Employees' Retirement System
City of Baltimore, Maryland

Comprehensive Annual Financial Report

Year Ended June 30, 2007

A Component Unit of the City of Baltimore, Maryland

Employees' Retirement System
City of Baltimore, Maryland

Druid Hill Park

Comprehensive Annual Financial Report
Year Ended June 30, 2007
A Component Unit of the City of Baltimore, Maryland

Prepared by:

Roselyn H. Spencer
Executive Director

Bernita Y. Kittrell
Accounting Manager

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Employees' Retirement System

Mission Statement

The System is committed to protecting and prudently investing member assets and providing accurate and timely retirement benefits with quality service to members and beneficiaries.

Standards of Conduct

As Trustees and Staff, we are committed to:

Safeguard the members' assets.

Strive for continuous improvement.

Maintain confidentiality as appropriate.

Effectively communicate accurate information.

Provide accountable and proactive leadership.

Conduct all business in a fair and respectful manner.

Foster an atmosphere of cooperation and teamwork.

Value members as clients and advocate on their behalf.

Comply with the System's plan provisions, policies and guidelines.

Work efficiently, simplify procedures, and minimize bureaucratic hurdles.

Form alliances and partnerships to benefit the membership and the System.

We expect all who interact with us to adhere to these standards of conduct.

Approved by the Board of Trustees February 21, 2002

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City of Baltimore, Maryland
Comprehensive Annual Financial Report
Year Ended June 30, 2007
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INTRODUCTORY SECTION

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Employees' Retirement System, City of Baltimore Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

CITY OF BALTIMORE

SHEILA DIXON, Mayor

EMPLOYEES' RETIREMENT SYSTEM and
ELECTED OFFICIALS' RETIREMENT SYSTEM

ROSELYN H. SPENCER, Executive Director
7 E. Redwood Street
12th Floor
Baltimore, MD 21202

December 28, 2007

The Board of Trustees and
Members of the Employees' Retirement System
Baltimore, Maryland

I am pleased to present the Comprehensive Annual Financial Report of the Employees' Retirement System of the City of Baltimore, Maryland (ERS, System, Plan), a component unit of the City of Baltimore, Maryland (City) for the fiscal year ended June 30, 2007. The report is intended to provide the readers with financial, actuarial, investment, and membership information. The System's administration is responsible for the accuracy of the data and the completeness of the presentation, including all disclosures. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the ERS operations.

Accounting principles generally accepted in the United States require that management provide a narrative introduction, overview and analysis of the financial statements of the System in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report in the Financial Section.

PROFILE OF THE PLAN

The ERS is a defined benefit plan established January 1, 1926, by City Ordinance for eligible members who are employed in the general administrative service of the City and for certain non-teacher employees of the Baltimore City Public School System. Excluded from the ERS are uniformed Fire and Police Department employees (who are eligible for membership in the City's Fire and Police Employees' Retirement System) and Elected Officials (who are eligible for membership in the City's Elected Officials' Retirement System). Also excluded are teachers of the Baltimore City Public School System and Enoch Pratt Free Library personnel, who are qualified for membership or become members of the Maryland State Retirement System.

All System-related administrative and benefit provisions are established by City Ordinance, as contained in Article 22 of the Baltimore City Code, and may be amended only by the Mayor and City Council. The Plan provisions provide a contractual relationship for the membership, whereby benefits may not be diminished or impaired in any way. Membership in the ERS takes place after one year of covered employment. The ERS provides service retirement and disability benefits for qualified members. The System also administers widows and survivors benefits. Non-contributory members qualify for vested benefits after ten years of ERS membership service and fifteen years for contributory members after they leave City employment. As of June 30, 2007, total membership was 18,893 a slight decline from 19,044 in 2006 This comprised of 9,035 active members, 8,696 retired members, and 1,162 terminated plan members entitled to but not yet receiving benefits.

MAJOR INITIATIVES

In the past year, the Board conducted an experience study, initiated new legislation that resulted in the signing of Ordinance 07-422 which provided a number of improvements to the ERS law and approved enhancement of internal technology.

Experience Study: In accordance with the plan provision to conduct a periodic review of the System's actuary assumptions, the Board of Trustees initiated a study of the System's experience for both demographic and economic assumptions covering the periods from July 2002 through June 2006. Based on the results of the study, the following recommendations for changing demographic assumption were adopted by the Board: The salary increase rate was reduced from 4.75% to 4.25%; retirement rates for participants with less than 31 years of service was lowered; the terminated table was adjusted and increased at older ages; the number of disablement is expected to increase, and using a standard mortality table. The changes are expected to lower the actuarial accrued liability (AAL), lower the unfunded AAL, increase the funded percentage and reduce the City contribution rate.

New legislation approved by the City Council provided a number of improvements and necessary changes to the ERS laws, include a one-time additional ad hoc cost-of-living adjustment (COLA) of 1.45% increase in benefits for eligible plan participants on the retirement payroll as of June 30 2006. Ordinance 07-422 also provided a guaranteed 1.50% COLA, plus an additional variable COLA based on the ERS investment earnings; extended the eligibility period to receive a first-time COLA to 12 months from the six-month waiting period after retirement, allowed retirement benefits to be paid once a month (rather than bi-weekly) starting in calendar year 2008, and allowed the ERS Board of Trustee to assume investment oversight for the City "Other Post-Employment Benefits" (OPEB) Trust.

Technology enhancement: After a thorough analysis, it was determined that the existing servers were outdated and incapable of meeting the growing needs of the ERS. The aged computer servers were replaced with new computer technology designed to serve the current and future business needs of the System. The new servers will allow for much needed expansion and will provide additional resources to ERS.

FUNDING RESULTS

A key measure of the health of a retirement system is the level of funding; the better the level of funding, the larger the ratio of assets accumulated to the AAL and the greater the level of investment income potential. Also, a better level of funding gives the participants a higher degree of assurance that their pension benefits are secure. Funding for the ERS is provided by the City and from employees' contributions. The City's dedication to provide a financially sound retirement plan for its members is illustrated in the "Schedule of Funding Progress" found on page 32. This illustration presents the accrued liabilities calculated according to the Plan funding method and the historical progress made by the ERS toward the funding of those liabilities. The "funded ratio" presents a positive indication of the strength of the System.

The funded ratio for the fiscal year 2007 is 90.5%. This reflects a slight decline from last year as prior year losses continue to be reflected in the value of assets. In fiscal year ending June 30, 207, the unfunded actuarial liability increased as a function of the investment experience on the actuarial value of assets, adverse demographic experience, and the additional ad hoc COLA. The prospective outlook for the funding ratio is positive. In fiscal year 2007, the data loss adjustment has been fully recognized and the unallocated excess earnings are a positive value providing additional protection for future investment returns. The implementation of demographic assumption changes will also cause the funding ratio to improve. From an investment prospective, the Board continues to evaluate the funding ratio and seek to implement new strategies to improve investment returns. The Board expects that monitoring and initiating necessary change of the investment allocation will increase investment returns and improve the funding ratio.

MARKET OVERVIEW

Over the current fiscal year, Global markets outperformed the U.S. markets as the US dollar declined to a strong Euro currency. Strong corporate profits and expansion of the European economy are also responsible for the out- performance in international equities. Emerging markets dominated all other international style groups with an impressive increase of 45.45 % of the MSCI Emerging Markets annual rate of return. Investment performance in the United States was still very good, but saddled with concerns about rising energy prices, Federal Reserve Bank tightening, sub-prime mortgage problems, and China's stock market bubble, it returned (as measured by the Russell 3000 index), increased 20.07% for the year. Based on the Russell style indices, growth stocks outperformed small-cap and value stocks. Fixed income did not do so well, due to concerns about sub-prime debt, credit market crises and interest rates increases.

INVESTMENTS RESULTS

As provided by Plan provisions, the Board of Trustees (Board) is authorized to invest, monitor and take appropriate action regarding the investment, management and custodianship of Plan assets. The investment responsibilities of the Board include establishing reasonable investment objectives, developing investment policy guidelines, selecting, and evaluating performance results to assure adherence to guidelines and the achievement of objectives. Trustees are also required to terminate investment managers as necessary for underperformance, or for other matters determined by the Board. Trustees must exercise their fiduciary obligation in investing the System's assets in accordance with the "prudent person rule." The "prudent person rule" establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. The "prudent person rule" states that fiduciaries shall discharge their duties solely in the interest of the System's participants and beneficiaries, and with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position.

The Board recognizes that the objective of a sound and prudent policy is to protect and grow the System's assets through positive investment results to meet the current and long terms needs of the System. Investment Portfolio diversification (as indicated on page 44) is therefore regarded as a critical factor to achieving both protection and growth of Plan assets.

As of June 30, 2007 net assets of the System were $1.488 billion, an increase of $155.3 million from last year's net assets totaling $1,333 billion. Total fund performance for the fiscal year was 18.33% rate of return. This exceptional performance is attributed to manager performance and overweight in domestic and international equities which paid off satisfactorily. The domestic equity portion of the portfolio had a 20.46% return, and the international equity had a 29.97% return, for the year. The System's performance exceeded the actuarial expected return of 8% by almost 1000 basis points and surpassed the System's blended benchmark by 2.14%. The System long-term track record remains relatively strong, with three and five year annualized returns of 12.73% and 10.82%, respectively.

ACCOUNTING SYSTEMS AND INTERNAL CONTROL

This report has been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standard Board. The accrual basis of accounting is used to record assets and liabilities and revenues and expenses. Revenues for the ERS are recorded when earned regales of the date of collection, and expenses are recorded when liabilities are incurred regardless of when payment is made.

The System's administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets are protected from loss, theft or misuse and to ensure that adequate accounting data are complied to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

INDEPENDENT AUDIT

The Baltimore City Code stipulates that the City's Board of Estimates shall select an independent auditor for the Retirement System, and that the auditor shall report findings annually to the Board of Estimates and to the Board of Trustees. The Board of Estimates elected to have the Department of Audits render an opinion as to the fairness of the System's financial statements. Their audit was conducted in accordance with auditing standards generally accepted in the United States and, for the basic financial statements, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. On this basis of the examination, the independent auditor has issued an unqualified opinion that the presentation of the financial statements, taken as a whole, conforms to accounting principles generally accepted in the United States. In conducting the audit, the auditor performed tests of the accounting records and such other procedures as were considered necessary in the circumstances to provide a reasonable basis for this opinion on the financial statements. The auditor also assessed the accounting principles used and significant estimates made by management, as well as evaluated the overall financial presentation. The independent auditor's opinion is contained in the Financial Section of this report.

PROFESSIONAL SERVICES

The Board of Trustees appoints consultants and investment managers, subject to approval by the City's Board of Estimates. These professionals have been chosen based on their ability to provide services that are essential to the effective and efficient operation of the System. All of the professionals that provide services to the Board of Trustees are listed in the Introductory Section and the Investment Section of this report.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System, City of Baltimore, Maryland, for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the 24^{th} consecutive year (fiscal years 1983-2006) that the ERS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. I believe that this comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements. I am submitting it to the GFOA to determine its eligibility for another certificate.

The compilation of this CAFR reflects the combined effort of ERS' staff, under the leadership of the Executive Director and the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members and the City of Baltimore.

This report is being forwarded to the Mayor, the Comptroller, the President and members of the City Council, other members of the Board of Estimates, and to all City Agencies, so that all members of the ERS will have the opportunity to review it. Hopefully, the administration of the City and the membership of the System will find this report both informative and helpful.

On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the staff, the advisors, and to the many people who have worked diligently to assure the continued successful operation of the system.

Respectfully submitted,

Roselyn H. Spencer

Roselyn H. Spencer
Executive Director

CITY OF BALTIMORE

SHEILA DIXON, Mayor

EMPLOYEES' RETIREMENT SYSTEM and
ELECTED OFFICIALS' RETIREMENT SYSTEM

ROSELYN H. SPENCER, Executive Director
7 E. Redwood Street
12th Floor
Baltimore, MD 21202

December 27, 2007

Dear Members, Retirees and Beneficiaries:

Way to go! Is the best way to capture the outcome of 2007 fiscal year. The Employees' Retirement System's Plan, (The Fund, ERS, System) posted amazing returns of 18.33% and grew assets by nearly $155.3 million, in a some what volatile and unpredictable market place. Domestic and international equities were our winners.

In other good news the Board of Trustees (Board) worked with the City Administration and Council for the passage of Ordinance 07-422 that provided various benefit improvements including an ad hoc benefit increase of $13.3 million to retirees and beneficiaries, in addition to their annual COLA. The Ordinance also provided for a guaranteed annual Cola of 1.50% plus an additional variable amount up to the CPI limits, based on Fund performance. Due to the excellent performance this year, certain retirees and beneficiaries will receive an annual cola of 2.52% starting in January 2008.

We also implemented changes to sustain and improve the ERS funding ratio. Based upon the result of the experience study conducted by the Board's actuary, we adopted the recommended demographic assumption changes that are expected to lower the System's liabilities and improve the funding percent. We also changed the variable benefit structure to allow for more active management of the total assets. The funding ratio of 90.5% for the fiscal year is still very good in light of the fund maturity and the fact that people are working and living much longer.

There are several people to thank for the excellent performance and management of the ERS. My fellow Board members, the System's management team and the capable staff are to be commended for the extraordinary work they do on behalf of the ERS. I am especially proud of the staff, who delivers excellent service time and time again. In this digital and robotic age, the ERS still does some things the old fashioned way; a live and friendly voice answers the phone when you call during business hours.

I appreciate the confidence you have placed in the plan management during the past year, and would like to assure you that although we cannot guarantee or predict future returns, the staff and Board of Trustees are committed to excellence and will continue to work diligently for the on-going successful plan operation.

Sincerely,

Joan M. Pratt, CPA

Joan M. Pratt, CPA
Chair of the Board

BOARD OF TRUSTEES

Both appointed and elected trustees serve four-year terms. Appointed trustees continue to serve until replaced by the Mayor, or until the expiration of two consecutive full terms. There are no limitations on the number of terms an elected trustee may serve.

LEGAL COUNSEL

City of Baltimore
Law Department
George Nilson, Esq.

GENERAL COUNSEL

Abraham M. Schwartz, Esq.

ACTUARY

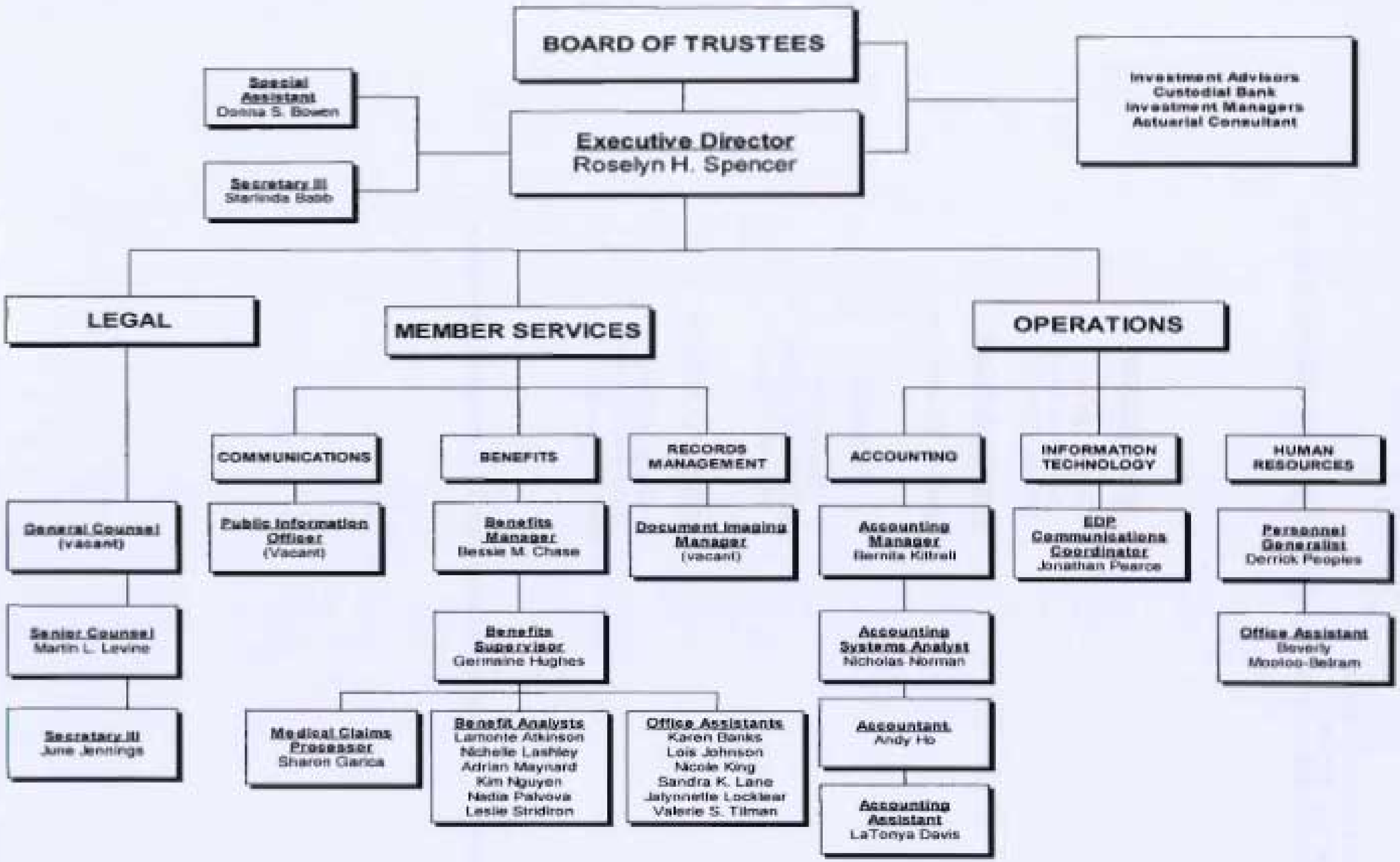
Cherion, Inc.
Kenneth Kent, F.S.A.
McLean, Virginia

INDEPENDENT AUDITOR

City of Baltimore
Department of Audits
Robert L. McCarty, Jr., CPA

See pages 50 to 52 in the Investment Section for a list of investment professionals.

