



In Memoriam:

Frank P. Casula

March 28, 1920 to October 21, 2001

MEMBER, BOARD OF TRUSTEES OF THE STATE RETIREMENT
AND PENSION SYSTEM OF MARYLAND
1986 - 2001

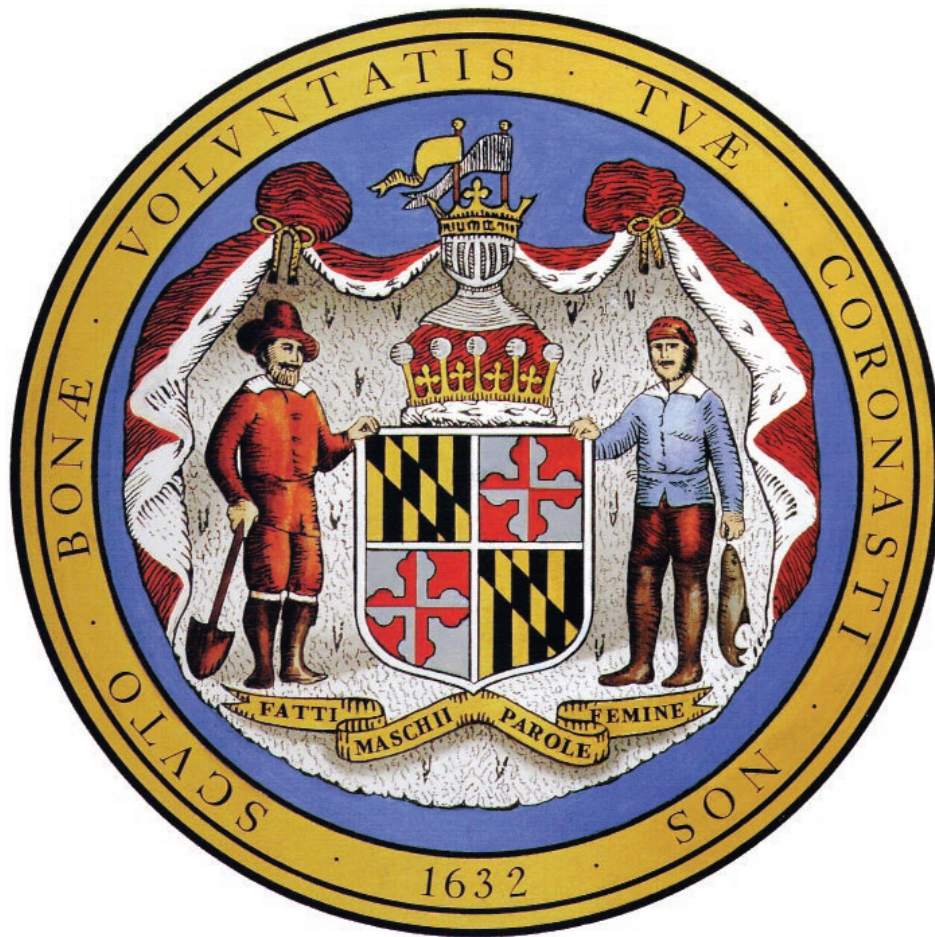
CHAIRMAN OF THE REAL ESTATE SUBCOMMITTEE
MEMBER OF THE INVESTMENT COMMITTEE

During his distinguished 30-year career in Public Office, Mr. Casula dedicated his life to the service of the citizens of Maryland. From 1986 until his untimely death, Mr. Casula was a strong advocate for the rights and benefits of the participants of the State Retirement and Pension System. His absence will be felt greatly by the Board, the staff of the State Retirement Agency, and the membership of the System.

STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Pension Trust Fund of the State of Maryland



For the Year Ended June 30, 2001

prepared by:

State Retirement Agency of Maryland
301 W. Preston Street
Baltimore, Maryland 21201

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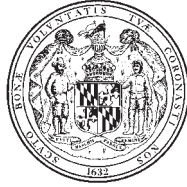
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STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

STATE RETIREMENT AGENCY

301 EAST BALTIMORE STREET
BALTIMORE, MARYLAND 21202
TELEPHONE: 410-625-5555
1-800-492-5909

PETER VAUGHN
EXECUTIVE DIRECTOR
SECRETARY TO THE BOARD



BOARD OF TRUSTEES

RICHARD N. DIXON
CHAIRMAN

William Donald Schaefer
Vice Chairman

Dr. Ali A. Alemi
William D. Brown
Arthur N. Caple, Jr.
T. Eloise Foster
Dr. Nancy S. Grasmick
G. Bruce Harrison
Debra B. Humphries
Major Morris L. Krome
Carl D. Lancaster
Col. David B. Mitchell
David A. Rakes
George R. Tydings

December 15, 2001

Letter of Transmittal

Honorable Chairman & Members of the Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report for the State Retirement and Pension System of Maryland (the "System") for the fiscal year ended June 30, 2001. We believe this report fairly reflects the results achieved during 2001.

The System is charged with the fiduciary responsibility for properly administering the retirement and pension allowances and other benefits, while striving to keep employer contribution rates as affordable as possible while maximizing investment returns and minimizing the risks inherent in any investment program. Members covered by the plans include State employees, teachers, law enforcement officers, legislators, judges, as well as local government employees and fire fighters whose employers have elected to participate in the System.

Seventy-four years ago, the first statewide retirement plan in Maryland (the Teachers' Retirement System) was established. Fourteen years later, in 1941, the Employees' Retirement System was established. Together these two plans comprise the majority of the System's membership. The System now provides monthly allowances to 84,000 retirees and beneficiaries, and is an essential element of the future financial security for over 184,600 active participating members. Descriptions of the membership requirements of, and benefits provided by, each plan administered by the System are included in the Plan Summary Section starting on page 81.

This Comprehensive Annual Financial Report contains six sections. The Introductory Section includes this letter of transmittal, along with information about the administra-

tive structure of the System. The Financial, Actuarial and Investment Sections provide a comprehensive review of the System's financial position, the results of its operations and its funded status. Viewed separately, each of these three sections provides information about a different aspect of the System's long-standing record of stewardship and financial stability. In this regard, the Financial Section contains the report from the System's independent auditor, the combined financial statements and supplementary financial data. The Actuarial Section contains the independent actuary's certification, as well as the results of the System's annual actuarial valuation. The Investment Section includes a report from the System's Chief Investment Officer highlighting the past year's performance in addition to various summary level portfolio composition and performance data. The Plan Summary and Statistical Sections provide detailed descriptions of the various plans' provisions and the demographic composition of the membership segments affected by each plan.

Economic Environment

For the first time in many years, the slowing economic environment during fiscal year 2001 presented a significant challenge to public pension funds. The ensuing market corrections resulted in reduced investment earnings and a decrease in the System's overall funded status. However, despite this temporary downturn, the System remains financially strong and very near its goal of being fully funded.

Investment Strategies

Under the experienced direction of its Board of Trustees, the System plans to continue following its steady course toward maximizing investment returns while minimizing its exposure to risk. In the months ahead, the System will continue to deploy assets at home as well as throughout the expanding global markets in an effort to maintain an appropriate portfolio balance.

Major Issues and Initiatives

In May 1998, the System signed a contract for the development and implementation of a fully integrated, state-of-the-art data processing and document management system. During fiscal year 2001, the system development project progressed into the integration and system testing phases. With implementation and system integration expected to be completed by the end of fiscal year 2003, the System should be well positioned to enter the 21st century as an industry leader.

During 2001, the System adopted a new actuarial funding methodology to help reduce the potential for contribution rate volatility as the System continues to mature. In this regard, Senate Bill 222 was signed into law by the Governor to modify certain actuarial assumptions used in the annual actuarial valuation of the System's liabilities and funded status. Specifically, the legislation required the System to continue to amortize the liabilities existing as of June 30, 2001 over the remaining 19-year period to June 30, 2020. However, all liabilities accrued after June 30, 2001 will be amortized over a layered 25-year period commencing in the year in which they arise. Additionally, the System's Board of Trustees adopted a new actuarial asset valuation method that increases the asset "smoothing" period from 3 to 5 years.

