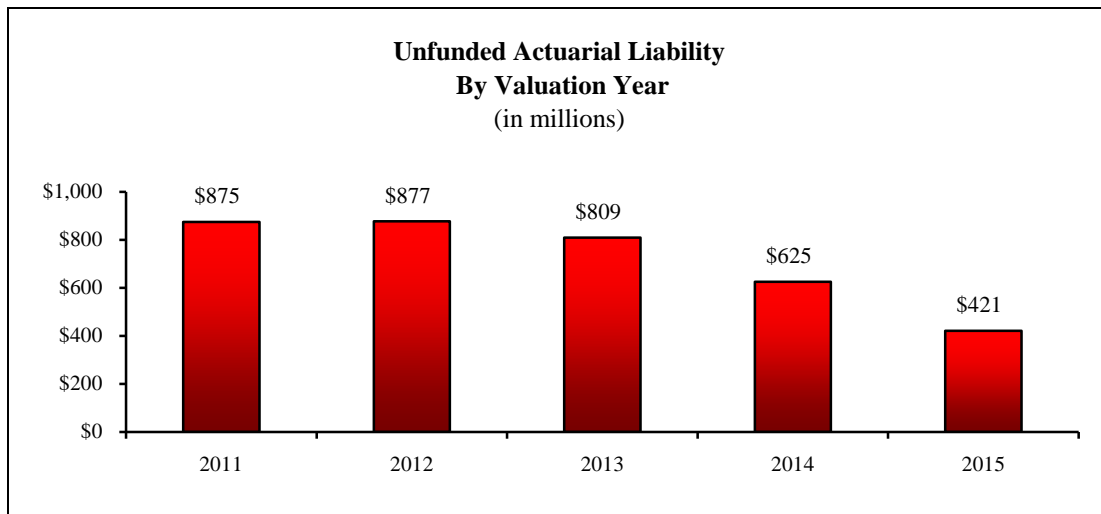
This report presents the results of our June 30, 2015 actuarial valuation of the Montgomery County Employees' Retirement System.

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

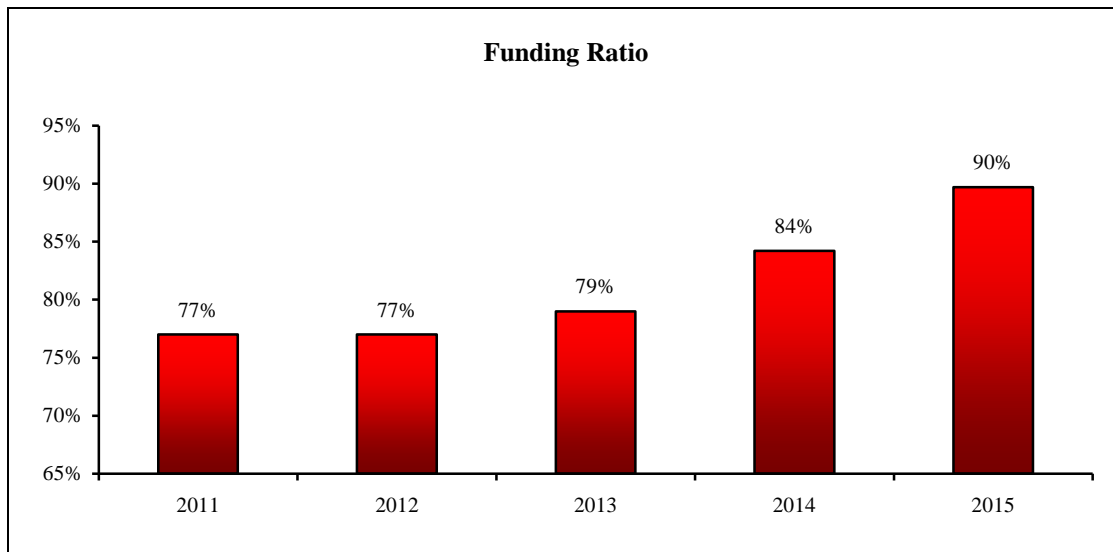


The change in the employer contribution rate in FY 2015 was due to actual System experience as well as changes in the actuarial assumptions related to the experience study.





The unfunded actuarial liability decreased in FY 2015 primarily due to deferred asset gains, higher contributions than expected, lower than expected cost of living increases for retired members, and demographic experience.



The ratio of actuarial assets to the actuarial accrued liability has improved primarily due to the factors noted above.

B. Summary of Results

| | <u>July 1, 2014</u> | <u>July 1, 2015</u> |
|--|------------------------|------------------------|
| Actuarial Liability | | |
| a. Active Members | \$1,373,483,134 | \$1,352,696,130 |
| b. Retired Members and Beneficiaries | 2,558,985,389 | 2,671,003,607 |
| c. Vested Former Members | <u>26,461,195</u> | <u>27,037,115</u> |
| d. Total | <u>\$3,958,929,718</u> | <u>\$4,050,736,852</u> |
| Valuation Assets | \$3,333,484,724 | \$3,630,075,610 |
| Unfunded Actuarial Accrued Liability | \$625,444,994 | \$420,661,242 |
| Normal Cost | | |
| a. Gross Normal Cost | \$77,951,170 | \$73,661,793 |
| b. Anticipated Employee Contributions | \$22,235,192 | \$24,551,555 |
| c. County Normal Cost (a -b) | <u>\$55,715,978</u> | <u>\$49,110,238</u> |
| Amortization Payment | \$59,111,574 | \$42,872,473 |
| County Contribution Required at Date Shown | \$114,827,552 | \$91,982,711 |
| County FY 2015/FY 2016 Contribution (as a % of covered payroll) | | |
| Public Safety Employees | 37.73% | 23.51% |
| Non-Public Safety Employees | 40.02% | 42.71% |
| Guaranteed Retirement Income Plan | 6.61% | 5.35% |