Employees' Retirement System
City of Baltimore, Maryland
Organization Chart



FINANCIAL SECTION

CITY OF BALTIMORE

SHEILA DIXON, Mayor

DEPARTMENT OF AUDITS

ROBERT L. McCARTY, JR., CPA
City Auditor

Room [illegible], City Hall
Baltimore, Maryland [illegible]
Telephone: [illegible]
Telefax: [illegible]

December 28, 2007

Honorable Joan M. Pratt, Comptroller
And Other Members of the
Board of Estimates of the
City of Baltimore
Board of Trustees of the
Employees' Retirement System

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Employees' Retirement System of the City of Baltimore, Maryland, a component unit of the City of Baltimore, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Employees' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Employees' Retirement System's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Employees' Retirement System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Employees' Retirement System as of June 30, 2007, and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 28, 2007, on our consideration of the Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Employees' Retirement System's basic financial statements. The introductory section, required supplementary information and supporting schedules, investment section, actuarial section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robert L. McCarty, Jr., CPA
City Auditor

We are pleased to provide this overview and analysis of the financial activities of the Employees' Retirement System (ERS) for the fiscal year ended June 30, 2007. ERS is the administrator of a cost-sharing multiple employer defined benefit local government retirement plan (the Plan). Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the Transmittal Letter, which begins on page 7 of this report.

Financial Highlights

- The net assets of the Plan at the close of the fiscal year 2007 are $1.488 billion. All of the net assets are available to meet the Plan's ongoing obligations to plan participants and their beneficiaries.
- The rate of return for the fiscal year ended June 30, 2007 was 18.33% compared to the fiscal year ended June 30, 2006 return of 10.99%. The increase percentage of the rate of return is attributed to strong economic growth and solid corporate earnings in both domestic and international equity markets.
- The Plan's total net assets held in trust for pension benefits increased by $155.3 million, compared to last year's increase of $45.6 million. The increase is due to net investment income and positive results among many of the domestic and international equity sectors.
- The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2007, the funded ratio for the Plan was 90.5%. In general, this indicates that the Plan has approximately $0.90 of assets to cover every dollar of benefits due.
- Revenues (Additions to Plan Net Assets) for the year were $256.5 million. Revenues include member and employer contributions of $37.1 million, net investment income of $219.1 million, and net securities lending income of $0.3 million.
- Expenses (Deductions from Plan Net Assets) increased by $3.9 million to $101.2 million from the prior year expenses of $97.3 million. Contributing largely to the increase in expenses were retirement allowances and post-retirement benefits.

Overview of Financial Statements

The following discussion and analysis are intended to serve as an introduction to the Plan's financial statements and the Financial Section of this report.

The **Statement of Plan Net Assets** provides a snapshot of the financial position of the Plan at June 30, 2007, the end of the Plan's financial year. It indicates the total assets and total liabilities at June 30, 2007 and the net assets available for future payment of retirement benefits and operating expenditures.

The **Statement of Changes in Plan Net Assets**, on the other hand, summarizes the Plan's financial activities that occurred during the Plan's financial year from July 1, 2006 through June 30, 2007.

The **Notes to Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

The statements and the notes are in conformity with the accounting principles generally accepted in the United States. These principles require certain financial statement presentations and disclosures including the use of the accrual basis of accounting to record assets and liabilities, and revenues and expenses.

The Statement of Plan Net Assets presents the Plan's assets and liabilities, as well as, the net assets available for future retirement benefits and operating expenses at June 30, 2007. The assets comprise receivables, mainly from investment activity, investments at fair market value and securities lending collateral. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Purchases and sales of investments are recorded on a trade date basis. The fair value of real estate holdings is estimated based primarily on appraisals by third-party appraisers. The fair value of private equity investments is estimated based primarily on audited financial statements provided to the individual fund managers. The payables comprise securities lending collateral, certain investment activity, retirement benefits and administrative expenses.

The Statement of Changes in Plan Net Assets presents information showing how the Plan's net assets changed during the year. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when a formal commitment has been made by the City to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. All investment gains and losses are shown at trade date. Both realized and unrealized gains and losses are shown on investments.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets can be found on pages 23 and 24 of this report.

The **Required Supplementary Information** that follows immediately after the notes to the basic financial statements provide two schedules showing ten year historical trend information concerning the funded status of the ERS and contributions made to the plan by the employer. See the Required Supplementary Information beginning on page 32 of this report.

The remaining supplemental schedules provide additional detailed information concerning operating expenses, investment expenses and payments to consultants. All of this information is considered useful in understanding and evaluating the financial activities of the Plan.

Financial Analysis

Net assets may serve over time as a useful indicator of the Plan's financial position. At June 30, 2007, assets exceeded liabilities by $1.488 billion. All of the net assets are available to meet the Plan's ongoing obligation to Plan participants and their beneficiaries. As of June 30, 2007, total net assets increased by 12.5% over the prior year, primarily due to performance of the domestic and international equity markets. Management believes that the Plan remains in a strong financial position to meet its obligations to the members, retirees and their beneficiaries.

PLAN NET ASSETS

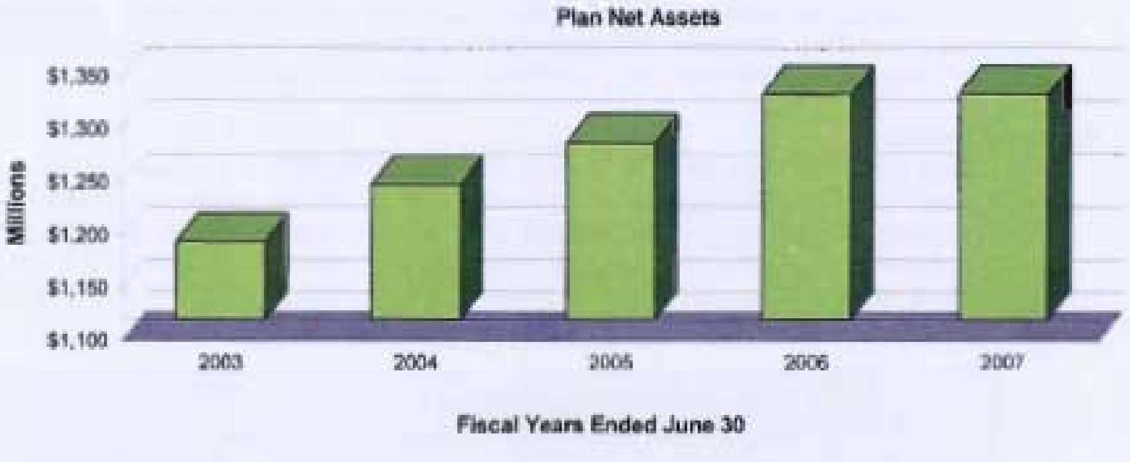
	Fiscal Year 2007	Fiscal Year 2006	Increase (Decrease) Amount	Percentage Change
Other assets	$ 91,881,460	$ 59,628,149	$ 32,253,311	54.1 %
Investments at fair value	1,723,322,485	1,553,614,316	169,708,169	10.9
Total assets	1,815,203,945	1,613,242,465	201,961,480	12.5
Total liabilities	326,628,977	280,018,817	46,610,160	16.6
Total net assets	$ 1,488,574,968	$ 1,333,223,648	$ 155,351,320	11.7 %

Investment Assets

The Plan is a long-term investor and manages the plan assets with long-term objectives in mind. A primary element of the ERS's investment philosophy is that the Plan's assets are diversified to achieve its goals. After conducting an asset-liability study with the Plan's investment consultant, the Board of Trustees established an asset allocation plan taking into account the risk associated with each asset class as well as the financial objectives of the Plan. Investments are stated at fair value rather than at cost and include the recognition of unrealized gains and losses in the current period. The rate of return on investments for the year ended June 30, 2007 was 18.33%, a 7.34% increase over the fiscal year 2006 rate of return, 10.99%. The increase of the rate of return is due to the positive results among many of the domestic equity and international equity sectors. Energy, industrial and technology sectors lead the way with double digit returns in the domestic equity market and the international markets outperformed due to emerging markets and material and energy sectors. The annualized rate of return for the last three and five year periods ended June 30, 2007, were 12.73% and 10.82%, respectively. The Plan's long-term actuarial investment return assumption is 8.0%.

The Plan invests in domestic equities, international equities, domestic fixed income, real estate, tactical asset allocation strategy (which are investments in domestic equities and domestic fixed income), and alternative investments. The Plan also participates in a securities lending program, which is managed by the Plan's custodian bank. External investment management firms selected by the Plan's Board of Trustees manage all of the assets. BNY Mellon Bank, the Plan's custodian bank, holds all marketable securities.

The Investment Section beginning on page 40 gives detailed information on the Plan's investment policies. See page 46 of this report for charts showing the asset allocation targets established by the Board of Trustees and the actual asset allocation of System assets at June 30, 2007.



Liabilities

The current liabilities are payables incurred by the transaction activity of the investment assets, the retirement benefit expenses, and operating expenses of the Plan's office.

CHANGES IN PLAN NET ASSETS	Fiscal Year 2007	Fiscal Year 2006	Increase (Decrease) Amount
Additions			
Employer contribution	$ 36,841,351	$ 31,003,063	$ 5,838,288
Members contributions	308,703	422,548	(113,845)
Net investment income	219,047,423	111,101,454	107,945,969
Net securities lending income	328,259	384,098	(55,839)
Total additions	256,525,736	142,911,163	113,614,573
Deductions			
Retirement allowances	97,104,170	93,706,033	3,398,137
Adminstrative expenses	2,615,247	2,496,211	119,036
Death benefits	1,294,666	983,714	310,952
Lump sum cash payments	155,325	72,775	82,550
Refund of members' contribution	5,008		5,008
Total deductions	101,174,416	97,258,733	3,915,683
Net increase	$ 155,351,320	$ 45,652,430	$ 109,698,890

Contributions and Investment Income

The employer's contribution increased by 15.8% over last year's contributions. The employers contributions are actuarial based. The salary increases of the current active membership and the actuarial changes to the rates to calculate the normal cost of the benefits for the members required the employer's contribution to increase. The member contributions decreased by $114 thousand this current fiscal year because many of the contributory members have retired or membership has matured to the level that they do not have to contribute to the plan anymore. The repurchase service option offered to active members has declined in recent years due to the 10.46% cost to purchase service time. This amount is multiplied times the active member current salary. The net investment income increased by 49.2% this year is due to positive performance of the domestic and international equity markets. The net investment income also includes investment expenses as a deduction. Investment expenses were $5.6 million and $5.4 million for fiscal years 2007 and 2006, respectively. The slight increase is contributed to the Board termination of non-performing managers and hiring new managers with investments that yield higher rate of returns that meet the goal and objectives and objective of the Plan.

Retirement Benefits and Administrative Expenses

The Plan was created to provide lifetime service retirement benefits, survivor benefits and disability benefits to eligible members and their beneficiaries. The cost of such programs includes recurring benefit payments, lump sum death benefits, payments to terminated members, and the cost of administering the Plan.

The primary source of expense during fiscal year 2007 was for the payment of continuing retirement benefits totaling $97.1 million, which compares to $93.7 million for fiscal year 2006. Retirement allowances increased $3.4 million due to an increase in the number of benefit recipients, the annual cost of living adjustment (cola) of 1.55% and an additional increase of 1.45% due to Plan provision and actuarial changes paid during the year.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances and to account for the money it receives to the Board of Trustees, the Mayor and City Council, the Plan's membership and the City's taxpayers. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Executive Director
Employees' Retirement System
7 E. Redwood Street, 12th Floor
Baltimore, Maryland 21202

Employees' Retirement System
City of Baltimore, Maryland
Statement of Plan Net Assets
June 30, 2007

Assets			
Cash and cash equivalents			$ 64,626,981
Receivables			
Investments sold	$ 21,326,885		
Accrued income	4,251,234		
Other receivables	204,785		
Total receivables			25,782,904
Capital assets			
Leasehold improvements	1,355,429		
Depreciation - leasehold improvements	(177,821)		
Net leasehold improvement total		1,177,608	
Office furniture	315,156		
Depreciation - office furniture	(87,283)		
Net office furniture total		227,873	
Office equipment	82,673		
Depreciation - office equipment	(16,579)		
Net office equipment total		66,094	
Total capital assets			1,471,575
Investments, at fair value			
Bonds	464,775,513		
Stock	649,341,128		
International stock	223,344,820		
Real estate	101,055,111		
Hedge funds	69,051,687		
Total investments			1,507,568,259
Securities lending collateral			215,754,226
Total assets			1,815,203,945
Liabilities			
Securities lending collateral	215,754,226		
Investments purchased	108,338,765		
Investment management fees payable	544,735		
Adminstrative expenses payable	1,102,347		
Other accounts payable	388,601		
Retirement allowance payable	500,303		
Total liabilities			326,628,977
Net assets held in trust for pension benefits			$ 1,488,574,968

The schedule of funding progress is presented on page 32.

The notes to the basic financial statements are an integral part of this statement.

Employees' Retirement System
City of Baltimore, Maryland
Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2007

Additions		
Contributions		
Employer	$ 36,841,351	
Plan members	308,703	
Total contributions		$ 37,150,054
Investment Income		
Net appreciation in fair value of investments	177,595,751	
Interest, dividends, and real estate income	47,136,147	
Less: investment expenses	(5,684,475)	
Net investment income		219,047,423
Securities lending income	468,902	
Securities lending fees	(140,643)	328,259
Total additions		256,525,736
Deductions		
Retirement allowances	97,104,170	
Adminstrative expenses	2,615,247	
Death benefits	1,294,666	
Lump cash payments	155,325	
Refund of Contributions	5,008	
Total deductions		101,174,416
Net increase		155,351,320
Net assets held in trust for pension benefits		
July 1, 2006		1,333,223,648
June 30, 2007		$ 1,488,574,968

The notes to the basic financial statements are an intergral part of this statement.

Employees' Retirement System
City of Baltimore, Maryland
NOTES TO BASIC FINANCIAL STATEMENTS

1. Plan Description:

The Employees' Retirement System of the City of Baltimore (ERS) is the administrator of a cost-sharing multiple employer defined benefit local government retirement plan (the Plan). Established January 1, 1926, the Plan covers City employees and the Baltimore City Public School System employees with the exception of those required to join the Maryland State Retirement System, or the two other Baltimore City retirement systems, the Fire and Police Employees' Retirement System and the Elected Officials' Retirement System. Based on criteria established by the Governmental Accounting Standards Board, the ERS is a component unit of the City of Baltimore and is included in the City's financial report as a public employees' retirement system (PERS).