Financial Information

Because System management is responsible for the information contained in this report, we have committed the resources necessary to maintain an internal control structure which provides reasonable assurance that assets are adequately safeguarded and that the financial records are consistently and accurately maintained. Accordingly, we are confident that the financial statements, supporting schedules and statistical tables included in this report fairly present the System's financial condition and the results of its operations in all material respects.

Accounting System and Reports

The System reports its transactions on the accrual basis of accounting, under which revenues are reported in the accounting period in which they are earned and become measurable and expenses are reported when the related liability is incurred. Investments are reported at fair value at fiscal year end. Investment purchases and sales are reported in the accounting period in which the related trade dates occur.

Revenues

The reserves necessary to finance retirement allowances and other benefits are accumulated through investment earnings and the collection of employer and member contributions. During fiscal year 2001, investment earnings were a negative \$3.1 billion, while revenues from employer and member contributions were \$625 million and \$190 million, respectively. For fiscal year 2001, member contribution rates remained unchanged, while employer rates increased slightly.

Expenses

The System's expenses consist of monthly retirement allowances, refunds of contributions to terminated and transferring members and withdrawing employers, and the administrative cost of System operations. As expected, payments to retirees, beneficiaries and transferring or withdrawing members and employers continued to be the System's primary disbursements during 2001, totaling \$1,290 million. Of this amount, the System disbursed \$1,273 million as retirement allowances to members and beneficiaries. The remaining \$17 million was paid to members and withdrawing employers as a result of employment terminations, system transfers or withdrawal.

Administrative and investment expenses are entirely funded through investment income. Of the \$227 million disbursed during fiscal year 2000 to manage the investment portfolio and to administer the System, \$202 million was paid for investment management, portfolio custody and securities lending services while only \$25 million was used to fund the System's administrative operations.

Funding and Reserves

Funds, derived from the excess of revenues over expenses, are accumulated by the System in order to meet benefit obligations to both current and future retirees and beneficiaries. The Annotated Code of Maryland requires participating employers to make periodic contributions which, as a level percentage of payroll, will fund the employers' "normal costs" over the members' average active service period, and the System's accrued unfunded liability in separate annual layers. Specifically, the unfunded actuarial liability which existed at June 30, 2001 will continue to be amortized over the remaining 19-year period to June 30, 2020, whereas each subsequent annual liability layer will be amortized over a 25-year period. Each year the Board of Trustees certifies the required employer contribution rates based on the actuary's annual valuation and recommendations.

At June 30, 2001, the System's actuarial accrued liability was \$32.5 billion. With the actuarial value of assets accumulated to pay the liability at \$31.9 billion, the System now stands at 98.3 percent funded.

Investments

The entire \$3.1 billion unrealized investment loss for fiscal year 2001, was attributable to temporary market value declines stemming from a slowing economy. Partially offsetting the effects of such market declines was approximately \$822 million representing interest, dividends, securities lending net income and real estate operating net income.

Professional Services

The System contracts for the services of various independent consulting, investment advisory and financial professionals to assist the Board in carrying out its fiduciary responsibility to efficiently and effectively manage the System. For example, actuarial services were provided by Milliman USA and independent financial statement audit services were provided by the State of Maryland's Office of Legislative Audits. The System's asset custody and portfolio accounting services are provided by the State Street Bank & Trust Company under a multi-year, master custody arrangement. A complete listing of the System's professional consultants and external investment advisors is presented on page 11.

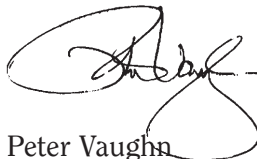
Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State Retirement and Pension System of Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 2000. This was the twelfth consecutive year (1989 through 2000) the State Retirement and Pension System of Maryland 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 generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

This annual report reflects the dedicated efforts of the System's staff under the steady direction of the Board of Trustees. We extend our sincere gratitude to each member of the Board of Trustees, the Agency's staff, the Board's advisors and the many people who worked so hard to make fiscal year 2001 a success.