C. Valuation Highlights

1. System Assets

As of June 30, 2015, the System had assets, valued at market, of \$3.662 billion, as compared to \$3.653 billion at June 30, 2014. The increase of \$9 million was attributable to the following:

- a. An increase of \$178 million from employer and employee contributions;
- b. An increase of \$67 million from investment gain;
- c. A decrease of \$236 million due to the payment of benefits to System participants and administrative expenses.

When measured on an actuarial basis, System assets were \$3.630 billion at June 30, 2015, and \$3.333 billion at June 30, 2014. 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 decreased \$204 million, from \$625 million at July 1, 2014, to \$421 million at July 1, 2015, as follows:

| | |
|---|-----------------------|
| Unfunded Actuarial Liability at beginning of year | \$ 625,444,994 |
| Unfunded Actuarial Liability at end of year | <u>420,661,242</u> |
| Decrease in Unfunded Actuarial Liability | <u>\$ 204,783,752</u> |

The decrease in Unfunded Actuarial Liability for the year ended June 30, 2015, is comprised of the following:

| | |
|--|-----------------------|
| Decrease due to gain on actuarial value of assets | \$ 107,001,671 |
| Decrease due to demographic gain and other factors | 44,478,489 |
| Decrease due to amortization payment and contributions | 57,897,157 |
| Increase due to plan changes | <u>(4,593,565)</u> |
| Decrease in Unfunded Actuarial Liability | <u>\$ 204,783,752</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/decrease in the employer contribution rate is attributable to the following:

| | Non-Public Safety (non-GRIP) | | Public Safety (non-GRIP) | | GRIP | |
|--|---|---|---|---|--------------------|---|
| Employer contribution rate - June 30, 2014 | 40.02 | % | 37.73 | % | 6.61 | % |
| Decrease due to gain on actuarial value of assets | (3.57) | | (1.82) | | (0.17) | |
| Decrease due to actuarial gains | (2.19) | | (2.08) | | (1.09) | |
| Increase due to plan changes | 0.00 | | 0.17 | | 0.00 | |
| Increase/decrease due to assumption and method changes | <u>8.45</u> | | <u>(10.49)</u> | | <u>0.00</u> | |
| Employer contribution rate - June 30, 2015 | <u><u>42.71</u></u> | % | <u><u>23.51</u></u> | % | <u><u>5.35</u></u> | % |

4. Membership

The active membership of the System increased from 5,535 at June 30, 2014 to 5,541 at June 30, 2015. 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 6,242 at June 30, 2014 to 6,380 at June 30, 2015 and the number of former members with vested rights decreased from 403 to 402.

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

A. Funding Method

The funding method used for the System's valuation is the "Individual Entry-Age Normal" actuarial cost method. The objective of this method is to finance the benefits of the System as a level percentage of payroll over the members' careers. The normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement. Each annual normal cost is a constant percentage of the member's year by year projected covered pay. 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

RP-2014 Employee and Healthy Annuitant (non-disabled)

| Age | Pre-Retirement Future Life Expectancy (years) in 2015 | | Post-Retirement Future Life Expectancy (years) in 2015 | | Age | Pre-Retirement Future Life Expectancy (years) in 2015 | | Post-Retirement Future Life Expectancy (years) in 2015 | |
|-----|--|-------|---|-------|-----|--|-------|---|-------|
| | Men | Women | Men | Women | | Men | Women | Men | Women |
| 20 | 69.11 | 73.41 | 66.75 | 69.71 | 65 | 22.53 | 26.52 | 21.72 | 23.83 |
| 25 | 63.79 | 68.08 | 61.34 | 64.28 | 70 | 18.15 | 21.72 | 17.56 | 19.45 |
| 30 | 58.45 | 62.75 | 55.98 | 58.89 | 75 | 14.09 | 17.11 | 13.69 | 15.37 |
| 35 | 53.12 | 57.44 | 50.68 | 53.59 | 80 | 10.43 | 12.74 | 10.23 | 11.68 |
| 40 | 47.79 | 52.14 | 45.47 | 48.38 | 85 | 7.29 | 8.82 | 7.30 | 8.47 |
| 45 | 42.48 | 46.86 | 40.37 | 43.26 | 90 | 5.00 | 5.95 | 5.02 | 5.90 |
| 50 | 37.25 | 41.64 | 35.42 | 38.23 | 95 | 3.48 | 4.06 | 3.48 | 4.06 |
| 55 | 32.15 | 36.51 | 30.67 | 33.28 | 100 | 2.49 | 2.84 | 2.49 | 2.84 |
| 60 | 27.21 | 31.47 | 26.10 | 28.46 | 105 | 1.88 | 2.09 | 1.88 | 2.09 |