At June 30, 2007, the ERS membership consisted of:

Retirees and beneficiaries currently receiving benefits	8,696
Terminated plan members entitled to but not yet receiving benefits	1,162
Active plan members	9,035
Total membership	18,893

The Plan provides service retirement benefits as well as death and disability benefits in accordance with the Plan Provisions, Article 22 of the Baltimore City Code. The Mayor and City Council may only amend the Plan Provisions. The reduction of benefits is precluded by the City Code.

The ERS is composed mainly of non-contributory members, 99.0% of the membership. The non-contributory class consists of all employees hired on or after July 1, 1979 who automatically become members on the first anniversary of employment, and all members hired prior to July 1, 1979 who elected to transfer from the contributory class.

A very small portion, 1.0% of the active membership, remain as contributory class members. The contributory class consists of all members hired prior to July 1, 1979 who did not elect to transfer to the non-contributory class. Membership was mandatory on the member's second anniversary of employment. However, the member could voluntarily enroll within the first two years of employment.

Post-retirement benefit increases are granted each year to eligible retirees and beneficiaries. A 1.0% minimum benefit increase is provided by the Plan Provisions. However, additional percentage increases are granted if the Plan is determined at June 30 to have excess investment earnings. Total post-retirement benefit increases are not to exceed 5% in any given year. See the description of the Paid Up Benefit Reserve and the Contingency Reserve as noted under "Contributions and Reserves" in Note 3.

2. Summary of Significant Accounting Policies:

Basis of Presentation:
The accounting and financial reporting policies of the Plan included in this report conform with accounting principles generally accepted in the United States and reporting standards as promulgated by the Governmental Accounting Standards Board, which designates accounting principles and financial reporting standards applicable to PERS. This report includes solely the accounts of the Plan, a component unit of the City of Baltimore. There are no component units of the Plan based on the nature of operational or financial relationships.

Basis of Accounting:
These financial statements have been prepared on the accrual basis of accounting, whereby revenues are recorded when they are earned, expenses are recorded when liabilities are incurred, and investment purchases and sales are recorded as of their trade date. Member contributions are recognized in the

period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments:
Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. The real estate holdings are based on the most recent appraisal (either internal to the manager or third party) as then presently available. Investments that do not have an established market are reported at estimated fair value.

3. Contributions and Reserves:

Contributory members are required by the Plan provisions to contribute 4% of regular compensation through payroll deduction. The employer contributions are determined through an actuarial valuation. The valuation method is stipulated in the Plan provisions. Administrative expenses are paid from investment earnings.

The Plan provisions, Article 22 of the Baltimore City Code, establish the following reserves:

Annuity savings reserve - Accumulated in this reserve are members' contributions inclusive of interest credits, less amounts distributed upon termination of employment or death, or transferred to another reserve for retirement.

Annuity reserve - Upon retirement, the accumulated contributions of members are transferred to this reserve. From this reserve, the members' accumulated contributions are paid as a life annuity.

Pension accumulation reserve - Employer contributions are credited and accumulated with earnings in this reserve. Certain death benefits are paid from here. In addition, when a member retires, an amount equal to the member's pension reserve is transferred to the pension reserve.

Pension reserve - From this reserve is paid the pension portion of the member's retirement allowance. The pension represents benefits for life derived from the contributions made by the employer and accumulated investment earnings.

Paid up benefit reserve - Credited to this reserve are a portion of excess investment earnings, as defined by the Plan provisions, and all earnings on the investments of this reserve. Post-retirement benefit increases provided by the excess earnings are paid from this reserve.

Contingency reserve - Credited to this reserve are a portion of excess investment earnings, as defined by the Plan provisions, and all earnings on the investments of this reserve. The contingency reserve was created to insure payment of benefit increases payable from the paid up benefit reserve and to provide post-retirement benefit increases when sufficient excess earnings are not made in any year.

At June 30, 2007, the balances in the legally required reserves are as follows:

Reserves	Balance
Annuity savings reserve	$ 5,343,645
Annuity reserve	23,995,487
Pension accumulation reserve	605,158,397
Pension reserve	670,013,634
Paid up benefit reserve	186,230,747
Contingency reserve	(2,166,942)
Total reserves	$1,488,574,968

At the date of the last actuarial valuation report, June 30, 2007 the above reserves were underfunded and the pension accumulation reserve had an actuarially determined accrued liability in excess of assets in the amount of $151,485,566.

4. Securities Lending:

The Board of Trustees entered into a Securities Lending Authorization Agreement with Mellon Bank (the Custodian). All individual securities which are readily marketable and which are not restricted due to an outstanding short option are eligible for loan at the discretion of the Custodian. The investment manager may loan securities held in custody of commingled accounts if authorized in the manager's contract with the ERS.

Collateral received in exchange for securities loaned is collected in an escrow account for the Plan's benefit for the duration of the loan. At no time will the Plan lose custody of the loaned securities. Collateral in exchange for the principal loaned may be in the form of cash, or securities issued or guaranteed by the U.S. government, its agencies or instrumentalities. Irrevocable Letters of Credit from banks approved by the Custodian may not be used as collateral. The minimum levels of collateral will be set at 102% of the market value of domestic securities loaned, including all accrued income, and 105% of the market value of international securities loaned, including all accrued income. If the market value of the collateral falls below 100% of the loaned securities, additional collateral will be collected to maintain the appropriate minimum level. All collateral amounts are marked to market daily. The Plan does not have the right to sell or pledge securities received as collateral without borrower default.

At June 30, 2007, the Plan had no credit risk exposure to borrowers because the amounts the Plan owes borrowers exceeded the amounts the borrowers owed the Plan. The market value of securities on loan at June 30, 2007 was $211,333,738, and the market value of the collateral received for those securities on loan was $215,754,226. The Plan did not impose any restrictions during the fiscal year on the amount of loans the Custodian made on its behalf. The terms of the Securities Lending Authorization Agreement require that the Custodian indemnify the Plan against: (1) the failure to demand adequate and appropriate collateral from a borrower; (2) the failure to comply with the investment guidelines in connection with the investment and reinvestment of cash collateral; (3) the failure to obtain and perfect a security interest or rights equivalent thereto in and to the collateral; and (4) the failure to make a reasonable determination of the creditworthiness of any borrower. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrower or the Custodian.

Substantially, all securities loans can be terminated on demand either by the Custodian or by the borrower, although generally the average term of these loans is one week. Cash collateral is invested in the Custodian's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20% of the invested cash collateral is to be available each business day and the dollar weighted average maturity of holdings should not exceed 90 days.

5. Cash and Investments:

The Plan's cash deposits are entirely covered by federal depository insurance at all times.

The Board of Trustees (the Board) is authorized by the Baltimore City Code to make investments in accordance with the guidelines and limitations set forth in the Code. The Board accomplishes the daily management of the Plan's investments through an external investment advisor who acts as a fiduciary for the Plan and through external investment managers. The Board invests the assets of the Plan using the "prudent person standard" which allows the Board to consider the probable safety of investments, avoid speculative investments, and invest as people of prudence, discretion, and intelligence would in a similar situation. The Board has adopted an investment policy and guidelines to formally document its investment objectives and responsibilities.

Investments of the Plan are held under custodial agreement with BNY Mellon Financial Corporation.

The Plan's investments as of June 30, 2007 are listed below:

Investment type	Fair Value
Debt securities:	
U.S. Treasury notes and bonds	$ 94,393,455
Money market mutual funds	64,626,981
Corporate bonds	203,896,758
U.S. Government agency bonds	166,485,300
Total debt securities	529,402,494
Other:	
Stock	649,341,128
International stock	223,344,820
Real estate	101,055,111
Hedge funds	69,051,687
Total other	1,042,792,746
Total investments	1,572,195,240
Less:	
Cash and cash equivalents	64,626,981
Total net investments	$1,507,568,259

Foreign Currency Exposure Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. At June 30, 2007 the Employees' Retirement System did not hold any hedging foreign investment positions. ERS does not have a formal policy to limit foreign currency risk. ERS foreign currency risk at June 30, 2007 is presented in the following table:

Currency	Total
Euro Currency Unit	$ 76,873,086
British pound sterling	33,619,337
Japanese yen	28,961,760
Hong Kong dollar	12,308,406
Swiss franc	7,993,264
Canadian dollar	4,627,792
Danish krone	4,127,654
Australian dollar	3,842,720
Norwegian krone	3,680,963
South Korean won	3,249,096
Swedish krona	3,191,886
Singapore dollar	1,348,707
Russian rubel	741,000
Mexican new peso	(965,597)
Total securities subject to foreign currency	183,600,074
United States dollars (securities held by international investment managers)	42,892,714
Total international investment securities	$ 226,492,788

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of investments. The Plan has selected the duration method to disclose the debt securities exposure to changes in interest rates. The Plan does not have a formal policy to limit interest rate risk.

Investment Type	Fair Value	Duration (In Years)
Debt securities:		
U.S. Treasury notes and bonds	$ 94,393,455	12.64
Money market mutual funds	64,626,981	.12
Corporate bonds	203,896,758	4.62
U.S. Government agency bonds	166,485,300	4.13
Total Debt securities	$ 529,402,494	

Credit Risk by Quality

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board has not adopted a formal policy to limit credit risk. ERS-rated debt investments as of June 30, 2007 were rated by a nationally recognized statistical rating agency and are presented below using the Standard and Poor's rating scale:

Investment Type	Investments at Fair Value Credit Risk by Quality Rating				
	AAA-A	BBB-B	CCC-C	Not Rated	Total
Debt securities:					
U.S. Treasury notes and bonds	94,393,455				$ 94,393,455
Money market mutual funds				$ 64,626,981	64,626,981
Corporate bonds	$112,424,240	$51,072,623	$509,192	39,890,703	203,896,758
U.S. Government agency bonds	166,485,300				166,485,300
Total Debt Securities	$373,302,995	$51,072,623	$509,192	$104,517,684	$529,402,494

6. Capital Assets:

The capital assets purchased during the fiscal year ending June 30, 2007 consist of leasehold improvements, office equipment and office furniture. All capital assets are recorded at cost less accumulated depreciation.

Capital Assets	Cost	Accumulated Depreciation	Net Capital Assets
Leasehold improvements	$1,355,429	$(177,821)	$1,177,608
Office furniture	315,155	(87,283)	227,873
Office equipment	82,673	(16,579)	66,094
Total Capital Assets	$1,753,257	$(281,683)	$1,471,575

7. Funding Policy

GASB Statement No. 50, Pension Disclosure – New Implementation

GASB Statement No. 50 is intended to improve financial reporting of pension plans by including the funding progress schedule, actuarial assumptions and methods in the notes to the financial statement. Since early implementation is encouraged under GASB 50, Pension Disclosure, below is a description of the funding method used, schedule of the funding progress, as well as, the actuarial assumptions and methods of the Plan's actuarial valuation date June 30, 2007. A ten year schedule of the funding progress is on page 32 of this report.

The liabilities and contributions of the system are computed using the Projected Unit Credit method of funding. The objective under this method is to fund each participant's benefit under the Plan as they would accrue, taking into consideration future salary increases. The total pension, to which each participant is expected to become entitled, is broken down into units, each associated with a year of past or future credited service. When this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by assets of the Plan. The unfunded liability is amortized over twenty years, and that amount is then added to the Net Normal Cost to produce the recommended employer contributions.

Funding Progress Schedule

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Cost (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/ c)
06/30/07	$1,447,196,612	$1,598,682,178	$151,485,566	90.5%	$346,391,734	43.7%

The information presented below is in the required supplementary schedules of this report on pages 55-58 and is determined as part of the actuarial valuation dated June 30, 2007.

Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar, open
Amortization period:	20-year period re-established each year.
Asset valuation method:	Market value adjusted for investment surpluses and deficits over a five year period. The actuarial value of assets is the market value less cumulative unallocated earnings. Any contribution receivable of the upcoming fiscal year (as determined in the prior year's valuation) is added to the results.
Actuarial assumptions:	
Investment rate of return:	
Pre-retirement	8.0%
Post-retirement	6.8%
Projected salary increases:	Inflation rate approximately 3%.
Cost-of-living adjustments:	1.5%, with variable based on excess investment returns.
Percent married:	Males 80%, females 60%
Spouse age:	Female spouse assumed 4 years younger .
Remarried rates:	None.

REQUIRED SUPPLEMENTARY INFORMATION

Employees' Retirement System
City of Baltimore, Maryland
Required Supplementary Information
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Cost (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/c)
6-30-98	$ 1,165,992,587	$ 1,155,225,754	$ (30,766,833)	102.7%	$ 290,847,770	(10.6)%
6-30-99	1,247,951,875	1,193,031,357	(54,920,518)	104.6	305,212,012	(18.0)
6-30-00	1,309,547,725	1,217,621,669	(91,926,056)	107.5	308,895,853	(29.8)
6-30-01	1,374,100,736	1,283,030,273	(91,070,463)	107.1	309,602,035	(29.4)
6-30-02	1,365,617,359	1,271,606,212	(94,011,147)	107.4	305,521,211	(30.8)
6-30-03	1,408,545,332	1,374,747,918	(33,797,414)	102.5	316,311,022	(10.7)
6-30-04	1,397,581,780	1,429,231,020	31,649,240	97.8	322,914,690	9.8
6-30-05	1,403,206,754	1,466,857,297	63,650,543	95.7	320,985,908	19.8
6-30-06	1,411,165,977	1,530,526,367	119,360,390	92.2	331,888,366	36.0
6-30-07	1,447,196,612	1,598,682,178	151,485,566	90.5	346,391,734	43.7

See notes to required supplementary information.

Employees' Retirement System
City of Baltimore, Maryland
Required Supplementary Information
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contributions	Percentage Contributed
1998	$20,989,768	100%
1999	19,709,553	100
2000	18,869,253	100
2001	16,592,465	100
2002	17,714,152	100
2003	17,736,030	100
2004	17,352,473	100
2005	23,624,914	100
2006	31,003,063	100
2007	36,841,351	100

See notes to required supplementary information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. The information presented in the required supplementary schedules was determined as part of the actuarial valuation dated June 30, 2007. Additional information follows from the latest actuarial valuation report.

Actuarial cost method:	Projected unit credit cost
Amortization method:	Level dollar, open
Amortization period:	20-year period re-established each year; only one amortization base
Asset valuation method:	Market value adjusted for investment surpluses and deficits relative to investment assumptions, phased-in at 20% each year
Actuarial assumptions:	
Investment rate of return:	
Pre-retirement	8.00%
Post-retirement	6.80%
Projected salary increases	4.25-7.44% (includes inflation at 3.00%)
Cost-of-living adjustments	1.5% annual increase with a variable base on excess investment returns

2. Changes in actuarial assumptions, which included a decrease in the actuarial assumed rate of return on assets for pre-retirement to 8.25% and for post-retirement to 6.8%, down from 8.50% and 7.00%, respectively, increased the June 30, 1995 actuarial accrued liability by $8.3 million. Also, a lower than assumed increase in covered payroll for active employees decreased the June 30, 1995 actuarial accrued liability by $6.4 million.

3. New plan benefit provisions, which included establishing a new method for calculating additional service credit for certain employees who leave employment during certain times, shortening the eligibility period for new retirees to begin receiving post retirement benefit increases, and a change in post retirement benefits, increased the June 30, 1996, unfunded actuarial liability by $60.0 million. A higher than assumed increase in disability retirements and job abolishment retirements increased the June 30, 1996 unfunded actuarial liability by $12.0 million. Also, a decrease in the withdrawal assumption increased the June 30, 1996 unfunded actuarial liability by an additional $14 million. The June 30, 1996 unfunded actuarial liability was reduced by $58.0 million, due to the application of actuarial interest surplus.

4. Changes in actuarial assumptions, which included a decrease in the actuarial assumed rate of return on assets for pre-retirement to 8.00%, down from 8.25%, increased the June 30, 1999 actuarial accrued liability by $2.2 million. Also, a lower than assumed increase in covered payroll for active employees decreased the June 30, 1999 actuarial accrued liability by $5.2 million.