Peter Vaughn
Executive Director &
Secretary to the Board



Ricky L. Harrison, CPA
Chief Financial Officer



Dear Members and Beneficiaries:

On behalf of the Board of Trustees, I am pleased to present the Comprehensive Annual Financial Report on the operations of the State Retirement and Pension System of Maryland for the fiscal year ended June 30, 2001. It was prepared and submitted by the management of the Retirement Agency and accepted by the Board of Trustees on December 18, 2001. The report is divided into several sections, providing an in-depth review of the financial, actuarial, investment and administrative functions of the System we manage for your exclusive benefit.

After more than a decade of extraordinary portfolio returns, fiscal year 2001 was a negative year for nearly all types and styles of equity investments and your fund. As a result, the portfolio gave back some of the large gains we achieved in prior years. This year was only the second time in the last 17 years that the System did not meet or exceed its' assumed rate of return.

It is important to note that we were not the only one affected by this poor investment climate. All pension funds, both public and private, defined benefit as well as defined contribution plans were similarly affected.

Despite this downturn, we remain very strong financially with \$29.5 billion in assets with a funding ratio of 98.3% at year end.

As prudent long term investors, we continue to believe that equity returns will outpace all other types of asset classes over the long term. History has demonstrated this fact time and time again. We will continue to prudently diversify the portfolio to accumulate the assets necessary to pay retirement benefits.

Sincerely,

A handwritten signature in blue ink, consisting of a large, stylized 'R' followed by a series of loops and a long horizontal stroke extending to the right.

Richard N. Dixon
State Treasurer
Chairman of the Board

Board of Trustees



**Richard N. Dixon, *Chairman*
State Treasurer**

Ex Officio since February 1, 1996
Member, Investment Committee
Member, Executive Committee



**William Donald Schaefer, *Vice Chairman*
State Comptroller**

Ex Officio since January 25, 1999
Member, Investment Committee
Member, Real Estate Subcommittee



Dr. Ali A. Alemi

August 1, 1999 - July 31, 2003
Member, Executive Committee
Member, Audit Committee



William D. Brown

August 1, 2001 - July 31, 2005
Chairman, Executive Committee
Chairman, Audit Committee



Arthur N. Caple, Jr.

August 1, 2001 - July 31, 2005
Chairman, Investment Committee



T. Eloise Foster

Ex Officio since June 1, 2000
Member, Investment Committee
Member, Executive Committee



Dr. Nancy S. Grasmick

Ex Officio since September 16, 1991
Member, Executive Committee

Board of Trustees



G. Bruce Harrison
August 1, 2001 - July 31, 2005
Member, Investment Committee
Member, Audit Committee



Debra B. Humphries
August 1, 2001 - July 31, 2005
Member, Investment Committee



Major Morris L. Krome
August 1, 1998 - July 31, 2002
Vice Chairman, Executive Committee



Carl D. Lancaster
August 1, 1987 - July 31, 2003
Vice Chairman, Investment Committee
Member, Real Estate Subcommittee



Col. David B. Mitchell
Ex Officio since January 18, 1995
Member, Executive Committee