2. Rates of Termination of Employment (prior to retirement eligibility)

| Years of Service | Non-Public Safety and GRIP | | Public Safety | | | |
|---------------------|-------------------------------|--------|---------------|--------|---------------|--------|
| | Male | Female | Group E | | Group F and G | |
| | Male | Female | Male | Female | Male | Female |
| 0 | 11.50% | 12.50% | 12.00% | 15.00% | 6.00% | 9.00% |
| 1 | 9.50 | 10.50 | 10.00 | 12.00 | 5.00 | 7.00 |
| 2 | 8.00 | 9.50 | 6.00 | 7.00 | 4.00 | 5.00 |
| 3 | 6.00 | 6.50 | 5.00 | 6.50 | 3.00 | 4.50 |
| 4 | 4.50 | 4.50 | 4.00 | 4.00 | 2.50 | 3.50 |
| 5 | 4.00 | 4.25 | 3.90 | 3.90 | 2.25 | 3.00 |
| 6 | 4.00 | 4.25 | 3.80 | 3.80 | 2.00 | 2.75 |
| 7 | 4.00 | 4.25 | 3.70 | 3.70 | 1.75 | 2.50 |
| 8 | 4.00 | 4.25 | 3.60 | 3.60 | 1.50 | 2.00 |
| 9 | 4.00 | 4.25 | 3.50 | 3.50 | 1.25 | 1.75 |
| 10 | 3.25 | 2.75 | 2.00 | 2.00 | 1.00 | 1.50 |
| 11 | 3.25 | 2.75 | 1.50 | 1.50 | 0.75 | 1.25 |
| 12 | 3.25 | 2.75 | 1.00 | 1.00 | 0.50 | 1.00 |
| 13 | 3.25 | 2.75 | 1.00 | 1.00 | 0.50 | 0.75 |
| 14 | 3.25 | 2.75 | 1.00 | 1.00 | 0.50 | 0.50 |
| 15+ | 2.00 | 2.50 | 1.00 | 1.00 | 0.50 | 0.50 |

Vested participants that terminate are assumed to elect the option with the greater present value:

- 1) A refund of their accumulated contributions with interest or
- 2) A deferred benefit.

3. Disability

Annual Disabilities per 1,000 Members

| Age | Non-Public Safety Employees | | Public Safety Employees | | | | | |
|-----|-----------------------------------|--------|----------------------------|--------|---------|--------|---------|--------|
| | Male | Female | Group E | | Group F | | Group G | |
| | | | Male | Female | Male | Female | Male | Female |
| 20 | 0 | 0 | 1 | 0 | 1 | 1 | 1 | 1 |
| 25 | 1 | 0 | 1 | 1 | 2 | 3 | 2 | 3 |
| 30 | 1 | 0 | 2 | 2 | 4 | 8 | 4 | 8 |
| 35 | 1 | 1 | 3 | 3 | 5 | 12 | 5 | 12 |
| 40 | 2 | 1 | 4 | 5 | 7 | 16 | 9 | 16 |
| 45 | 3 | 3 | 7 | 12 | 13 | 44 | 16 | 44 |
| 50 | 6 | 4 | 11 | 17 | 22 | 59 | 26 | 59 |
| 55 | 7 | 4 | 14 | 17 | 27 | 62 | 35 | 62 |
| 60 | 8 | 4 | 14 | 17 | 27 | 62 | 35 | 62 |

4. Deaths

**Disabled Mortality
 Future Life Expectancy (years) in 2015**

| Age | Men | Women |
|-----|-------|-------|
| 20 | 60.55 | 61.48 |
| 25 | 55.16 | 56.08 |
| 30 | 49.84 | 50.78 |
| 35 | 44.62 | 45.58 |
| 40 | 39.53 | 40.48 |
| 45 | 34.59 | 35.45 |
| 50 | 29.83 | 30.51 |
| 55 | 25.25 | 25.74 |
| 60 | 20.88 | 21.22 |
| 65 | 16.78 | 17.03 |
| 70 | 13.03 | 13.21 |
| 75 | 9.67 | 9.79 |
| 80 | 6.85 | 6.94 |

5. Rates of Retirement

| Age | Non Public Safety | | GRIP | |
|---------|---------------------------------|----------------------------------|---------------------------------|----------------------------------|
| | Under 30 Years of Service | 30 Years of Service & Over | Under 15 Years of Service | 15 Years of Service & Over |
| 45 - 49 | 2.0% | 2.0% | 0.0% | 0.0% |
| 50 - 54 | 3.0 | 15.0 | 0.0 | 0.0 |
| 55 | 6.0 | 15.0 | 3.0 | 3.0 |
| 56 | 6.0 | 15.0 | 3.0 | 3.0 |
| 57 | 6.0 | 15.0 | 6.0 | 6.0 |
| 58 | 8.0 | 15.0 | 6.0 | 6.0 |
| 59 | 8.0 | 15.0 | 6.0 | 6.0 |
| 60 | 13.0 | 18.0 | 6.0 | 10.0 |
| 61 | 13.0 | 18.0 | 6.0 | 10.0 |
| 62 | 13.0 | 18.0 | 8.0 | 25.0 |
| 63 | 13.0 | 18.0 | 8.0 | 25.0 |
| 64 | 13.0 | 18.0 | 8.0 | 25.0 |
| 65 - 69 | 20.0 | 25.0 | 20.0 | 30.0 |
| 70 - 74 | 40.0 | 40.0 | 50.0 | 50.0 |
| 75 | 100.0 | 100.0 | 100.0 | 100.0 |