5. Effective April 1, 2001, amendments were made to the Plan provisions. These amendments included: increasing the formulas for service and non-line-of-duty disability retirement for all classes of membership; establishing a new non-line-of-duty death benefit for members who have 20 or more years of service credit; lowering the eligibility requirements for line-of-duty disability; reducing the Workers Compensation offset provisions for disability and death benefits; and increasing or establishing survivorship benefits for eligible spouses and eligible minor children of members who selected the maximum benefit and retired prior to June 29, 1989.

The City Administration elected to pay the $63.2 million cost of these improvements for the first 20 years by utilizing a portion of the System's net unallocated excess earnings as of June 30, 2000, which totaled $86.4 million at that date.

6. Changes in actuarial assumptions include a change to generational tables for pre-retirement non-line-of-duty, service retirement and beneficiaries of service retirements. Withdrawal age-based rates decreased for the first year and increased in the second and third years. Disability rates reduced for non-line-of-duty for ages between 55 and 59, and Class C line-of-duty was reduced by one-third. Disability retirement rates increased for retirements after age 60 with less than 30 years of service. The taxable wage base was decreased to 4.0% and the inflation rate to 3.0%. All of the assumption changes will result in a $4.5 million increase in annual City cost. Changes are effective as of June 30, 2002.

7. Changes in the actuarial assumptions included a change to generational tables for pre-retirement non-line-of-duty, service retirement and beneficiaries of service retirements. Disability rates increased for non-line-of-duty for all ages ranging in a rate increase between .05% and .08%. Line of duty disability rates for A, B and C members' remain unchanged. Withdrawal age-based salary rates were lowered to 4.25% with an average salary rate change from 5.6% to 5.2%. Service retirement rates increased for those with less than 30 years of service by .02%. Members with 30 years of service or more retirement rates decreased by at least .01% depending on the age of the retiree.

   Effective July 1, 2006, amendments were made to the Plan provisions. These amendments included: combining the assets of the Plan and increasing the cost of living adjustment. The investments in the paid up benefit and the contingency reserve funds were passively invested and not used in the actuary's valuation of the Plan's assets. The new Plan provision no longer separates the paid up benefit fund and the contingency reserve fund. The combining of assets allow the Plan to have all assets actively invested. The cost of living adjustment was changed to a guaranteed adjustment of 1.5% with an additional variable increase based on excess investment returns.

   All of the assumption and Plan provision changes resulted in a .056%, or $245,384, decrease in annual City cost for the fiscal year as well as an increase of the unfunded liability from $119.4 million to $151.5 million. The changes to the Plan provision paid an additional ad hoc cost of living adjustment of $13.1 million or a one time increase of 1.45% to all retirees and beneficiaries with a retirement date on or before June 30, 2006 which was paid during fiscal year ending June 30, 2007. Changes are effective as of June 30, 2007.

Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ADMINISTRATIVE EXPENSES
Year Ended June 30, 2007

Salaries and wages:		
Permanent full-time salaries	$ 1,142,941	
Overtime compensation	2,198	
Total salaries and wages		$ 1,145,139
Other personnel costs:		
Medical insurance and health care	181,736	
Social security	187,615	
Other	5,674	
Total other personnel costs		375,025
Contractual services:		
Retirement payroll processing	225,480	
Lease purchase agreements	215,469	
Actuarial services	122,618	
Data processing services	83,131	
Trustee education	43,328	
Printing	27,746	
Telephone systems	25,088	
Audit fees	21,000	
Postage	18,225	
Staff training and travel	10,847	
Professional services	7,639	
Real property maintenance	5,848	
Lease of business machines	5,730	
Equipment maintenance	3,332	
Advertising	3,060	
Dues and publications	2,965	
Members' information services	2,789	
Legal fees	2,703	
Miscellaneous	688	
Total contractual services		827,686
Materials and supplies:		
Office supplies		29,918
Equipment:		
Computer equipment		93,023
Depreciation expense		144,292
Total administrative expenses		$ 2,615,082

Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF INVESTMENT EXPENSES
SCHEDULE OF PAYMENTS TO CONSULTANTS
For the Year Ended June 30, 2007

Schedule of Investment Expenses

Investment expenses:	**Fees**
Investment management fees	$ 5,417,691
Securities lending fees	140,643
Custodial fees	104,784
Investment advisor fees	162,000
Total investment expenses	**$ 5,825,118**

Schedule of Payments to Consultants

Firm	Fees	Nature of Service
Cherion	$119,073	Actuarial Services
William M. Mercer, Incorporated	3,545	Actuarial Services
Baltimore City Department of Audits	21,000	Financial Audit

Note: A schedule of fees and commissions is also illustrated in the Investment Section on page 49.

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INVESTMENT SECTION

CALLAN ASSOCIATES

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

INVESTMENT CONSULTANT'S REPORT

Introduction

This report, prepared for the City of Baltimore Employees' Retirement System (ERS) by Callan Associates Inc., is based on information supplied by the System's custodian, Mellon Bank, N.A (Mellon). Mellon provides Callan Associates with beginning and ending market values, cash flows, and positions for the ERS as well as each manager, where applicable. Mellon audits the information contained in its accounting reports monthly. Investment information is reported to the greatest degree possible in conformance with the presentation standards of Global Performance Investment Standards (GIPS) formerly known as AIMR.

Distinction of Responsibilities

The Board of Trustees (Trustees) of the Employees' Retirement System (ERS) is responsible for establishing the investment policy, or strategic asset allocation, which is the primary determinant of investment returns on assets. A thorough understanding of the plan's liabilities is essential for determining appropriate asset allocations. The two drivers of the analysis are the projections of the plan's liabilities and the projections of future capital market performance. Projections are generated for all the key dimensions of the System: membership, benefits, liabilities, assets, and funding requirements. The Trustees considered the potential financial implications of a wide range of policies and has arrived at the investment policy after consideration. Late in fiscal year 1998, the Trustees adopted new investment policy guidelines as a result of an asset/liability study performed by Callan. An asset/liability study conducted by Callan Associates in 2002 resulted in no change to these guidelines. A subsequent asset liability study conducted by Callan Associates in 2005 resulted in the addition of hedge funds as well as a realignment of all asset classes as defined in the investment policy/structure section of this document below.

The investment managers appointed to execute the policy will invest ERS assets in accordance with the policy guidelines and with their judgment concerning relative investment values. In particular, the investment managers are accorded full discretion to: (1) select individual securities, (2) make periodic strategic adjustments to the mix of the common stock and fixed income securities, where applicable and (3) diversify their portfolios.

Investment Policy/Structure

The System's investment policy was designed to provide broad diversification among asset classes in order to maximize return at an appropriate level of risk and to minimize the risk of large losses to the System. In addition, asset allocation ranges have also been implemented to maintain compliance with the investment policy and to ensure that the ERS will achieve its long-term risk and return objectives. The following table outlines the ERS's investment policies:

Asset Class	Allocation Target
U.S. Equity	41%
International Equity	14%
Total Public Equity	**55%**
U.S. Fixed Income	26%
Real Estate	9%
Alternatives	5%
Absolute Return	5%
Total Portfolio	**100%**

Within each asset class, the Trustees have employed several investment managers to further diversify the investment approach and to minimize style biases. The Trustees have employed both active and passive investment strategies to obtain the desired asset allocation mix in the most cost effective and efficient manner.

Investment Objective

The ERS's investment objective is to outperform the return of a policy portfolio consisting of 41% Russell 3000, 14% MSCI ACW ex US, 26% Lehman Bros. Agg, 9% CPI+6%, 5% Tbills plus 5%, and 5% ERS Alternative investments. In addition, the ERS's performance is evaluated relative to the Callan Associates Public Fund Universe, a universe representing the performance of 148 funds with an aggregate market value of $1.4 trillion as of June 30, 2007. In addition, each manager is evaluated against the appropriate Callan peer group (style) universe.

Market Overview

The fiscal year ended June 2007 capital market returns were all in positive territory. The domestic stock market as proxied by the Russell 3000 Index returned 20.07%, the international stock market as proxied by the MSCI EAFE Index returned 27.00%, and domestic fixed income as proxied by the Lehman Bros. Agg index returned 6.12%.

Investment Performance

For investment performance measurement purposes, the total investment portfolio is split between "actively managed" accounts and "other" assets. The "other" assets consists of the Cash Reserve, held for the payment of benefits and administrative expenses, and "Post Retirement" assets held in immunized portfolios dedicated solely for the purpose of paying post retirement benefit increases. It is only the actively managed assets that are displayed below.

For the fiscal year ended June 30, 2007, the ERS's rate of return was strong in absolute terms (+18.33%) and out performed in relative terms (+2.07%) versus the blended benchmark and ranked in the 24th percentile of the Callan's public fund universe. Out performance versus the benchmark was primarily due to multiple factors. An overweight to both domestic and international equity coupled with an underweight to both domestic fixed income and real estate helped from an asset allocation point of view. Out performance within domestic equity, real estate, and hedge funds also helped from a manager effect point of view.

The market value of the actively managed assets increased from $1.15 billion on June 30, 2006, to $1.29 billion on June 30, 2007. The increase in value was primarily attributable to positive investment return during the period At the end of fiscal year 2007, the System's actively managed assets were allocated as follows:

			Fiscal Year Rate of Return	
	Market Value (in millions)	Percent of Total	ERS	Benchmark
U.S. Equity	$616.2	47.9%	20.46%	20.07%
International Equity	226.5	17.6%	29.97%	30.15%
U.S. Fixed Income	237.1	18.4%	6.24%	6.12%
Real Estate	101.1	7.9%	12.63%	8.67%
Private Equity	37.5	2.9%	20.73%	20.73%
Absolute Return	69.2	5.3%	12.91%	10.21%
Total Fund	$1,287.6*	100.0%	18.33%*	16.26%

***excludes "other" assets**

Mark Kline
Callan Associates Inc.
November 5, 2007

OUTLINE OF INVESTMENT OBJECTIVES AND POLICIES

Investment Objectives

The primary investment objectives of the Employees' Retirement System (the Plan) are set forth below. It is recognized that maximizing any one objective may compromise the achievement of other objectives. For example, maximizing liquidity may reduce investment return; seeking maximum investment return may subject capital preservation to higher risk. Accordingly, the following investment objectives are given in descending order of priority:

1. To preserve the capital value of the Plan adjusted for inflation;
2. To ensure adequate Plan liquidity to meet benefit liabilities as they fall due;
3. To meet the actuarial interest rate assumptions; and
4. Without unduly jeopardizing the above objectives, to exceed the investment return objective by the astute management of funds.

General Investment Policy

The Employees' Retirement System must comply with investment restrictions imposed by the laws of the City of Baltimore and any other State or Federal laws dealing with investment of public retirement plan assets. The Plan's investment managers are expected to familiarize themselves with these laws.

Investment policy for the Plan relates to the portfolio of all assets that comprise the total holdings of the Plan. The Board of Trustees (Board) recognizes that the objective of a sound and prudent policy is to produce investment results that will preserve the assets of the Plan, as well as, to maximize earnings of the Plan consistent with its long-term needs. These long-term needs have been ascertained through various studies performed on behalf of the Board by its actuary and its investment advisor. Investment policy and the long-term average allocation of plan assets to which they refer are deemed to be consistent with the projected pattern of cash flows to the Plan and its projected benefit payments. Should the projected finances of the Plan change significantly, the applicable Federal or State statutes be amended, or changes in the Plan's asset valuation methods be adopted, these policies and average asset allocations will be reviewed and modified by the action of the Board, if appropriate.

In general, the Board recognizes that large pools of assets must be diversified over several different security classifications in order to reduce risk. The following asset allocation has been established as an overall objective for the total holdings of the Plan:

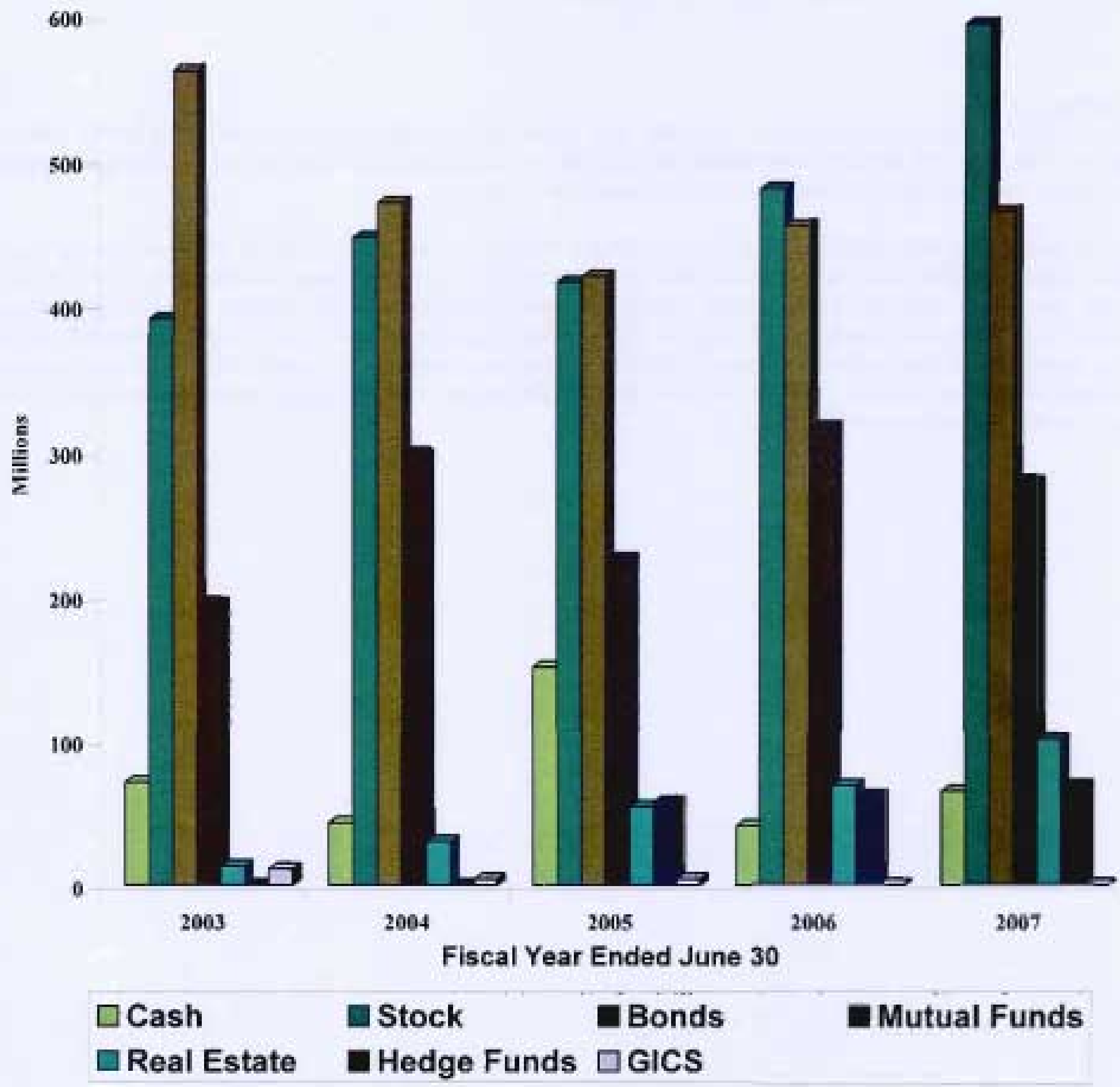
	% of Total Fund at Market Value
Asset Category	Target
Domestic equity	41%
Fixed income	26%
International equity	14%
Real estate	9%
Alternative investments	5%
Hedge funds	5%

Within each major security classification, investments should be diversified and excessive concentration in any particular security, company or industry is to be avoided. Detailed guidelines in this regard have been supplied to each of the Plan's investment managers. Additionally, each is expected to be familiar with the investment provisions in Article 22 of the Baltimore City Code. Subject to these objectives and guidelines, and the Plan laws referenced herein, the investment managers shall have full discretion in investment decisions. Managers are advised to notify the Board in writing if these objectives cannot be met or if the guidelines constrict performance, and are encouraged to suggest changes in these guidelines at any time.

Proxy Voting
Pursuant to a U.S. Department of Labor directive, the Board of Trustees has a long standing policy that, when solicitations of proxies with respect to securities are received by an investment manager, the decisions as to whether and how to vote such proxies are delegated to that investment manager.