George R. Tydings
May 31, 1994 - June 30, 2003
Member, Investment Committee

Public Advisors to the Investment Committee



Robert W. Schaefer



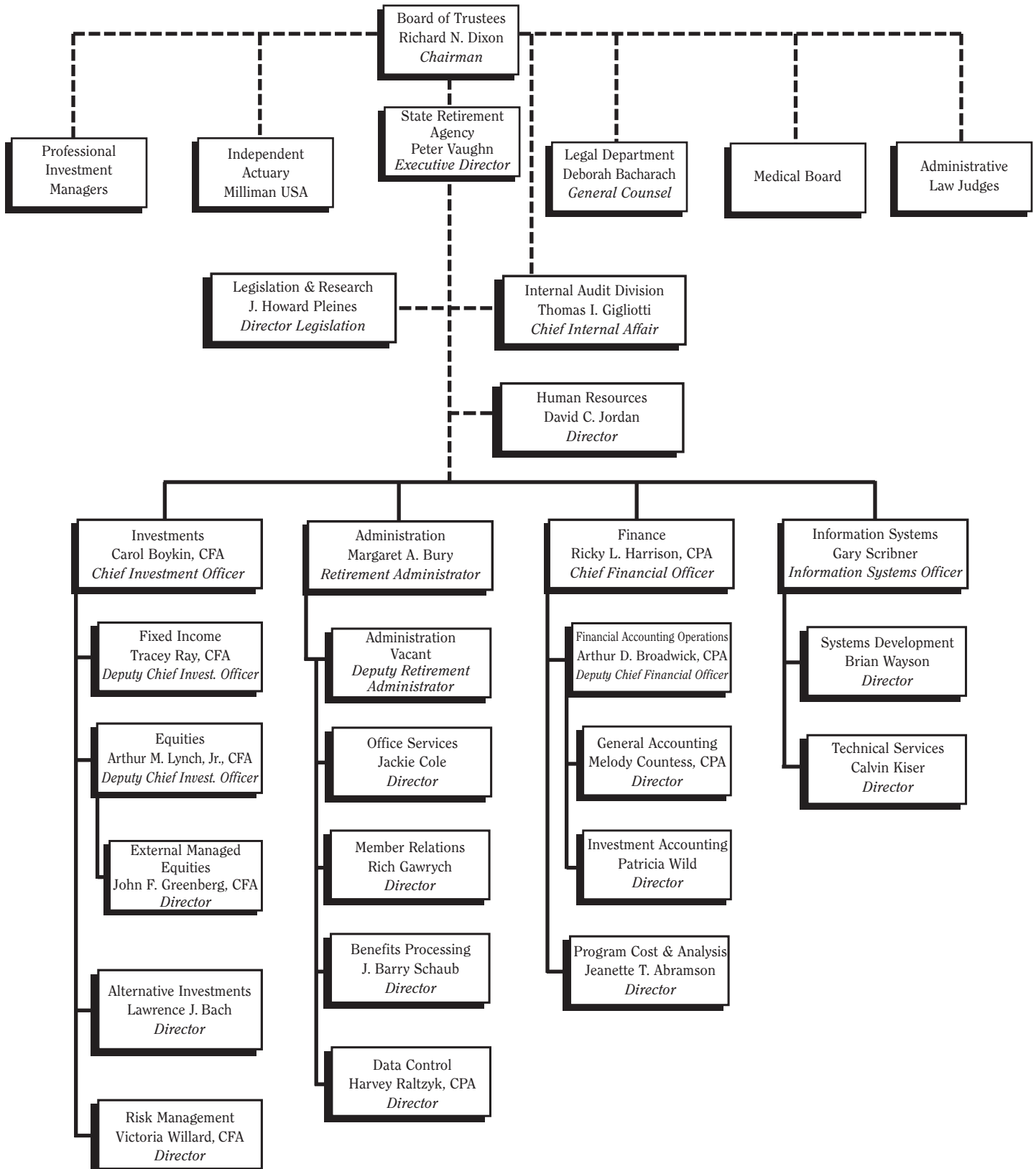
Wayne H. Shaner



Robert H. Patzwall, Jr.

Organizational Chart

(October 2001)



Consulting, Professional and Investment Management Services

Equity Investment Managers

Abbott Capital Management, LLC
Boston, Massachusetts

Advent Capital Management
New York, New York

Bank of Ireland Asset Management Limited
Dublin, Ireland

Adams Street Partners, LLC
Chicago, Illinois

Brown Capital Management, Inc.
Baltimore, Maryland

Brown Investment Advisory &
Trust Company
Baltimore, Maryland

Capital Guardian Trust Company
Washington, D.C.