| Age | Public Safety | | | | | | | |
|----------|---------------------------------|----------------------------------|---------------------------------|---------------------------|----------------------------------|--|---------------------------|----------------------------------|
| | Group E | | Group F | | | Group G | | |
| | Under 25 Years of Service | 25 Years of Service & Over | Under 25 Years of Service | 25 Years of Service | 26 Years of Service & Over | Under 20 or 21 - 24 Years of Service | 20 Years of Service | 25 Years of Service & Over |
| Under 42 | 3.5% | 3.5% | 2.5% | 20.0% | 2.5% | 2.5% | 10.0% | 5.0% |
| 42 - 44 | 3.5 | 3.5 | 2.5 | 20.0 | 2.5 | 5.0 | 10.0 | 5.0 |
| 45 | 3.5 | 8.0 | 2.5 | 20.0 | 2.5 | 7.5 | 10.0 | 10.0 |
| 46 | 3.5 | 8.0 | 3.5 | 20.0 | 3.5 | 7.5 | 10.0 | 10.0 |
| 47 | 3.5 | 8.0 | 4.5 | 20.0 | 4.5 | 7.5 | 10.0 | 10.0 |
| 48 | 3.5 | 8.0 | 5.5 | 20.0 | 5.5 | 7.5 | 10.0 | 10.0 |
| 49 | 3.5 | 8.0 | 6.5 | 20.0 | 6.5 | 7.5 | 10.0 | 10.0 |
| 50 | 10.0 | 10.0 | 10.0 | 20.0 | 20.0 | 10.0 | 15.0 | 17.5 |
| 51 | 10.0 | 10.0 | 10.0 | 20.0 | 20.0 | 10.0 | 15.0 | 17.5 |
| 52 | 10.0 | 12.0 | 10.0 | 20.0 | 20.0 | 12.5 | 20.0 | 25.0 |
| 53 | 10.0 | 12.0 | 15.0 | 25.0 | 25.0 | 12.5 | 20.0 | 25.0 |
| 54 | 10.0 | 12.0 | 15.0 | 25.0 | 25.0 | 12.5 | 20.0 | 25.0 |
| 55 - 59 | 15.0 | 30.0 | 15.0 | 40.0 | 40.0 | 20.0 | 40.0 | 35.0 |
| 60 - 64 | 25.0 | 50.0 | 25.0 | 70.0 | 70.0 | 40.0 | 40.0 | 40.0 |
| 65 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

6. Sick Leave Credit

Service credit is increased by 2.2% for Group A employees, 2.5% for Group E employees, 4.0% for Group F employees, 3.1% for Group G employees, and 1.6% for Group H 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: 2.75% on credited service earned prior to June 30, 2011. 2.3% on credited service earned on or after July 1, 2011, reflecting the 2.5% cap
3. Increase in Social Security Wage Base: 3.25% compound per annum
4. Expense load: Assumed administrative expenses are based on 105% of the average of the administrative expenses over the past three years. For FY 2017 this figure is \$2,813,800.
5. Salary Increase: Merit and promotional increases assumed to be based on service as shown below:

| Non-Public | | | | | | | |
|------------|---------|---------|---------|---------|---------|---------|---------|
| Service | Safety* | Service | Group E | Service | Group F | Service | Group G |
| 1 | 6.00% | 1 | 9.50% | 1 – 3 | 8.00% | 1 | 9.50% |
| 2 | 5.50 | 2 | 9.00 | 4 | 6.50 | 2 | 9.00 |
| 3 | 5.00 | 3 | 7.00 | 5 | 6.00 | 3 | 7.00 |
| 4 | 4.50 | 4 | 6.50 | 6 | 5.50 | 4 | 6.50 |
| 5 – 10 | 4.00 | 5 | 6.00 | 7 | 5.00 | 5 – 10 | 6.00 |
| 11+ | 3.25 | 6 | 5.50 | 8 | 4.50 | 11 – 15 | 4.50 |
| | | 7 | 5.00 | 9 – 20 | 4.00 | 16 – 20 | 4.00 |
| | | 8 | 4.50 | 21+ | 3.25 | 21+ | 3.25 |
| | | 9 – 20 | 4.00 | | | | |
| | | 21+ | 3.25 | | | | |

* 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 | 2012 | 2013 | 2014 | 2015 |
|-------------------------------|-----------------------|----------------------|-----------------------|-----------------------|
| Investment gain/(loss) | \$ (110,314,254) | \$ (33,134,494) | \$ 163,194,287 | \$ 107,001,671 |
| Combined liability experience | <u>102,995,793</u> | <u>93,060,972</u> | <u>7,865,965</u> | <u>81,145,514</u> |
| Gain/(loss) during year | <u>\$ (7,358,461)</u> | <u>\$ 59,926,478</u> | <u>\$ 171,060,252</u> | <u>\$ 188,147,185</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) |
| 6/30/2008 | \$ 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 |
| 6/30/2011 | 236,934,960 | 2,181,816,842 | 1,325,970,792 | 2,869,422,276 | 100 | 100 | 34 |
| 6/30/2012 | 210,537,737 | 2,465,714,392 | 1,092,493,833 | 2,891,435,563 | 100 | 100 | 20 |
| 6/30/2013 | 248,331,006 | 2,526,844,154 | 1,046,205,572 | 3,012,547,244 | 100 | 100 | 23 |
| 6/30/2014 | 265,055,643 | 2,585,446,584 | 1,108,427,491 | 3,333,484,724 | 100 | 100 | 44 |
| 6/30/2015 | 280,135,577 | 2,693,402,804 | 1,072,560,553 | 3,630,075,610 | 100 | 100 | 61 |