The Board also recognizes however, that the investment manager's decisions must be made in accordance with applicable legal standards and that the Board has an obligation to ensure that those standards are being observed. Therefore, the Board requests that annually (June 30) each management firm furnish the Plan with a written statement of their policy and practices with respect to the voting of securities held in their employee benefit plan asset portfolios, together with their written assurance that such policies and practices are being followed. These statements and assurances will be included, and will be given appropriate weight, in the Board's continuing evaluation of each manager's overall investment performance.

Employees' Retirement System
City of Baltimore, Maryland
PORTFOLIO COMPOSITION
MARKET VALUE OF INVESTMENTS



(amounts expressed in millions)

	2003		2004		2005		2006		2007	
Cash	$ 71	6%	$ 43	3%	$ 150	11%	$ 41	3%	$ 65	4%
Stock	390	31	447	34	416	31	481	34	594	38
Bonds	562	45	471	45	420	32	455	32	465	30
Mutual Funds	195	16	297	16	225	17	315	22	279	18
Hedge Funds	-	0	-	0	57	4	62	4	69	6
Real Estate	13	1	30	1	54	4	69	5	101	4
GICS	11	1	4	1	4	1	0	0	0	0
Total	$ 1,242	100%	$ 1,292	100%	$ 1,326	100%	$ 1,423	100%	$ 1,573	100%

INVESTMENT RESULTS - TIME WEIGHTED RATE OF RETURN, CURRENT VALUE BASIS

		Annualized	
	FY 2007	3 Years	5 Years
TOTAL PORTFOLIO	18.33%	12.73%	10.82%
Composite Benchmark	16.26	12.29	10.92
DOMESTIC EQUITIES	20.46	12.86	11.47
Russell 3000 Index	20.07	12.44	11.53
INTERNATIONAL EQUITIES	29.97	23.89	16.70
MSCI AC Wld ex US Index	30.15	25.03	19.93
DOMESTIC FIXED INCOME	6.24	3.85	4.33
Lehman Aggregate	6.12	3.98	4.48
REAL ESTATE	12.63	13.74	10.26
Total Property Index	17.24	17.98	14.39
HEDGE FUNDS	12.91		
Broadly Diversified fund of funds	14.74	10.08	9.16

Notes:

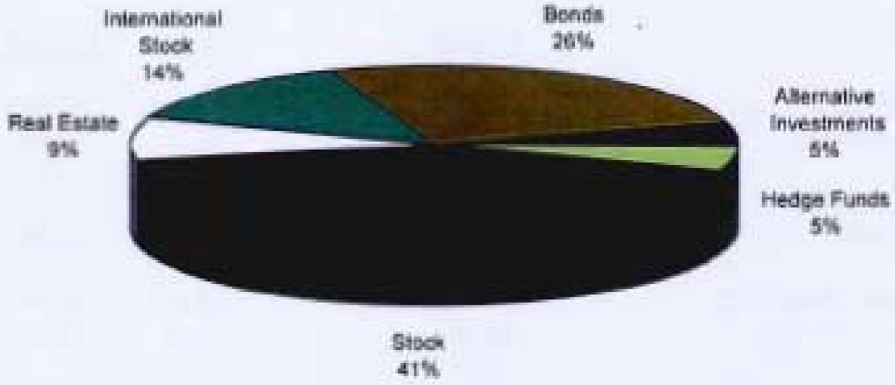
The calculations above were prepared by the Employees' Retirement System's investment advisor, using a time weighted rate of return, based on market value.

The performance shown for the Total Portfolio does not include "Other Assets" dedicated to the payment of post-retirement benefit increases.

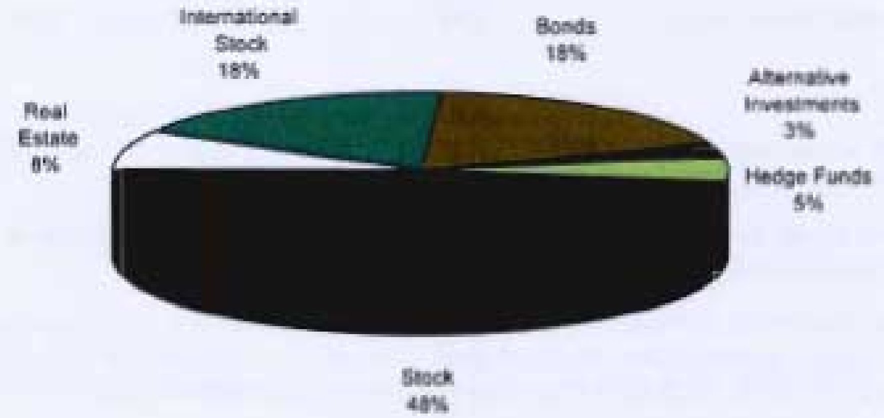
The Composite Benchmark exhibits the overall rate of return for a sample unmanaged portfolio. The Composite Benchmark is comprised of 41.0% Russell 3000, 26.0% LB Aggregate, 9.0% CPI-W +6.0%, 5.0% 3 month Treasury Bill +5.0%, 5.0% ERS Alternative Investment, and 14.0% MSCI ACW ex US Free index.

Employees' Retirement System
City of Baltimore, Maryland
ASSET ALLOCATION - ACTIVELY MANAGED ACCOUNTS
June 30, 2007

TARGET ASSET ALLOCATION



ACTUAL ASSET ALLOCATION



Note: For asset allocation purposes, only actively managed accounts are included. Assets in the mutual funds are allocated between domestic equity and domestic fixed income based on the percentage held by the investment managers at June 30, 2007. Assets of the Paid Up Benefit Reserve and the Contingency Reserve are not included in this illustration. The assets of these reserves are invested separately for the sole purpose of providing retirement benefit increases. Assets in the cash reserve are also excluded from this illustration. These assets are for the purpose of providing cash for the payment of benefit and administrative expenses.

Employees' Retirement System
City of Baltimore, Maryland
TOP TEN EQUITY AND FIXED INCOME HOLDINGS BY MARKET VALUE
June 30, 2007

Top Ten Domestic Equity Holdings

	Shares	Stock	Market Value
1)	202,446	GENERAL ELECTRIC CO.	$7,749,633
2)	76,612	EXXON MOBIL CORP.	6,426,215
3)	230,114	PFIZER INC.	5,884,015
4)	93,716	CITIGROUP INC.	4,806,693
5)	52,722	CHEVRON CORP.	4,441,301
6)	70,145	JOHNSON & JOHNSON	4,322,335
7)	103,441	VERIZON COMMUNICATIONS	4,258,666
8)	40,150	IBM CORP.	4,225,787
9)	100,408	AT & T INC	4,166,932
10)	80,713	J P MORGAN CHASE & CO.	3,910,545

Top Ten International Equity Holdings

	Shares	Stock	Market Value
1)	62,500	RIO TINTO	$4,798,938
2)	25,400	E.ON	4,263,640
3)	29,500	BASF	3,874,161
4)	60,000	TOYOTA MOTOR CORP	3,789,620
5)	87,350	TEVA PHARMACEUTICAL INDS	3,603,188
6)	24,000	SIEMENS	3,437,420
7)	105,900	NOKIA	2,976,314
8)	67,000	ALLIANZ	2,696,083
9)	94,300	ALLIED IRISH BANKS	2,587,891
10)	18,000	CONTINENTAL	2,488,591

Top Ten Domestic Fixed Income Holdings

	Par	Notes and Bonds	Market Value
1)	$23,300,000	FED. NATL. MORTGAGE ASSN 5.000% DUE 07/01/2037	$21,829,770
2)	13,500,000	FED. NATL. MORTGAGE ASSN 5.000% DUE 07/01/2037	13,019,400
3)	7,300,000	FED. NATL. MORTGAGE ASSN 5.000% DUE 08/01/2037	6,837,180
4)	6,600,000	FED. NATL. MORTGAGE ASSN 6.000% DUE 08/01/2037	6,528,060
5)	6,500,000	FED. NATL. MORTGAGE ASSN 6.000% DUE 08/01/2037	6,424,600
6)	5,900,000	FED. NATL. MORTGAGE ASSN 5.500% DUE 07/01/2022	5,811,500
7)	4,800,000	GOV'T. NATL. MORTGAGE ASSN 5.500% DUE 07/15/2035	4,657,440
8)	4,500,000	GOV'T. NATL. MORTGAGE ASSN 5.500% DUE 07/15/2034	4,476,150
9)	4,200,000	FED. NATL. MORTGAGE ASSN 5.000% DUE 07/01/2021	4,058,460
10)	4,145,000	U.S. TREASURY NOTES 4.750% DUE 02/15/2037	3,906,662

A complete list of portfolio holdings is available upon request.

Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT SUMMARY
June 30, 2007

	Market Value	Percent of Market Value
Stock:		
Financial	$ 72,991,077	4.84 %
Technology	63,652,922	4.22
Health care	39,856,245	2.64
Capital goods	29,516,548	1.96
Energy	34,298,595	2.28
Consumer services	27,752,789	1.84
Consumer nondurables	20,679,660	1.37
Utilities	7,447,680	0.49
Basic industries	13,295,091	0.88
Chemicals	7,219,540	0.48
Business services	4,609,120	0.31
Transportation	3,533,641	0.23
Consumer durables	6,918,620	0.46
Total stock	331,771,528	22.00
Other		
International stock	223,344,820	14.81
Private equity	38,879,970	2.58
Total other	262,224,790	17.39
Total stock	**593,996,318**	**39.39**
Bonds:		
U.S. securities and agencies		
U.S. agencies	166,485,300	11.04
Treasury notes and bonds	94,393,455	6.26
Total U.S. securities and agencies	260,878,755	17.30
Corporate		
Financial	147,567,373	9.79
Industrial	34,033,711	2.26
Utilities	9,779,124	0.65
Energy	5,198,069	0.35
Consumer services	6,444,732	0.43
Technology	735,594	0.05
Transportation	138,155	0.01
Total corporate	203,896,758	13.54
Total bonds	**464,775,513**	**30.84**
Other investments:		
Mutual funds	278,689,630	18.49
Real estate	101,055,111	6.70
Hedge Funds	69,051,687	4.58
Total other investments	**448,796,428**	**29.77**
Total investments	**$1,507,568,259**	**100.00 %**

Employees' Retirement System
City of Baltimore, Maryland
SUMMARY SCHEDULE OF FEES AND COMMISSIONS
For the Year Ended June 30, 2007

	Assets Under Management	Fees
Investment managers' fees		
Domestic equity	$331,771,528	$1,585,198
International equity	223,344,820	1,134,198
Fixed income	464,775,513	364,717
Mutual funds	278,689,630	92,031
Securities lending		140,643
Real estate	101,055,111	726,941
Private equity	38,879,970	644,075
Hedge funds	69,051,687	870,531
Total investment managers' fees		**$5,558,334**

	Fees
Other investment service fees:	
Custodial fees	$104,784
Investment consultant fees	162,000
Total other investment service fees	**$266,784**

Brokerage Fees

Broker's fees on investment transactions for the year ended June 30, 2007 amounted to $625,756. A list of the brokers receiving more than $2,800 in fees are listed below.

Brokerage Firms	Fees Paid	Brokerage Firms	Fees Paid
Ridge Clearing and Outsourcing	$50,305	Liquidnet Inc.	$5,433
Merrill Lynch	44,518	Macquarie Equities	4,751
Citigroup Global Market Inc.	41,337	Lehman Bros. Inc.	4,627
Pershing LLC	35,609	Wachovia Securities LLC	4,476
Morgan Stanley & Co. Inc.	35,502	Instinet Corporation	4,122
Credit USA	32,518	Williams Capital Group LP	3,863
UBS Securities LLC	28,816	ISI Group Inc	3,787
BNY Brokerage LLC	28,331	Bernstein Sanford C & Co	3,631
FRS Sec LLC	28,044	Jardine Fleming Sec	3,575
Goldman Sachs, Intl.	24,945	Cantor Fitzgerald, & Co Inc.	3,489
Investment Technology Groups	24,840	Stifel Nicolaus	3,290
Bear Stearns & Co Inc.	19,657	Guzman & Co	3,116
Calyon Securities	13,455	Mr. Beal & Company	2,931
Credit Suisse First Boston Corp	11,943	Prudential Equity Group	2,873
Deutsche Bank	9,763	HSBC Securities Inc.	2,868
G-Trade Services, Ltd	7,982	Credit Agricole Cheuvreux	2,833

Brokerage Commissions

Because of the highly visible nature of the Employees' Retirement System, it is important that the investment managers have as a primary objective in investment transactions to obtain the best execution in all cases. While the investment managers are permitted to direct a portion of commissions for research, it is expected that each manager will receive commission discounts which are commensurate with current discount practice. Investment managers are expected to give first preference whenever possible to brokerage firms with offices located in the Baltimore Metropolitan Area. However, the managers are expected to negotiate commission rates, and local brokerage firms should be given preference only when commission rates and transaction services are competitive with those available from other firms.

EQUITY MANAGERS

Brown Investment Advisory, Inc.
Patricia Carroll
Baltimore, Maryland

Chicago Equity Partners
Michael Nairne
New York, New York

Turner Investment Mgt., LLC
John Finnegan
Berwyn, Pennsylvania

The Edgar Lomax Company
Randall Eley
Springfield, Virginia

Palisades Inv. Partners, LLC
Quinn R. Stills
Santa Monica, California

Rothschild Asset Mgmt. Inc.
T. Radey Johnson
New York, New York

TimesSquare Capital Mgt. LLC
Akin N. Greville
New York, New York

EQUITY FUND OF FUNDS

Group Advisor

FIS Funds Management, Inc.
Tina Byles Williams
Philadelphia, Pennsylvania

Atlanta Life Investment Advisors
Randell A. Cain, Jr., CFA
Atlanta, Georgia

Denali Investment Advisors
Bob Snigaroff
San Diego, California

Profit Investment Management
Eugene Profit
Silver Spring, Maryland

Winslow Capital Management
Clark J. Winslow
Minneapolis, Minnesota

Great Northern Capital
Jay Rothmeier
St. Paul, Minnesota

Apex Capital Mgmt. LLC
Mike Kalbfleisch
Dayton, Ohio

Opus Capital Management
Kevin Whalen
Cincinnati, Ohio

OakBrook Investments
Janna L. Sampson
Lisle, Illinois

Thomas White International
Douglas M. Jackman, CFA
Chicago, Illinois

Delancey Capital Mgmt.
Mark Corbin
Philadelphia, Pennsylvania

Lombardia Capital
Albert Chavez
Pasadena, California

Affinity Investment Advisors
Greg Lai
Irvine, California

Fortaleza Asset Management
Margarita Perez, CFA
Chicago, Illinois

INTERNATIONAL EQUITY MANAGERS

The Boston Company Asset Management, LLC
Nancy Irving
Boston, Massachusetts

Philadelphia International Advisors, LP
James S. Lobb
Philadelphia, Pennsylvania

Thornburg Investment Advisors
Peter Trevisani, CFA
Santa Fe, New Mexico

HEDGE FUND MANAGERS

Attalus Capital
John Boles
Philadelphia, Pennsylvania

Grosvenor Capital Management, LLC
David Holmberg
Chicago, Illinois

Suoritus Partner, LLC
Jean-Marc Mériné
Springfield, Virginia

FIXED INCOME MANAGERS

Utendahl Capital Management, L.P.
Thomas Mandel
New York, New York

Western Asset Management, Inc.
Joseph C. Carieri
Pasadena, California

Loomis Sayles & Company, LP
Steven J. Doherty, CFA
Washington, D.C.

REAL ESTATE MANAGERS

American Realty Advisors
Stanley Iezman
Glendale, California

Hancock Timber Resources Group
John T. Perda
Boston, Massachusetts

Apollo Real Estate
Steven M. Wolf
Atlanta, Georgia

VENTURE CAPITAL MANAGERS

Abbott Capital, Inc.
Charles H. van Horne
New York, New York

Fairview Capital III, L.P.
Laurence C. Morse
Farmington, Connecticut

Maryland Venture Capital Trust
Lawrence J. Bach
Baltimore, Maryland

CASH MANAGEMENT

Standish Mellon
James Kohley, CFA
Pittsburgh, Pennsylvania

SECURITIES LENDING

BNY Mellon Global Securities Lending
Renee Rawls
Pittsburgh, Pennsylvania

GLOBAL CUSTODIAN

BNY Mellon Financial Corporation
Arlene C. Sefcik
Pittsburgh, Pennsylvania

INVESTMENT ADVISOR

Callan Associates, Inc.
Mark Kline
Florham Park, New Jersey

ACTUARIAL SECTION

October 31, 2007

Board of Trustees
Employees' Retirement System
7 East Redwood Street
12th Floor
Baltimore, Maryland 21202-3470

Honorable Members of the Board of Trustees:

Cheiron Inc, performs an actuarial valuation of the System at the end of each fiscal year. The most recent valuation, as of June, 30 2007, determined the employer's contribution for the plan year beginning July 1, 2007. Because the contribution is always accrued, it is our understanding the contribution plus interest is historically made during the 2009 fiscal year.