Chapman Capital Management, Inc.
Baltimore, Maryland

Credit Suisse Asset Management, LLC
New York, New York

Dimensional Fund Advisors, Inc.
Santa Monica, California

The Edgar Lomax Company
Springfield, Virginia

GEM Capital Management, Inc.
New York, New York

Greenway Partners, L.P.
New York, New York

Harbor International Fund
Toledo, Ohio

Harbour Vest Partners, LLC
Boston, Massachusetts

J. & W. Seligman & Co., Inc.
New York, New York

Legg Mason Capital Management, Inc.
Baltimore, Maryland

Maryland Venture Capital Trust
Baltimore, Maryland

Progress Investment Management Company
San Francisco, California

Relational Investors, LLC
San Diego, California

Robert W. Torray & Co., Inc.
Bethesda, Maryland

State Street Global Advisors
Boston, Massachusetts

T. Rowe Price Associates, Inc.
Baltimore, Maryland

Templeton Investment Counsel, Inc.
Fort Lauderdale, Florida

Trust Company of the West
Los Angeles, California

Zurich Scudder Investments
New York, New York

Independent Actuary

Milliman USA
Baltimore, Maryland

Independent Auditor

Office of Legislative Audits
Baltimore, Maryland

Hearing Officers

Office of Administrative Hearings
Baltimore, Maryland

Medical Board

John J. Fahey, M.D.
Norman Freeman, Jr., M.D.
Arthur Hildreth, M.D.
Bruce Z. Kohn, M.D.
William B. Russell, M.D.
Claudia Thomas, M.D.
Alfred Wiedman, M.D.

Operational Banking Services

Allfirst Financial, Inc.
Baltimore, Maryland

The Harbor Bank of Maryland
Baltimore, Maryland

Global Custodial Bank

State Street Bank and Trust Company
Boston, Massachusetts

Security Lending

State Street Bank and Trust Company
Boston, Massachusetts

Fixed Income Investment Managers

Fountain Capital Management, LLC
Overland Park, Kansas

Lazard Asset Management
New York, New York

Morgan Stanley Dean Witter
Investment Management
West Conshohocken, Pennsylvania

Pacific Investment Management Company
Newport Beach, California

Standish, Ayer & Wood, Inc.
Boston, Massachusetts

W.R. Huff Asset Management Co., LLC
Morristown, New Jersey

Asset & Income Verification Services

Financial Control Systems, Inc.
Chadds Ford, Pennsylvania

Real Estate Investment Managers

AEW Capital Management, L.P.
Boston, Massachusetts

J.P. Morgan Investment Management, Inc.
New York, New York

LaSalle Investment Management, Inc.
Baltimore, Maryland

LaSalle Investment Management
Securities, L.P.
Baltimore, Maryland

Lubert-Adler Management, Inc.
Philadelphia, Pennsylvania

Sentinel Real Estate Corporation
New York, New York

TimesSquare Real Estate Investors
Hartford, Connecticut

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Retirement and Pension System of Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

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.