SCHEDULE OF RETIREES AND SURVIVORS
During Years Ended June 30

| | New Retirees and Disableds | Survivors | Total |
|--------------------------------|-------------------------------|------------|--------------|
| 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 |
| New retirements & disabilities | 282 | 0 | 282 |
| Deaths with beneficiaries | (20) | 20 | 0 |
| Deaths/benefits ended | (154) | (7) | (161) |
| July 1, 2011 | 5,319 | 393 | 5,712 |
| New retirements & disabilities | 201 | 0 | 201 |
| Deaths with beneficiaries | (47) | 47 | 0 |
| Deaths/benefits ended | (87) | (2) | (89) |
| July 1, 2012 | 5,386 | 438 | 5,824 |
| New retirements & disabilities | 269 | 0 | 269 |
| Deaths with beneficiaries | (38) | 38 | 0 |
| Deaths/benefits ended | (104) | (28) | (132) |
| July 1, 2013 | 5,513 | 448 | 5,961 |
| New retirements & disabilities | 400 | 0 | 400 |
| Deaths with beneficiaries | (23) | 23 | 0 |
| Deaths/benefits ended | (100) | (19) | (119) |
| July 1, 2014 | 5,790 | 452 | 6,242 |
| New retirements & disabilities | 264 | 0 | 264 |
| Deaths with beneficiaries | (24) | 24 | 0 |
| Deaths/benefits ended | (98) | (28) | (126) |
| July 1, 2015 | 5,932 | 448 | 6,380 |

SCHEDULE OF ANNUAL ALLOWANCE
During Years Ended June 30

| | <u>New Retirees and Disableds</u> | <u>Survivors</u> | <u>Total</u> |
|--|---------------------------------------|---------------------|-----------------------|
| 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 |
| Annual Allowances Added to the Rolls | 14,287,432 | 580,328 | 14,867,760 |
| Annual Allowances Removed From the Rolls | (868,937) | (103,095) | (972,032) |
| July 2011 | \$ 189,681,503 | \$ 6,512,606 | \$ 196,194,109 |
| Average Annual Allowance | 35,661 | 16,572 | 34,348 |
| Annual Allowances Added to the Rolls | 8,947,253 | 1,102,270 | 10,049,523 |
| Annual Allowances Removed From the Rolls | (2,498,388) | (34,529) | (2,532,917) |
| July 2012 | \$ 196,130,368 | \$ 7,580,347 | \$ 203,710,715 |
| Average Annual Allowance | 36,415 | 17,307 | 34,978 |
| Annual Allowances Added to the Rolls | 11,709,284 | 867,622 | 12,576,906 |
| Annual Allowances Removed From the Rolls | (5,027,794) | (572,950) | (5,600,744) |
| July 2013 | \$ 202,811,858 | \$ 7,875,019 | \$ 210,686,877 |
| Average Annual Allowance | 36,788 | 17,578 | 35,344 |
| Annual Allowances Added to the Rolls | 21,907,364 | 699,388 | 22,606,753 |
| Annual Allowances Removed From the Rolls | (3,506,950) | (217,824) | (3,724,774) |
| July 2014 | \$ 221,212,272 | \$ 8,356,583 | \$ 229,568,856 |
| Average Annual Allowance | 38,206 | 18,488 | 36,778 |
| Annual Allowances Added to the Rolls | 8,938,666 | 612,732 | 9,551,398 |
| Annual Allowances Removed From the Rolls | (3,140,736) | (366,643) | (3,507,379) |
| July 2015 | \$ 227,010,202 | \$ 8,602,673 | \$ 235,612,875 |
| Average Annual Allowance | 38,269 | 19,202 | 36,930 |

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, 2008 | 5,060 | \$376,002,333 | \$74,309 | 4.96% |
| July 1, 2009 | 5,012 | 376,014,994 | 75,023 | 0.96 |
| July 1, 2010 | 5,786 | 431,226,155 | 74,529 | -0.66 |
| July 1, 2011 | 5,515 | 405,336,529 | 73,497 | -1.38 |
| July 1, 2012 | 5,554 | 398,460,248 | 71,743 | -2.39 |
| July 1, 2013 | 5,606 | 395,988,026 | 70,636 | -1.54 |
| July 1, 2014 | 5,535 | 402,899,096 | 72,791 | 3.05 |
| July 1, 2015 | 5,541 | 418,728,584 | 75,569 | 3.82 |



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:

The schedules beginning on page 74 are designed to show financial trend information to assist users in understanding and assessing how the Employee Retirement Plans' financial position has changed over the past ten years. The financial trend schedules presented are:

- Changes in Fiduciary Net Position – Information to help the reader understand the Plans' historical contributions, earnings, and expenses.
- Benefit, Refund and Distribution Deductions from Fiduciary Net Position – Information to help the reader understand the historical benefits, refund, and distribution deductions.