The funding method used in the annual valuation is the Projected Unit Credit Cost method. This method tends to produce level contributions as a percentage of covered payroll as long as the average age of active membership does not change. If the average age were to increase, the Normal Cost portion of the employer's contribution would increase as a percentage of covered payroll. The employer's contribution is increased or decreased to amortize over 20 years the difference between the actuarial value of assets and the actuarial accrued liability.

The valuation is based on actuarial assumptions recommended by the actuary and approved by the Board of Trustees. The assumptions and methods used for funding purposes meet the parameters set forth in the disclosures presented in the financial section by Governmental Accounting Standards Board Statement No. 25. Some actuarial assumptions are incorporated into Article 22 of the Baltimore City Code. The plan provisions require a periodic review of the assumptions by the Actuary. The most recent review examined experience from 2002 to 2006 was performed resulting in changes that were incorporated in the June 30, 2007 valuation. The current assumptions are a reasonable estimate of the anticipated experience of the System.

The valuation is based on closed group of membership; no new hires are assumed. The actuarial value of assets for this disclosure are equal the market value adjusted for investment performance above or below the assumed rate of return. Such gains or losses are aggregated and recognized at the rate of 20% each year. Membership data used for the actuarial valuation is supplied by the Retirement System. The data is examined by the actuary for reasonableness and consistency with the prior year's data. Asset information is provided on an unaudited basis.

All supporting schedules in the Actuarial Section and the Schedule of Funding Progress in the Financial Section have been prepared by the System and reviewed by Cheiron. The undersigned meet the qualification standards of the American Academy of Actuaries to render the actuarial opinion contained in this letter and the actuarial report.

Sincerely,
Cheiron

Kenneth Kent, FSA, FCA
Consulting Actuary

Margaret Tempkin, FSA
Consulting Actuary

ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS

Method of Funding: (Effective 7/1/1989)	Liabilities and contributions shown in this report are computed using the Projected Unit Credit method of funding. The Plan's normal cost is the present value of the benefit deemed to accrue in the plan year less the amount of anticipated employee contributions, if applicable. The actuarial accrued liability is the sum of the individual's present value of accrued benefits at the beginning of the year. The current Unfunded Actuarial Liability is amortized over 20 years. This 20-year period is restarted each year. The Trustees can elect to change this period.
Asset Valuation: (Effective 6/30/1982)	The actuarial value of assets is equal to the market value, adjusted for investment surpluses and deficits over a five-year period. The actuarial value of assets is the market value less cumulative unallocated earnings. Any contribution receivable for the upcoming fiscal year (as determined in the prior year's valuation) is added to the result.
Post Retirement Benefit Increases: (Effective 6/30/2007)	Annual post-retirement benefit increases are 1.5%. Additional increases may be provided when investment performance exceeds 6.8% provided for all participants in pay status for more than 18 months.
Interest: (Effective 6/30/1999)	8.0% compounded annually until retirement except employee accumulations; 6.8% compounded annually after retirement.
Expenses:	Expenses are paid from the funds except investment management expenses which are paid from investment earnings. It is assumed that the fund will have sufficient earnings to pay these expenses and meet the interest assumption.

Salary Scale:
(Effective 6/30/07)

Salary increases are assumed to vary with age. Sample rates are as follows:

Age	Annual Rate of Salary Increase
20	.0695
25	.0660
30	.0603
35	.0545
40	.0493
45	.0448
50	.0425
55	.0425
60	.0425
65	.0425
69	.0425

The interest rate and salary assumptions are based on an inflation rate of approximately 3.00% (Effective 6/30/07).

Social Security:
(Effective 6/30/02)

4.00% per year compounded annually.

Additional Assumptions:
(Effective 6/30/07)

Inflation:	3.00%
Cost of Living:	1.50%, with variable based on excess returns.
Percent married:	Males 80%, females 60%.
Spouse age:	Female spouse assumed 4 years younger.
Remarriage rates:	None

ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS (continued)

Active decrements and service retirement rates are the same as presented in the June 30, 2007 actuarial valuation report. Sample rates as follow:

	Withdrawals			
Age	Less than 1	1	2	More than 3
25	0.2321	0.2100	0.1500	0.1150
30	0.2069	0.1780	0.1300	0.1050
35	0.1477	0.1380	0.1050	0.0800
40	0.1137	0.0980	0.0850	0.0550
45	0.1130	0.0980	0.0850	0.0450
50	0.1130	0.0980	0.0850	0.0450
55	0.1130	0.1100	0.0850	0.0500
60	0.1650	0.1600	0.1100	0.0750
65	0.4150	0.4100	0.3150	0.2800
69	0.4150	0.4100	0.3150	0.2800

	Rates of Retirement		
Age	Less than 30 years	30 years	More than 30 years
55-58	0.06	0.20	0.10
59	0.07	0.20	0.15
60	0.15	0.20	0.20
61	0.20	0.20	0.25
62	0.20	0.20	0.45
63-64	0.20	0.20	0.20
65	0.20	0.40	0.40
66-69	0.20	0.40	0.25
70	1.00	1.00	1.00

Age	Non-Line-of -Duty Disability	Line-of-Duty Disability (Class A&B)	Line-of-Duty Disability (Class C)	Non-Line-of-Duty Death Male[1]	Non-Line-of-Duty Death Female[1]	Line-of-Duty Death
25	0.00050	0.00004	8E-05	0.0008	0.0003	0.00005
30	0.00059	0.00004	8E-05	0.0009	0.0004	0.00005
35	0.00115	0.00008	0.0002	0.0011	0.0005	0.00005
40	0.00236	0.00008	0.0002	0.0016	0.0008	0.00005
45	0.00425	0.00012	0.0002	0.0025	0.0011	0.00005
50	0.00675	0.00020	0.0004	0.0042	0.0017	0.00005
55	0.01043	0.00024	0.0005	0.0076	0.0027	0.00005
60	0.00579	0.00027	0.0006	0.0138	0.0055	0.00005
65	0.00130	0.00038	0.0008	0.0232	0.0104	0.00005
69	0.00078	0.00039	0.0008	0.0333	0.0147	0.00005

[1] Rates for individuals who are the age shown as of 6/30/07.

Mortality Rates for Retired and Disabled Members and Beneficiaries

Age	Retirees and Beneficiaries Male	Retirees and Beneficiaries Female	Disabled Members Male	Disabled Members Female
55	0.007551	0.002744	0.053921	0.025292
60	0.013803	0.005462	0.064351	0.031382
65	0.023200	0.010397	0.076791	0.040883
70	0.036339	0.016039	0.095577	0.055684
75	0.059646	0.027122	0.012298	0.078406
80	0.095876	0.047095	0.161151	0.112736

The post-retirement mortality for service retirement is based on the 1994 Uninsured Pensioners' Generational Mortality table with generational projections using 50% of the AA scale projected to 2016 (rates effective 6/30/2007).

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase/ (Decrease) In Average Pay
6/30/1998	10,653	$290,847,770	$27,302	4.1%
6/30/1999	10,779	305,212,012	28,315	3.7
6/30/2000	10,593	308,895,853	29,160	3.0
6/30/2001	10,223	309,602,035	30,285	3.9
6/30/2002	9,827	305,521,211	31,090	2.7
6/30/2003	9,831	316,311,022	32,175	3.5
6/30/2004	9,722	322,914,690	33,215	3.2
6/30/2005	9,412	320,985,907	34,104	2.7
6/30/2006	9,193	331,888,366	36,102	5.9
6/30/2007	9,035	346,391,734	38,339	6.2

Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	Added to Rolls		Removed from Rolls		Rolls - End of Year			
Year Ended	No.	Annual Allowances*	No.	Annual Allowances*	No.	Annual Allowances*	% Increase In Annual Allowances	Average Annual Allowances
6/30/1998	323	$ 4,909,743	402	$ 2,565,374	8,055	$ 69,305,767	3.5 %	$ 8,604
6/30/1999	421	6,144,093	384	2,397,372	8,092	73,052,488	5.4	9,029
6/30/2000	341	5,393,198	378	2,443,889	8,055	76,001,797	4.0	9,435
6/30/2001	437	4,640,497	364	2,674,238	8,128	77,968,056	2.6	9,593
6/30/2002	622	6,861,717	427	3,078,931	8,323	81,750,842	4.9	9,822
6/30/2003	482	5,946,797	416	3,092,168	8,389	84,605,471	3.5	10,085
6/30/2004	534	6,850,549	436	3,591,049	8,487	87,864,971	3.9	10,353
6/30/2005	507	5,115,926	371	3,154,496	8,623	89,826,401	2.2	10,417
6/30/2006	473	5,572,251	408	3,239,121	8,688	92,159,531	2.5	10,607
6/30/2007	436	5,305,349	428	3,239,121	8,696	99,593,514	8.1	11,453

* Includes post-retirement adjustments.

Employees' Retirement System
City of Baltimore, Maryland
SOLVENCY TEST

The Employees' Retirement System's funding objective is to meet long-term benefit promises through contributions which spread the cost over the employees' service base. If the contributions to the System are soundly executed, the System will pay all promised benefits when due - the ultimate test of financial soundness.

A short term solvency test is one means of examining a System's progress under its funding program. In a short-term solvency test, the plan's present assets are compared with: 1) Active member contributions on deposit; 2) The liabilities for future benefits to present retired lives; 3) The liabilities for future benefits to terminated vested members; and 4) The liabilities for service already rendered by active members. In a system which has been following the discipline of allocating cost on a consistent basis to valuation years, the liabilities for active member contributions on deposit (liability 1), the liabilities for future benefits to present retired lives (liability 2), and the liabilities for future benefits to terminated vested members (liability 3) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 4) will be partially covered by the remainder of present assets. Generally, the funded portion of liability 4 will increase over time. Liability 4 being fully funded is rare.

The schedule below illustrates the System's history of liability 4.

	Aggregate Accrued Liabilities For:					Portion of Accrued Liabilities Covered by Reported Assets			
Valuation Date	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Terminated Vested Members	(4) Active Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)	(4)
6/30/1998	$8,263,152	$732,465,080	$13,655,292	$400,842,230	$1,185,992,587	100%	100%	100%	107.7%
6/30/1999	8,210,398	734,370,779	13,888,567	436,561,613	1,247,951,875	100	100	100	112.6
6/30/2000	8,259,801	739,088,699	15,465,717	454,807,452	1,309,547,725	100	100	100	120.2
6/30/2001	7,646,329	755,957,926	18,247,395	501,178,623	1,374,100,736	100	100	100	118.2
6/30/2002	7,015,293	791,902,477	26,485,346	514,644,381	1,365,617,359	100	100	100	105.0
6/30/2003	6,591,612	824,483,064	21,613,489	522,059,753	1,408,545,332	100	100	100	106.5
6/30/2004	6,273,379	869,826,880	23,580,754	537,210,520	1,397,581,780	100	100	100	92.7
6/30/2005	5,585,067	898,978,213	27,015,479	545,367,724	1,403,206,754	100	100	100	87.8
6/30/2006	5,142,918	937,648,822	29,987,196	578,363,462	1,411,165,976	100	100	100	75.8
6/30/2007	4,891,816	991,713,294	33,164,687	568,912,381	1,447,196,612	100	100	100	73.4

Employees' Retirement System
City of Baltimore, Maryland
ANALYSIS OF FINANCIAL EXPERIENCE

Gains and Losses in Accrued Liabilities During Fiscal Year Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	Gain or (Loss) for Year 2006	Gain or (Loss) for Year 2007
Age and Service Retirements If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher pays, a loss.	$ (8,800,000)	$ (11,000,000)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(2,090,000)	(310,000)
Death-in-Service Benefits If survivor claims are less than assumed, there is a gain. If more claims, a loss.	1,280,000	
Withdrawal From Employment If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	3,430,000	280,000
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(5,730,000)	(15,360,000)
Investment Income If there is greater investment income than assumed, there is a gain. If less, a loss.	(29,980,000)	(3,570,000)
Death After Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	(21,225,704)	11,800,000
New Entrants New entrants create a loss because they were not assumed in the previous evaluation.	(2,410,000)	(1,650,000)
Increase in Periodic Pension One time increase in periodic benefit payments-effective only during 2007 valuation.		(13,321,000)
Assumption and Asset Method Changes Changes due to the 2007 experience study assumption changes and the change in accounting and liability		(12,192,464)
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	3,020,000	10,590,000
Loss During Year From Financial Experience	$ (62,505,704)	$ (34,733,464)

1. **EFFECTIVE DATE:**

The Employees' Retirement System was established by City Ordinance, effective January 1, 1926, and has been amended periodically.

2. **ELIGIBILITY:**

Any regular and permanent officer, agent, or employee of the City with the exception of those required to join the Maryland State or other Retirement System will become a Class C member of the Employees' Retirement System upon completion of one year of employment. The Board of Estimates may authorize prospective membership for any class of part-time employees. There are three classes of members as follows:

Class A - Members who were hired before July 1, 1979, and entered membership on or after January 1, 1954, or who were employed and elected prior to April 1, 1954, to contribute at the higher Class A rate.

Class B - Members as of January 1, 1954, who did not elect Class A membership. Any Class B member may elect to become a Class A member by bringing his accumulated contributions and interest up to what they would be if he had elected Class A membership on January 1, 1954.

Class C - Members who were hired on or after July 1, 1979, or any other members who may have elected to transfer during various open transfer periods to Class C membership.

3. **MEMBER CONTRIBUTIONS:**

Class C members make no contributions. Class A and Class B members contribute 4% of earnable compensation. Contributions are not required upon attaining age 60 and completing 35 years of service.

4. **COMPENSATION:**

Earnable compensation is the annual salary authorized for the member, not including overtime, differential pay, environmental pay, hazardous duty pay, pay for conversion of leave or other fringe benefits, or any like additional payment.

Average final compensation is the average of the member's annual earnable compensation on January 1 for the three successive years of service when the member's earnable compensation is the highest or, if the member is in service on January 1 for less than three successive years, then the average during total service.

Covered compensation (for Class C members only) is the average of the FICA wage base for the 35 year period ending with the calendar year which ends immediately prior to the earlier of: (1) January 1, which is one year prior to January 1 of the calendar year in which member terminates employment; or (2) January 1 of the calendar year in which the member attains age 65.

5. **MILITARY SERVICE CREDIT:**

(A) **Classes A and B**

(1) **Military Service Prior to Employment:** A maximum of three years service credit is granted provided the member has acquired:

(a) 10 years of service and has reached the age of 60; or

(b) 20 years of service, regardless of age.

(2) **Military Service Within Employment:** Upon retirement or death, any member who had a break in employment due to military duty, will receive service credit for the period of absence as provided by the Veterans' Reemployment Rights Act.

(B) **Class C**

(1) **Military Service Prior to Employment:** A maximum of three years service credit is granted provided the member has acquired:

(a) 10 years of service and has reached the age of 62; or

(b) 20 years of service, regardless of age.

(2) **Military Service Within Employment:** Upon retirement or death, any member who had a break in employment due to military duty, will receive service credit for the period of absence as provided by the Veterans' Re-employment Rights Act.

6. **SERVICE RETIREMENT:**

(A) **Classes A and B**

(1) **Eligibility Requirements:**

(a) Age 60 with five years of service; or

(b) 30 years of membership service, regardless of age.

(2) **Benefit Amount:** The sum of:

(a) an annuity of the actuarial equivalent of a member's accumulated contributions; plus

(b) a pension, which together with the annuity will be equal to 1.935% for Class A members and 1.785% for Class B members for each year of service, times the member's average final compensation.

(B) **Class C**

(1) **Eligibility Requirements:**

(a) Age 65 with five years of service;

(b) 30 years of service, regardless of age; or

(c) Age 55 with five years of service, payable at age 65 or reduced for payment before age 65.