James D. Arave
President

Jeffrey L. Esser
Executive Director

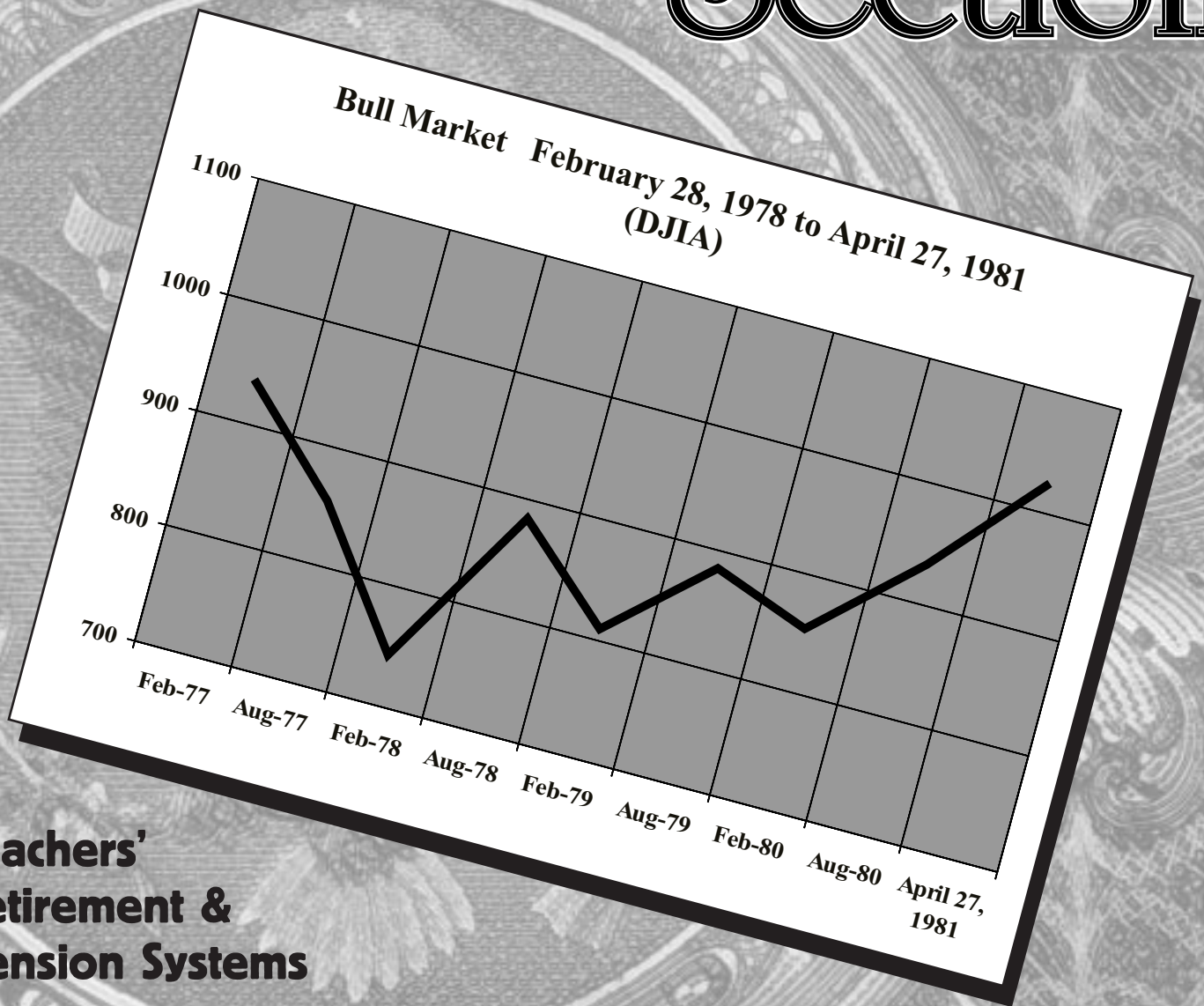
Mission Statement

The Board of Trustees of the State Retirement and Pension System of Maryland (System) is charged with the fiduciary responsibility for administering the survivor, disability and retirement benefits of the System's participants, and to ensure that sufficient assets are available to fund the benefits when due. To accomplish this mission the System has established the following key goals:

- To prudently invest System assets in a well diversified manner to optimize long-term returns, while controlling risk through excellence in execution of the investment objectives and strategies of the System.
- To effectively communicate with all retirement plan participants to inform them about the benefits provided by the System, and to educate them about planning and preparing for all aspects of their future retirement.
- To accurately and timely pay retirement allowances provided by State pension law to the System's retirees and their beneficiaries.
- To implement an automated, comprehensive and integrated pension administration and electronic document management system.
- To efficiently collect the required employer and member contributions necessary to fund the System.



Financial Section



Teachers' Retirement & Pension Systems

The Teachers' Retirement System was established by the General Assembly in 1927 and is the oldest plan administered by the State Retirement and Pension System of Maryland. Equally important to the retirement security of state and local teachers is the Teachers' Pension System which was established in 1980. Today, the Teachers' Retirement and Pension Systems comprise state and local teachers of the public school systems, as well as certain employees of boards of education, public libraries and community colleges. Active membership involves over 90,000 participants. The combined systems provide survivor, disability and retirement benefits to plan members.



Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

Independent Auditor's Report

Board of Trustees
State Retirement and
Pension System of Maryland

We have audited the accompanying statements of plan net assets of the State Retirement and Pension System of Maryland as of June 30, 2001 and 2000, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Retirement and Pension System of Maryland as of June 30, 2001 and 2000, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2001 on our consideration of the State Retirement and Pension System of Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations and contracts.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying required supplementary information and other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The other data included in this report have not been audited by us and, accordingly, we express no opinion on such data.