The schedules beginning on page 80 display demographic, economic, and operating information. The demographic and economic information is intended to assist users in understanding the environment in which the Employee Retirement Plans operate. The operating information is intended to provide contextual information about the Employee Retirement Plans' operations to assist readers in using financial statement information. The demographic and economic information and the operating information presented include:

- 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 FIDUCIARY NET POSITION
JUNE 30, 2015
LAST TEN FISCAL YEARS
(dollars in thousands)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|-------------------|-------------------|--------------------|---------------------|-------------------|
| Additions | | | | | |
| Member contributions | \$ 16,085 | \$ 16,362 | \$ 18,851 | \$ 18,245 | \$ 20,431 |
| Employer contributions | 88,184 | 109,436 | 117,686 | 109,567 | 113,958 |
| Transfer of member account asset balances | - | - | - | - | 31,530 |
| Investment income (loss) (net of expenses) | <u>187,004</u> | <u>420,847</u> | <u>(81,746)</u> | <u>(428,525)</u> | <u>304,185</u> |
| Total additions | <u>291,273</u> | <u>546,645</u> | <u>54,791</u> | <u>(300,713)</u> | <u>470,104</u> |
| Deductions | | | | | |
| Benefit payments | 125,818 | 136,833 | 147,027 | 168,618 | 169,089 |
| Refunds | 635 | 793 | 673 | 668 | 1,415 |
| Administrative expenses | <u>1,920</u> | <u>2,431</u> | <u>2,557</u> | <u>2,803</u> | <u>2,907</u> |
| Total deductions | <u>128,373</u> | <u>140,057</u> | <u>150,257</u> | <u>172,089</u> | <u>173,411</u> |
| Change in net position | <u>\$ 162,900</u> | <u>\$ 406,588</u> | <u>\$ (95,466)</u> | <u>\$ (472,802)</u> | <u>\$ 296,693</u> |

MONTGOMERY COUNTY, MARYLAND
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF BENEFIT AND REFUND DEDUCTIONS FROM FIDUCIARY NET POSITION BY TYPE
JUNE 30, 2015
LAST TEN FISCAL YEARS
(dollars in thousands)

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

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

| 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------|------------------|-------------------|-------------------|-----------------|
| \$ 18,592 | \$ 22,833 | \$ 24,854 | \$ 26,463 | \$ 26,627 |
| 109,344 | 107,855 | 127,888 | 144,710 | 151,302 |
| - | - | - | - | - |
| <u>510,018</u> | <u>117,692</u> | <u>307,859</u> | <u>534,397</u> | <u>67,071</u> |
| <u>637,954</u> | <u>248,380</u> | <u>460,601</u> | <u>705,570</u> | <u>245,000</u> |
| 178,792 | 202,773 | 208,804 | 229,664 | 230,647 |
| 1,568 | 2,495 | 1,925 | 4,330 | 2,874 |
| 3,079 | 3,546 | 2,401 | 2,954 | 2,685 |
| <u>183,439</u> | <u>208,814</u> | <u>213,130</u> | <u>236,948</u> | <u>236,206</u> |
| <u>\$ 454,515</u> | <u>\$ 39,566</u> | <u>\$ 247,471</u> | <u>\$ 468,622</u> | <u>\$ 8,794</u> |

| 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| \$ 129,941 | \$ 150,413 | \$ 153,566 | \$ 172,472 | \$ 171,785 |
| 7,944 | 8,233 | 8,602 | 8,586 | 8,982 |
| 40,907 | 44,127 | 46,636 | 48,606 | 49,880 |
| <u>\$ 178,792</u> | <u>\$ 202,773</u> | <u>\$ 208,804</u> | <u>\$ 229,664</u> | <u>\$ 230,647</u> |
| \$ 1,568 | \$ 2,495 | \$ 1,925 | \$ 4,330 | \$ 2,874 |

MONTGOMERY COUNTY, MARYLAND
 RETIREMENT SAVINGS PLAN
 SCHEDULE OF CHANGE IN FIDUCIARY NET POSITION
 JUNE 30, 2015
 LAST TEN FISCAL YEARS
 (dollars in thousands)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|------------------|------------------|-----------------|-----------------|-----------------|
| Additions | | | | | |
| Member contributions | \$ 5,860 | \$ 6,798 | \$ 8,118 | \$ 11,263 | \$ 8,871 |
| Employer contributions | 9,437 | 11,227 | 13,583 | 20,625 | 16,401 |
| Transfer of member account asset balances | - | - | - | - | (31,530) |
| Investment income (loss) (net of expenses) | <u>8,237</u> | <u>17,174</u> | <u>(8,383)</u> | <u>(26,722)</u> | <u>14,191</u> |
| Total additions | <u>23,534</u> | <u>35,199</u> | <u>13,318</u> | <u>5,166</u> | <u>7,933</u> |
| Deductions | | | | | |
| Distributions | 4,306 | 4,455 | 5,216 | 3,669 | 3,902 |
| Administrative expenses | <u>243</u> | <u>293</u> | <u>258</u> | <u>300</u> | <u>237</u> |
| Total deductions | <u>4,549</u> | <u>4,748</u> | <u>5,474</u> | <u>3,969</u> | <u>4,139</u> |
| Change in net position | <u>\$ 18,985</u> | <u>\$ 30,451</u> | <u>\$ 7,844</u> | <u>\$ 1,197</u> | <u>\$ 3,794</u> |

MONTGOMERY COUNTY, MARYLAND
 RETIREMENT SAVINGS PLAN
 SCHEDULE OF DISTRIBUTION DEDUCTIONS FROM FIDUCIARY NET POSITION
 JUNE 30, 2015
 LAST TEN FISCAL YEARS
 (dollars in thousands)