(2) **Benefit Amount:** The sum of:
(a) a pension of 1.60% for each year of service (not to exceed 30), times the member's average final compensation; plus

(b) .25% for each year of service not to exceed 30, times member's average final compensation in excess of covered compensation; plus

(c) 1.85% for each year of service in excess of 30, times the member's average final compensation.

If a member elects to have his maximum or optional pension commence prior to normal retirement date, age 65 with less than 30 years, the amount of his pension will be reduced 6.667% for each of the first five years (prorated for shorter periods) and 3.333% for each of the next five years (prorated for shorter periods) by which the commencement of his pension precedes his normal retirement age 65.

(3) **Offset to Retirement Allowance:** Unemployment compensation will be offset from pension benefits.

7. **NON-LINE-OF-DUTY DISABILITY RETIREMENT:**

(A) **Classes A and B**

(1) **Eligibility Requirements:** Five years of service and determined by a hearing examiner to be mentally or physically incapacitated for the performance of duty, and that the incapacity is likely to be permanent.

(2) **Benefit Amount:** The sum of:

(a) an annuity of the actuarial equivalent of a member's accumulated contributions; plus

(b) a pension which, together with the annuity will equal 1.90% for Class A members and 1.75% for Class B members for each year of service, times the member's average final compensation.

The member will receive as a minimum, the benefit as stated above or 25% of the member's average final compensation.

(3) **Offset to Retirement Allowance:** This benefit is offset by:

(a) workers' compensation; and

(b) earnings in excess of base amount (current earnable compensation in same job grade and step adjusted for longevity) with a $1 reduction for each $2 of the first $5,000 of excess and a $2 reduction for each $5 of additional excess earnings.

(B) **Class C**

(1) **Eligibility Requirements:** Five years of service and determination by a hearing examiner to be mentally or physically incapacitated for the performance of duty, and that the incapacity is likely to be permanent.

(2) **Benefit Amount:** The non-line-of-duty disability pension will be the greater of:

(a) a pension equal to the member's accrued service retirement benefit; or

(b) 15% of the member's average final compensation.

(3) **Offset to Retirement Allowance:** This benefit is offset by:

(a) workers' compensation; and

(b) unemployment compensation.

8. **LINE-OF-DUTY DISABILITY RETIREMENT:**

(A) **Classes A and B**

(1) **Eligibility Requirements:** Immediate eligibility upon membership in the System and determined by a hearing examiner to be incapacitated for the further performance of duty, and the incapacity resulted from an accident occurring while in the actual performance of duty without willful negligence.

(2) **Benefit Amount:** The sum of:

(a) an annuity of the actuarial equivalent of the member's accumulated contributions; plus

(b) a pension equal to 66.667% of the member's average final compensation.

(3) **Offset to Retirement Allowance:** This benefit is offset by:

(a) workers' compensation; and

(b) earnings in excess of base amount (current earnable compensation in same job grade and step adjusted for longevity) with a $1 reduction for each $2 of the first $5,000 of excess and a $2 reduction for each $5 of additional excess earnings.

(B) **Class C**

(1) **Eligibility Requirements:** Immediate eligibility upon membership in the System and determination by a hearing examiner to be incapacitated for the further performance of duty, and the incapacity resulted from an accident occurring while in the actual performance of duty without willful negligence.

(2) **Benefit Amount:** The sum of:

(a) an annuity of the actuarial equivalent of the member's accumulated contributions, if any; plus

(b) a pension equal to 66.667% of the member's average final compensation.

(3) **Offset to Retirement Allowance:** This benefit is offset by:

(a) unemployment compensation;
(b) workers' compensation; and
(c) earnings in excess of base amount (current earnable compensation in same job grade and step adjusted for longevity) with a $1 reduction for each $2 of the first $5,000 of excess and a $2 reduction for each $5 of additional excess earnings.

9. **DISMEMBERMENT DISABILITY RETIREMENT (Class C only):**

(A) **Eligibility Requirement:** Immediate eligibility upon membership in the System and determination by a hearing examiner that the loss of any two or more of hands, feet, sight of eye(s), or combination thereof, was a direct result of bodily injury from an accident that occurred while in the actual performance of duty.

(B) **Benefit Amount:** A pension equal to 100% of the member's average final compensation.

(C) **Offset to Retirement Allowance:** This benefit is offset by:

(a) unemployment compensation;

(b) workers' compensation; and

(c) earnings in excess of base amount (current earnable compensation in same job grade and step adjusted for longevity) with a \$1 reduction for each \$2 of the first \$5,000 of excess and a \$2 reduction for each \$5 of additional excess earnings.

10. **TERMINATION OF EMPLOYMENT:**

(A) **Classes A and B**

(1) **Eligibility Requirement:**

(a) For a termination retirement allowance deferred to age 60, the completion of:

(i) 15 years of service; or

(ii) Five years of service, if removed from a position without fault or if an elected or appointed official not re-elected or re-appointed.

(b) For a termination retirement allowance payable immediately without reduction for age, the completion of 20 years of service, if removed from a position without fault or if an elected or appointed official not re-elected or re-appointed.

(c) Eligible for a refund of accumulated contributions if not eligible for any other benefits.

(2) **Benefit Amount:**

(a) Deferred Payment: Determined the same as for service retirement, but based on membership service and average final compensation at the time of termination.

(b) Immediate Payment: Determined the same as if the member had retired with a non-line-of-duty disability retirement allowance.

(B) **Class C**

(1) **Eligibility Requirement:**

(a) For a termination retirement allowance deferred to age 65, completion of:

(i) 10 years of service; or

(ii) Five years of service, if removed from a position without fault or if an appointed official not re-appointed.

(b) For a termination retirement allowance payable immediately without reduction for age, the completion of 20 years of service, if removed from a position without fault or if an appointed official not re-appointed.

(2) **Benefit Amount:**

(a) Deferred Payment: Determined the same as for service retirement, but based on membership service and average final compensation at the time of termination.

(b) Immediate Payment: Determined the same as for age 65 service retirement.

11. **MAXIMUM ALLOWANCE AND OPTIONAL METHODS OF RECEIVING BENEFIT PAYMENTS:**

(A) **Maximum Allowance:** Upon retiree's death, 40% of retiree's maximum allowance to unremarried spouse or dependent children until the last dies or attains age 18 (age 22 if a full time student). All other options result in a lesser amount paid.

(B) **Reserve Guarantee Option:** Upon retiree's death, a cash refund to retiree's designated beneficiary based on present value of allowance at retirement less payments made.

(C) **100% Joint and Survivor Option:** Upon retiree's death, 100% of retiree's allowance to continue to designated beneficiary.

(D) **50% Joint and Survivor Option:** Upon retiree's death, 50% of retiree's allowance to continue to designated beneficiary.

(E) **Specific Benefit Option:** Upon the retiree's death and subject to the approval of the Board of Trustees, the member's designated beneficiary will receive:

(1) a specific lump sum amount, or

(2) a specific periodic allowance.

These options are available for service, termination, non-line-of-duty disability, and line of duty disability retirement. Any option and/or beneficiary may be changed by the retired member within 30 days after retirement.

12. **NON-LINE-OF-DUTY DEATH BENEFITS:**

(A) **Classes A and B**

(1) **Lump Sum Benefit:**

(a) **Eligibility Requirements:** Member who

(i) dies while actively employed; and

(ii) has one or more years of membership service, but whose death does not qualify as a line-of-duty death.

(b) **Benefit Amount:** The designated beneficiary is paid

(i) the member's accumulated contributions; plus

(ii) 50% of the greater of the member's average final compensation or current annual earnable compensation.

(2) **100% Survivorship Benefit:**

(a) **Eligibility Requirements:** This benefit is paid to the member's designated beneficiary spouse with whom he has been living for at least five years or his parent(s), provided the Member:

(i) is eligible for service retirement at the time of death; or

(ii) would have become eligible for service retirement within 90 days of the date of death; or

(iii) retired on account of service, non line of duty disability, or line of duty disability and dies within 30 days of retirement; or

(iv) is entitled to a deferred allowance at age 60 and dies anytime between the effective retirement date at age 60 and no later than 30 days following the attainment of age 60.

(b) **Benefit Amount:** The eligible beneficiary may elect in lieu of the Lump Sum Benefit or the 40% Survivorship Benefit, an allowance equal to the amount that would have been paid under the Service Retirement 100% Joint and Survivor Option.

(3) **40% Survivorship Benefit:**

(a) **Eligibility Requirements:** This benefit is paid to the member's designated beneficiary spouse with whom he has been married for at least one year prior to the date of death or to the member's unmarried children if less than age 18 (or age 22 if students), provided the Member:

(i) died in active service; and

(ii) had more than 20 years of service as of the date of death.

(b) **Benefit Amount:** The eligible beneficiary spouse or children may elect in lieu of the Lump Sum Benefit or the 100% Survivorship Benefit, an allowance equal to 40% of the member's accrued service retirement benefit.

(4) **Offset to Death Benefits:** These benefits are offset by workers' compensation.

(B) **Class C**

(1) **Lump Sum Benefit:**

(a) **Eligibility Requirements:** Member who:

(i) dies while actively employed; and

(ii) has one or more years of membership service, but whose death does not qualify as a line-of-duty death.

Benefit Amount: The designated beneficiary is paid

(i) the member's accumulated contributions, if any; plus

(ii) 50% of the greater of the member's average final compensation or current annual earnable compensation.

(2) **100% Survivorship Benefit:**

(a) **Eligibility Requirements:** This benefit is paid to the member's designated beneficiary spouse with whom he has been living for at least 5 years or his parent(s), provided the member:

(i) is eligible for service retirement at the time of death; or

(ii) would have become eligible for service retirement within 90 days of the date of death; or

(iii) retired on account of service, non line of duty disability, or line of duty disability and dies within 30 days of retirement; or

(iv) is entitled to a deferred allowance at age 65 and dies anytime between the effective retirement date at age 65 and no later than 30 days following the attainment of age 65.

(b) **Benefit Amount:** The eligible beneficiary may elect in lieu of the Lump Sum Benefit or the 40% Survivorship Benefit, an allowance equal to the amount that would have been paid under the Service Retirement 100% Joint and Survivor Option.

(3) **40% Survivorship Benefit:**

(a) **Eligibility Requirements:** This benefit is paid to the member's designated beneficiary spouse with whom he has been married for at least one year prior to the date of death or to the member's unmarried children if less than age 18 (or age 22 if students), provided the member:
(i) died in active service; and
(ii) had more than 20 years of service as of the date of death.

(b) **Benefit Amount:** The eligible beneficiary spouse or eligible children may elect in lieu of the Lump Sum Benefit or the 100% Survivorship Benefit, an allowance equal to 40% of the member's accrued service retirement benefit.

(4) Offset to Death Benefits: These benefits are offset by workers' compensation.

13. **LINE-OF-DUTY DEATH BENEFITS:**

(A) **Eligibility Requirements:** A determination by a hearing examiner that the death of a member was:

(1) the direct result of bodily injury though accidental means independent of any pre-existing physical or medical conditions;

(2) occurring while in the actual performance of duty; and

(3) not caused by willful negligence on the part of the member.

(B) **Benefit Amount:** The sum of:

(1) the member's accumulated contributions (if any); plus

(2) an annual pension of 100% of current earnable compensation, payable to:

(a) the spouse during widow(er)hood, provided there is no voluntary separation agreement renouncing rights of inheritance;

(b) if no eligible spouse, or if the spouse dies or remarries, the child or children, equally, until age 18 (age 22 if a full-time student);

(c) if no eligible spouse or child surviving, then to the deceased's father and/or mother equally, or to the survivor;

(d) for Classes A and B, any member who retires and dies within 30 days after the effective date of accidental disability retirement will receive the above benefits if death is the result of injuries in the line-of-duty.

If no beneficiary and if intestate without heirs, then contributions will remain part of the System.

(C) **Offset to Retirement Allowance:** This benefit is offset by workers' compensation.

14. **POST-RETIREMENT BENEFIT INCREASES:**

Benefit increases are guaranteed annually at the rate of 1.5%. Additional increases are provided each year based on investment performance that exceeds 6.8% at June 30. Only retirees and their beneficiaries, who have been receiving periodic benefit payments as of the June 30 determination date, and members who have been retired for a minimum of 18 months are eligible for the increase. The actuarially determined increase is payable as an equal percentage increase to all eligible retirees and beneficiaries commencing the January 1 following the June 30 investment performance determination date.

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STATISTICAL SECTION

Employees' Retirement System
City of Baltimore, Maryland
Statement of Plan Net Assets
For the Last Ten Fiscal Years

	1998	1999	2000	2001	2002
Assets					
Cash and cash equivalents	$23,823,415	$70,988,946	$85,069,215	$53,846,353	$39,094,689
Receivables					
Investments sold	$4,260,532	$3,584,305	$6,265,166	$14,965,007	$27,058,691
Accrued income	611,103	8,218,012	8,395,775	8,197,001	6,600,379
Other receivables		785,620	626,460	653,461	413,516
Total receivables	$4,871,635	$12,587,937	$15,287,401	$23,815,469	$34,072,586
Capital assets					
Leasehold improvements					
Depreciation -leasehold improvements					
Net leasehold improvement totaloffice furniture total					
Office furniture					
Depreciation - office furniture					
Net office furniture total					
Office equipment					
Depreciation - office equipment					
Net office equipment total					
Total capital assets					
Investments, at fair value					
Stocks	$485,374,946	$476,224,673	$503,884,753	$410,638,790	$371,156,677
Mutual Funds	421,806,770	268,971,279	289,261,685	273,822,624	248,841,885
Bonds	301,906,112	494,658,047	498,344,440	552,389,948	546,400,963
Real estate	30,396,673	31,468,651	28,383,250	25,235,077	21,862,843
Guaranteed investment contract	19,997,948	19,823,732	19,755,267	19,800,887	11,107,442
International stock					
Hedge funds					
Total investments	$1,259,482,449	$1,291,146,382	$1,339,629,395	$1,281,887,326	$1,199,369,810
Securities lending collateral			197,612,754	204,357,140	175,164,462
Total assets	$1,288,177,499	$1,374,723,265	$1,617,598,765	$1,563,906,288	$1,447,701,547
Liabilities					
Securities lending collateral			$197,612,754	$204,357,140	$175,164,462
Investments purchased		$42,798,454	37,694,509	48,780,693	56,504,944
Adminstrative expenses payable	$224,147	132,867	114,773	284,270	311,318
Investment management fees payable	877,064	944,815	889,165	854,862	999,876
Retirement allowance payable	955,846	1,207,891	1,672,430	1,934,748	2,230,798
Other accounts payable	111,922	169,545	214,896	127,090	194,545
Total liabilities	$2,168,979	$45,253,572	$238,198,527	$256,338,803	$235,405,943
Net assets held in trust for pension benefits	$1,286,008,520	$1,329,469,693	$1,379,400,238	$1,307,567,485	$1,212,295,604

Employees' Retirement System
City of Baltimore, Maryland
Statement of Plan Net Assets (continued)
For the Last Ten Fiscal Years

	2003	2004	2005	2006	2007
Assets					
Cash and cash equivalents	$71,631,548	$43,506,881	$150,295,548	$41,446,410	$64,626,981
Receivables					
Investments sold	$16,917,583	$9,493,458	$50,009,583	$12,163,576	$21,326,885
Accrued income	6,139,029	4,829,446	3,692,408	4,187,385	4,251,234
Other receivables	378,036	390,381	302,672	283,537	204,785
Total receivables	$23,434,648	$14,713,285	$54,004,663	$16,634,498	$25,782,904
Capital assets					
Leasehold improvements			$699,212	$1,355,429	$1,355,429
Depreciation -leasehold improvements				(90,362)	(177,821)
Net leasehold improvement totaloffice furniture total			$699,212	$1,265,067	$1,177,608
Office furniture			$121,676	$295,823	$315,156
Depreciation - office furniture				(42,260)	(87,283)
Net office furniture total			$121,676	$253,563	$227,873
Office equipment			$22,765	$33,379	$82,673
Depreciation - office equipment				(4,768)	(16,579)
Net office equipment total			$22,765	$28,611	$66,094
Total capital assets			$843,653	$1,547,241	$1,471,575
Investments, at fair value					
Stocks	$390,224,941	$446,773,579	$575,540,207	$607,809,264	$649,341,128
Mutual Funds	195,366,241	296,603,177			
Bonds	562,196,489	471,177,498	424,403,222	455,850,487	464,775,513
Real estate	13,431,419	29,871,370	54,269,398	69,341,967	101,055,111
Guaranteed investment contract	10,679,860	4,090,327			
International stock			65,535,957	186,697,741	223,344,820
Hedge funds			56,850,631	61,576,629	69,051,687
Total investments	$1,171,898,950	$1,248,515,951	$1,176,599,415	$1,381,276,088	$1,507,568,259
Securities lending collateral	244,967,723	202,110,275	118,206,648	172,338,228	215,754,226
Total assets	$1,511,932,869	$1,508,846,392	$1,499,949,927	$1,613,242,465	$1,815,203,945
Liabilities					
Securities lending collateral	$244,967,723	$202,110,275	$118,206,648	$172,338,228	$215,754,226
Investments purchased	68,608,276	54,416,722	92,675,719	105,699,411	108,338,765
Adminstrative expenses payable	131,383	308,621	384,955	497,594	1,102,347
Investment management fees payable	887,122	1,236,844	769,026	787,958	544,735
Retirement allowance payable	2,532,532	3,122,366		260,708	500,303
Other accounts payable	342,071	335,078	342,361	434,918	388,601
Total liabilities	$317,469,107	$261,529,906	$212,378,709	$280,018,817	$326,628,977
Net assets held in trust for pension benefits	$1,194,463,762	$1,247,316,486	$1,287,571,218	$1,333,223,648	$1,488,574,968

Employees' Retirement System
City of Baltimore, Maryland
Statement of Changes in Plan Net Assets
For the Last Ten Fiscal Years

	1998	1999	2000	2001	2002
Additions					
Contributions					
Employer	$20,989,768	$19,709,553	$18,869,253	$16,592,465	$17,714,152
Plan members	348,069	341,481	457,620	381,124	864,270
Total contributions	$21,337,837	$20,051,034	$19,326,873	$16,973,589	$18,578,422
Investment Income					
Net appreciation in fair value of investments	$149,091,072	$7,884,424	$55,312,040	($58,275,242)	($71,950,424)
Interest, dividends, and real estate income	68,038,190	93,318,870	56,266,620	53,591,482	44,860,628
Less: investment expenses	(3,161,306)	(3,695,835)	(4,520,696)	(3,776,176)	(3,444,410)
Net investment income	$213,967,956	$97,507,459	$107,057,964	($8,459,936)	($30,534,206)
Securities lending income			$890,269	$828,317	$993,700
Securities lending fees			(267,068)	(288,009)	(298,042)
Net securities lending income			$623,201	$540,308	$695,658
Total additions	$235,305,793	$117,558,493	$127,008,038	$9,053,961	($11,260,126)
Deductions					
Retirement allowances	$68,697,724	$71,247,537	$74,757,885	$77,268,674	$80,623,760
Adminstrative expenses	1,901,433	1,239,812	1,501,828	1,887,026	1,265,645
Death benefits	1,195,160	1,213,641	609,813	1,514,343	1,834,181
Lump cash payments	156,366	355,602	165,794	215,953	287,314
Refund of Contributions	6,960	40,728	42,173	718	855
Total deductions	$71,957,643	$74,097,320	$77,077,493	$80,886,714	$84,011,755
Net increase(decrease)	$163,348,150	$43,461,173	$49,930,545	($71,832,753)	($95,271,881)
Net assets held in trust for pension benefits					
Beginning Balance	$1,122,660,370	$1,286,008,520	$1,329,469,693	$1,379,400,238	$1,307,567,485
Ending Balance	$1,286,008,520	$1,329,469,693	$1,379,400,238	$1,307,567,485	$1,212,295,604

Employees' Retirement System
City of Baltimore, Maryland
Statement of Changes in Plan Net Assets (continued)
For the Last Ten Fiscal Years

	2003	2004	2005	2006	2007
Additions					
Contributions					
Employer	$17,736,030	$17,352,473	$23,624,914	$31,003,063	$36,841,351
Plan members	526,918	443,001	476,490	422,548	308,703
Total contributions	$18,262,948	$17,795,474	$24,101,404	$31,425,611	$37,150,054
Investment Income					
Net appreciation in fair value of investments	$15,973,576	$92,483,936	$80,660,869	$79,600,767	$177,595,751
Interest, dividends, and real estate income	36,351,746	35,587,011	31,462,451	36,965,510	47,136,147
Less: investment expenses	(3,081,224)	(3,821,829)	(3,097,848)	(5,464,823)	(5,684,475)
Net investment income	$49,244,098	$124,249,118	$109,025,472	$111,101,454	$219,047,423
Securities lending income	$777,933	$642,610	$442,098	$548,678	$468,902
Securities lending fees	(232,922)	(192,744)	(132,598)	(164,580)	(140,643)
Net securities lending income	$545,011	$449,866	$309,500	$384,098	$328,259
Total additions	$68,052,057	$142,494,458	$133,436,376	$142,911,163	$256,525,736
Deductions					
Retirement allowances	$82,854,969	$85,923,130	$90,034,033	$93,706,033	$97,104,170
Adminstrative expenses	945,073	1,637,315	1,882,368	2,496,211	2,615,247
Death benefits	1,729,237	1,896,655	1,124,669	983,714	1,294,666
Lump cash payments	311,763	170,322	137,471	72,775	155,325
Refund of Contributions	42,857	14,312	3,103	-	5,008
Total deductions	$85,883,899	$89,641,734	$93,181,644	$97,258,733	$101,174,416
Net increase(decrease)	($17,831,842)	$52,852,724	$40,254,732	$45,652,430	$155,351,320
Net assets held in trust for pension benefits					
Beginning Balance	$1,212,295,604	$1,194,463,762	$1,247,316,486	$1,287,571,218	$1,333,223,648
Ending Balance	$1,194,463,762	$1,247,316,486	$1,287,571,218	$1,333,223,648	$1,488,574,968

Employees' Retirement System
City of Baltimore, Maryland
REVENUES BY SOURCE

Fiscal Year	Net Investment Income (Loss)	Employer Contributions Amount	Employer Contributions % of Covered Payroll	Member Contributions	Total Income (Loss)
1998	$213,967,956	$20,989,768	7.2%	$348,069	$235,305,793
1999	97,507,459	19,709,553	6.5	341,481	117,558,493
2000	107,681,165	18,869,253	6.1	457,620	127,008,038
2001	(7,919,628)	16,592,465	5.4	381,124	9,053,961
2002	(29,838,548)	17,714,152	5.8	864,270	(11,260,126)
2003	49,789,109	17,736,030	5.6	526,918	68,052,057
2004	124,698,984	17,352,473	5.4	443,001	142,494,458
2005	109,334,972	23,624,914	7.4	476,490	133,436,376
2006	111,485,552	31,003,063	9.3	422,548	142,911,163
2007	225,820,282	36,841,351	10.6	308,703	262,970,336

Note: Employer contributions were made in accordance with actuarially determined contribution requirements.

Employees' Retirement System
City of Baltimore, Maryland
EXPENSES BY TYPE

Fiscal Year	Benefits	Refunds	Administrative Expenses	Total
1998	$70,755,523	$6,960	$1,195,160	$71,957,643
1999	72,842,951	40,728	1,213,641	74,097,320
2000	75,533,492	42,173	1,501,828	77,077,493
2001	79,371,653	718	1,514,343	80,886,714
2002	82,176,719	855	1,834,181	84,011,755
2003	84,111,805	42,857	1,729,237	85,883,899
2004	87,730,767	14,312	1,896,655	89,641,734
2005	91,296,173	3,103	1,882,368	93,181,644
2006	94,689,747	72,775	2,496,211	97,258,733
2007	98,554,161	5,008	2,615,247	101,174,416

Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ACTIVE MEMBERS BY YEARS OF SERVICE

Years of Credited Service	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
0-4	2,422	2,703	2,567	2,396	2,292	2,351	2,401	2,572	2,188	2,124
5-9	1,836	1,420	1,357	1,397	1,537	1,798	1,876	1,708	1,833	1,789
10-14	2,160	2,452	2,417	2,169	1,765	1,300	996	896	940	1,093
15-19	1,873	1,777	1,497	1,304	1,331	1,585	1,755	1,684	1,560	1,286
20-24	1,299	1,278	1,438	1,516	1,447	1,343	1,244	1,201	918	974
25-29	839	865	932	947	905	880	847	784	1042	1036
30+	224	284	385	494	550	574	603	567	712	733
Total Members	10,653	10,779	10,593	10,223	9,827	9,831	9,722	9,412	9,193	9,035
Average Service Credit	12.58	12.61	13.07	13.39	13.50	13.36	13.35	13.58	13.80	13.83
Average Age	45.54	45.69	46.32	46.86	47.08	47.34	47.51	47.89	48.32	48.64

Employees' Retirement System
City of Baltimore, Maryland

SCHEDULE OF RETIREES BY ATTAINED AGE AND TYPE OF RETIREMENT

June 30, 2007

		TYPE OF RETIREMENT*				
Age	Number of Recipients	0	1	2	3	4
30-39	33	1		2	29	1
40-44	130	1		50	77	2
45-49	347	83		129	126	9
50-54	781	260	187	170	159	5
55-59	1022	406	309	166	132	9
60-64	1227	571	399	136	107	14
65-69	1236	572	441	131	80	12
70-74	1025	523	333	110	42	17
75-79	860	550	209	62	25	14
80-84	490	348	114	13	12	3
85 and up	206	195	0	4	5	2
Totals	7,357	3,510	1,992	973	794	88
Average Annual Benefit	$12,373	$16,135	$5,709	$16,105	$7,382	$16,941

*Type of Retirement

0 - Normal retirement for age and service
1 - Early retirement
2 - Discontinued service retirement
3 - Non-line-of-duty disability
4 - Line-of-duty disability

Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF BENEFICIARIES BY ATTAINED AGE AND TYPE OF RETIREMENT
June 30, 2007

		TYPE OF RETIREMENT*						
Age	Number of Recipients	0	1	2	3	4	5	8
0-24	24	3	2	2	14		2	1
25-29	0							
30-34	0							
35-39	2	1				1		
40-44	6	1	2		3			
45-49	18	6	2	2	6		2	
50-54	44	14	5	3	14		8	
55-59	96	37	9	8	33	1	6	2
60-64	96	39	11	12	22	2	10	
65-69	141	52	25	6	37	2	16	3
70-74	206	88	55	7	27	1	24	4
75-79	223	123	38	9	28	5	16	4
80-84	240	135	46	7	27	2	16	7
85 and up	243	169	22	4	20	4	15	9
Totals	1339	668	217	60	231	18	115	30
Average Annual Benefit	$6,396	$7,141	$2,974	$7,904	$4,316	$7,214	$8,408	$19,375

*Type of Retirement
0 - Normal retirement for age and service
1 - Early retirement
2 - Discontinued service retirement
3 - Non-line-of-duty disability
4 - Line-of-duty disability
5 - Non-line-of-duty death, member eligible for service retirement at death
8 - Line-of-duty death

Employees' Retirement System
City of Baltimore, Maryland
BENEFIT EXPENSES BY TYPE

Year	Age and Service Benefits			Death Benefits			Disability Benefits			
							Retirees			
Ending	Retirees	Beneficiaries	Lump Sum	Duty	Non-Duty	Lump Sum	Duty	Non-Duty	Beneficiaries	Total
1998	$ 60,015,665	$ 3,167,893	$ 156,366	$ 667,691	$ 805,494	$ 416,460	$ 1,557,013	$ 3,313,051	$ 655,890	$ 70,755,523
1999	61,528,629	3,426,458	355,602	676,329	821,190	411,891	1,545,164	3,331,260	746,428	72,842,951
2000	63,212,361	4,283,950	165,794	655,266	817,664	360,918	1,511,295	3,673,671	852,573	75,533,492
2001	66,714,579	3,969,755	215,953	755,822	801,375	558,783	1,525,524	4,010,065	819,797	79,371,653
2002	68,940,301	4,121,599	287,314	726,433	848,808	450,464	1,486,797	4,423,073	891,930	82,176,719
2003	70,560,229	4,564,997	311,763	677,107	826,497	374,450	1,442,354	4,461,284	893,124	84,111,805
2004	73,208,782	4,905,876	170,322	680,257	899,065	300,153	1,462,961	5,159,191	944,160	87,730,767
2005	76,164,209	5,322,454	137,471	739,882	953,954	504,029	1,486,171	5,044,970	943,033	91,296,173
2006	79,170,397	5,615,443	72,775	726,565	835,966	632,410	1,463,097	5,249,509	996,360	94,762,522
2007	81,936,778	5,611,389	155,325	691,165	961,009	893,948	1,529,265	5,755,332	1,019,950	98,554,161

Employees' Retirement System
City of Baltimore, Maryland
AVERAGE MONTHLY BENEFIT PAYMENTS

Retirement Effective Dates	Years of Credited Service					
From July 1, 1997 to June 30, 2007	5-10	11-15	16-20	21-25	26-30	31+
Period 7/1/97 to 6/30/98						
Average Monthly Benefit	$ 245	$ 555	$ 394	$ 909	$ 1,268	$ 1,199
Average-Average Final Compensation	2,946	6,655	4,723	10,914	15,220	14,390
Number of Active Retirees	17	15	3	20	25	7
Period 7/1/98 to 6/30/99						
Average Monthly Benefit	223	380	502	831	1,054	1,502
Average-Average Final Compensation	2,677	4,554	6,027	9,966	12,642	18,023
Number of Active Retirees	11	17	18	24	20	23
Period 7/1/99 to 6/30/00						
Average Monthly Benefit	310	529	735	1,188	1,311	1,577
Average-Average Final Compensation	3,724	6,349	8,815	14,254	15,728	18,923
Number of Active Retirees	14	31	24	36	37	49
Period 7/1/00 to 6/30/01						
Average Monthly Benefit	186	350	609	1,285	1,457	1,529
Average-Average Final Compensation	2,230	4,200	7,312	15,423	17,486	18,349
Number of Active Retirees	25	33	26	29	30	66
Period 7/1/01 to 6/30/02						
Average Monthly Benefit	179	363	615	1,065	1,270	1,621
Average-Average Final Compensation	2,151	4,353	7,379	12,785	15,238	19,457
Number of Active Retirees	18	29	36	47	63	81
Period 7/1/02 to 6/30/03						
Average Monthly Benefit	224	398	677	1,032	1,326	1,661
Average-Average Final Compensation	2,688	4,777	8,126	12,382	15,909	19,928
Number of Active Retirees	19	25	23	47	43	101

Employees' Retirement System
City of Baltimore, Maryland
AVERAGE MONTHLY BENEFIT PAYMENTS (continued)

Retirement Effective Dates	Years of Credited Service					
From July 1, 1997 to June 30, 2007	5-10	11-15	16-20	21-25	26-30	31+
Period 7/1/03 to 6/30/04						
Average Monthly Benefit	334	408	558	1,062	1,451	1,780
Average-Average Final Compensation	4,013	4,893	6,693	12,746	17,415	21,361
Number of Active Retirees	25	28	36	50	43	111
Period 7/1/04 to 6/30/05						
Average Monthly Benefit	309	331	526	1,061	1,436	1,767
Average-Average Final Compensation	3,712	3,974	6,315	12,736	17,236	21,209
Number of Active Retirees	17	19	39	22	23	102
Period 7/1/05 to 6/30/06						
Average Monthly Benefit	171	328	625	1,126	1,493	1,630
Average-Average Final Compensation	2,052	3,936	7,499	13,517	17,919	19,554
Number of Active Retirees	14	11	20	20	23	155
Period 7/1/06 to 6/30/07						
Average Monthly Benefit	195	161	532	1,367	998	1,376
Average-Average Final Compensation	2,346	1,929	6,378	16,407	11,977	16,514
Number of Active Retirees	9	6	22	11	11	215
Period 7/1/98 to 6/30/07						
Average Monthly Benefit	$ 242	$ 400	$ 592	$ 1,081	$ 1,329	$ 1,590
Average-Average Final Compensation	2,900	4,794	7,103	12,969	15,953	19,075
Number of Active Retirees	169	214	247	306	318	910

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Employees' Retirement System
City of Baltimore, Maryland
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Baltimore, Maryland 21202
(443) 984-3180

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