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

| 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------|------------------|------------------|------------------|------------------|
| \$ 8,686 | \$ 8,435 | \$ 8,274 | \$ 8,695 | \$ 9,728 |
| 16,072 | 11,792 | 15,629 | 17,117 | 18,502 |
| - | - | - | - | - |
| <u>32,877</u> | <u>143</u> | <u>23,716</u> | <u>42,432</u> | <u>7,493</u> |
| <u>57,635</u> | <u>20,370</u> | <u>47,619</u> | <u>68,244</u> | <u>35,723</u> |
| 5,854 | 6,950 | 9,389 | 11,682 | 12,694 |
| 244 | 305 | 201 | 197 | 235 |
| <u>6,098</u> | <u>7,255</u> | <u>9,590</u> | <u>11,879</u> | <u>12,929</u> |
| <u>\$ 51,537</u> | <u>\$ 13,115</u> | <u>\$ 38,029</u> | <u>\$ 56,365</u> | <u>\$ 22,794</u> |

| 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------|-------------|-------------|-------------|-------------|
| \$ 5,854 | \$ 6,950 | \$ 9,389 | \$ 11,682 | \$ 12,694 |

MONTGOMERY COUNTY, MARYLAND
 DEFERRED COMPENSATION PLAN
 SCHEDULE OF CHANGE IN FIDUCIARY NET POSITION
 JUNE 30, 2015
 LAST TEN FISCAL YEARS
 (dollars in thousands)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|------------------|------------------|-------------------|--------------------|------------------|
| Additions | | | | | |
| Member contributions | \$ 16,562 | \$ 16,649 | \$ 17,294 | \$ 18,058 | \$ 17,029 |
| Investment income (loss) (net of expenses) | <u>20,486</u> | <u>32,394</u> | <u>(9,378)</u> | <u>(44,479)</u> | <u>19,411</u> |
| Total additions | <u>37,048</u> | <u>49,043</u> | <u>7,915</u> | <u>(26,421)</u> | <u>36,440</u> |
| Deductions | | | | | |
| Distributions | 11,226 | 12,410 | 15,714 | 13,391 | 8,723 |
| Administrative expenses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total deductions | <u>11,226</u> | <u>12,410</u> | <u>15,714</u> | <u>13,391</u> | <u>8,723</u> |
| Change in net position | <u>\$ 25,822</u> | <u>\$ 36,633</u> | <u>\$ (7,799)</u> | <u>\$ (39,812)</u> | <u>\$ 27,717</u> |

MONTGOMERY COUNTY, MARYLAND
 DEFERRED COMPENSATION PLAN
 SCHEDULE OF DISTRIBUTION DEDUCTIONS FROM FIDUCIARY NET POSITION
 JUNE 30, 2015
 LAST TEN FISCAL YEARS
 (dollars in thousands)

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

| 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------|-------------------|------------------|------------------|-----------------|
| \$ 17,029 | \$ 14,974 | \$ 18,229 | \$ 17,011 | \$ 19,229 |
| <u>42,988</u> | <u>286</u> | <u>34,096</u> | <u>48,864</u> | <u>15,259</u> |
| <u>60,017</u> | <u>15,260</u> | <u>52,325</u> | <u>65,875</u> | <u>34,488</u> |
| 16,178 | 17,688 | 19,847 | 25,506 | 26,123 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>16,178</u> | <u>17,688</u> | <u>19,847</u> | <u>25,506</u> | <u>26,123</u> |
| <u>\$ 43,839</u> | <u>\$ (2,428)</u> | <u>\$ 32,478</u> | <u>\$ 40,369</u> | <u>\$ 8,365</u> |

| 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------|-------------|-------------|-------------|-------------|
| \$ 16,178 | \$ 17,688 | \$ 19,847 | \$ 25,506 | \$ 26,123 |

MONTGOMERY COUNTY, MARYLAND
 EMPLOYEES' RETIREMENT SYSTEM
 PRINCIPAL PARTICIPATING EMPLOYERS
 CURRENT FISCAL YEAR AND NINE YEARS AGO
 JUNE 30, 2015

| Participating Government | 2015* | | 2006 | |
|--|--------------------------|-----------------------------------|--------------------------|-----------------------------------|
| | Covered Employees | Percentage of Total System | Covered Employees | Percentage of Total System |
| Montgomery County | 5,398 | 97.4% | 5,185 | 96.2% |
| Town of Chevy Chase | 2 | 0.0% | 5 | 0.1% |
| Strathmore Hall | 6 | 0.1% | 7 | 0.1% |
| Housing Opportunities Commission | 126 | 2.3% | 157 | 2.9% |
| Revenue Authority | 5 | 0.1% | 17 | 0.3% |
| Washington Suburban Transit Commission | - | - | 2 | 0.0% |
| Montgomery County Employees Federal Credit Union | 3 | 0.1% | 8 | 0.2% |
| State Department of Assessment and Taxation | - | - | 5 | 0.1% |
| District Court | 1 | 0.0% | 5 | 0.1% |
| Total | 5,541 | 100% | 5,391 | 100% |

* Includes GRIP participants

MONTGOMERY COUNTY, MARYLAND
 EMPLOYEES' RETIREMENT SYSTEM
 SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE
 JUNE 30, 2015

| Fiscal Year | Retiree | Disability | Survivor | Total |
|--------------------|----------------|-------------------|-----------------|--------------|
| 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 |
| 2011 | 4,245 | 1,074 | 393 | 5,712 |
| 2012 | 4,309 | 1,077 | 438 | 5,824 |
| 2013 | 4,412 | 1,101 | 448 | 5,961 |
| 2014 | 4,669 | 1,121 | 452 | 6,242 |
| 2015 | 4,807 | 1,125 | 448 | 6,380 |

*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, 2015

| Fiscal Year | Retiree | Disability | Survivor | Total |
|--------------------|----------------|-------------------|-----------------|--------------|
| 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 |
| 2011 | 30,610 | 38,088 | 20,214 | 31,301 |
| 2012 | 34,907 | 40,972 | 18,797 | 34,817 |
| 2013 | 34,807 | 42,357 | 19,201 | 35,028 |
| 2014 | 36,940 | 43,360 | 18,995 | 36,793 |
| 2015 | 35,736 | 44,337 | 20,049 | 36,152 |

*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, 2015

| Amount of Monthly Benefit | Number of Retired Members | Type of Retirement ^a | | | Option Selected ^b | | | | | | | |
|--------------------------------------|--|--|-----------|------------|-------------------------------------|------------|----------|------------|-----------|------------|------------|--|
| | | 1 | 2 | 3 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| Deferred | 402 | | | | | | | | | | | |
| \$ 1 – \$ 500 | 476 | 411 | 59 | 6 | 244 | 110 | 14 | 8 | 38 | 16 | 46 | |
| 501 – 1,000 | 593 | 450 | 121 | 22 | 250 | 132 | 36 | 17 | 48 | 41 | 69 | |
| 1,001 – 1,500 | 645 | 481 | 92 | 72 | 261 | 151 | 27 | 23 | 43 | 36 | 104 | |
| 1,501 – 2,000 | 580 | 437 | 52 | 91 | 226 | 130 | 22 | 29 | 20 | 50 | 103 | |
| 2,001 – 2,500 | 570 | 414 | 47 | 109 | 203 | 134 | 19 | 30 | 25 | 50 | 109 | |
| 2,501 – 3,000 | 541 | 393 | 23 | 125 | 168 | 134 | 12 | 28 | 27 | 61 | 111 | |
| 3,001 – 3,500 | 506 | 344 | 18 | 144 | 158 | 119 | 8 | 27 | 20 | 69 | 105 | |
| 3,501 – 4,000 | 459 | 335 | 11 | 113 | 149 | 110 | 6 | 23 | 16 | 59 | 96 | |
| Over 4,000 | <u>2,010</u> | <u>1,542</u> | <u>25</u> | <u>443</u> | <u>785</u> | <u>467</u> | <u>7</u> | <u>103</u> | <u>56</u> | <u>304</u> | <u>288</u> | |
| Total | 6,782 | 4,807 | 448 | 1,125 | 2,444 | 1,487 | 151 | 288 | 293 | 686 | 1,031 | |

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 Options
Option 7—Social Security Adjustment Options

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 7/1/2007 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 |
| Period 7/1/2010 to 6/30/2011 | | | | | | | |
| Average monthly benefit* | \$ 1,965 | \$ 3,412 | \$ 2,674 | \$ 3,091 | \$ 3,303 | \$ 4,136 | \$ 5,079 |
| Average final valuation pay** | \$ 46,807 | \$ 65,268 | \$ 65,263 | \$ 85,031 | \$ 82,627 | \$ 88,067 | \$ 84,544 |
| Number of retired members*** | 1 | 4 | 5 | 37 | 80 | 50 | 57 |
| Period 7/1/2011 to 6/30/2012 | | | | | | | |
| Average monthly benefit* | \$ - | \$ - | \$ 1,738 | \$ 1,840 | \$ 3,020 | \$ 5,064 | \$ 5,546 |
| Average final valuation pay** | \$ - | \$ - | \$ 56,551 | \$ 61,633 | \$ 80,696 | \$ 98,400 | \$ 90,742 |
| Number of retired members*** | - | - | 3 | 14 | 30 | 34 | 57 |
| Period 7/1/2012 to 6/30/2013 | | | | | | | |
| Average monthly benefit* | \$ - | \$ 331 | \$ 1,595 | \$ 2,147 | \$ 3,063 | \$ 4,641 | \$ 5,845 |
| Average final valuation pay** | \$ - | \$ 50,497 | \$ 56,936 | \$ 72,901 | \$ 76,904 | \$ 90,509 | \$ 94,904 |
| Number of retired members*** | - | 1 | 5 | 17 | 46 | 38 | 69 |
| Period 7/1/2013 to 6/30/2014 | | | | | | | |
| Average monthly benefit* | \$ - | \$ - | \$ - | \$ 2,636 | \$ 2,941 | \$ 4,552 | \$ 5,790 |
| Average final valuation pay** | \$ - | \$ - | \$ - | \$ 71,521 | \$ 75,097 | \$ 90,425 | \$ 92,772 |
| Number of retired members*** | - | - | - | 17 | 53 | 98 | 71 |
| Period 7/1/2014 to 6/30/2015 | | | | | | | |
| Average monthly benefit* | \$ - | \$ - | \$ 2,231 | \$ 1,654 | \$ 3,273 | \$ 4,388 | \$ 5,062 |
| Average final valuation pay** | \$ - | \$ - | \$ 72,858 | \$ 62,439 | \$ 82,958 | \$ 90,297 | \$ 91,982 |
| Number of retired members*** | - | - | 1 | 11 | 49 | 74 | 57 |

* 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.

Beginning with periods after 7/1/2011, counts include members that were in DRSP or DROP in the previous valuation and were retired in the current valuation.

**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

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



Prepared by:
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