Bruce A. Myers, CPA
Legislative Auditor

November 7, 2001

301 West Preston Street • Room 1202 • Baltimore, Maryland 21201
410-946-5900/301-970-5900 • FAX 410-946-5999/301-970-5999
Other areas in Maryland 1-877-486-9964

Statements of Plan Net Assets

as of June 30, 2001 and 2000

(Expressed in Thousands)

	2001	2000
Assets:		
Cash & cash equivalents (note 3)	<u>\$ 919,888</u>	<u>\$1,862,211</u>
Receivables:		
Contributions:		
Employers	10,104	10,143
Members	3,587	3,068
Accrued investment income	124,039	113,047
Investment sales proceeds	56,032	613,214
Total receivables	<u>193,762</u>	<u>739,472</u>
Investments, at fair value (notes 2 & 3):		
U.S. Government obligations	2,361,828	2,330,615
Domestic corporate obligations	3,036,115	2,503,630
International obligations	185,519	144,240
Domestic stocks	14,391,788	16,503,957
International stocks	5,632,416	6,867,162
Mortgages & mortgage related securities	2,503,790	2,326,361
Real estate	768,297	661,143
Alternative investments	60,280	34,848
Collateral for loaned securities	<u>2,623,837</u>	<u>2,179,954</u>
Total investments	<u>31,563,870</u>	<u>33,551,910</u>
Total assets	<u>32,677,520</u>	<u>36,153,593</u>
Liabilities:		
Accounts payable & accrued expenses	47,630	42,961
Investment commitments payable	523,553	819,089
Obligation for collateral for loaned securities	2,623,837	2,179,954
Other liabilities	<u>1,099</u>	<u>899</u>
Total liabilities	<u>3,196,119</u>	<u>3,042,903</u>
Net assets held in trust for pension benefits	<u><u>\$29,481,401</u></u>	<u><u>\$33,110,690</u></u>

(A schedule of funding progress is presented on page 26)

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Plan Net Assets

for the Fiscal Years Ended June 30, 2001 and 2000

(Expressed in Thousands)

	2001	2000
Additions:		
Contributions (note 4):		
Employers	\$ 246,452	\$ 264,083
Members	189,769	182,507
Other	387,857	418,339
Total contributions	824,078	864,929
Investment income:		
Net (depreciation) appreciation in fair value of investments	(3,894,321)	2,790,906
Interest	531,407	495,173
Dividends	251,708	235,951
Real estate operating net income	28,048	19,548
Income before securities lending activity	(3,083,158)	3,541,578
Gross income from securities lending activity	146,066	120,664
Securities lending borrower rebates	(132,592)	(110,776)
Securities lending agent fees	(3,054)	(2,382)
Net income from securities lending activity	10,420	7,506
Total investment income	(3,072,738)	3,549,084
Less investment expenses (note 2f)	(66,025)	(61,362)
Net investment income	(3,138,763)	3,487,722
Total additions	(2,314,685)	4,352,651
Deductions:		
Benefit payments	1,272,804	1,190,954
Refunds (note 5)	16,977	16,805
Administrative expenses (note 2f)	24,823	19,751
Total deductions	1,314,604	1,227,510
Net (decrease) increase in plan assets	(3,629,289)	3,125,141
Net assets held in trust for pension benefits:		
Beginning of the fiscal year	33,110,690	29,985,549
End of the fiscal year	\$29,481,401	\$ 33,110,690

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

1. General Description of the System

a. Organization

The State Retirement Agency (the "Agency") is the administrator of the State Retirement and Pension System of Maryland (the "System"), an agent multiple-employer public employee retirement system. The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators and employees of participating governmental units. Responsibility for the System's administration and operation is vested in a 14-member Board of Trustees.

The State of Maryland is the statutory guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves and other benefits of the System. The Agency is legally authorized to use all assets accumulated for the payment of benefits to pay such obligations to any plan member or beneficiary as defined by the terms of the plan. Consequently, the System is accounted for as a single plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 25, *"Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."* Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. Accordingly, the System is included in the State's reporting entity and disclosed in its financial statements as a pension trust fund.

The System comprises the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, Law Enforcement Officers' Pension System and the Local Fire and Police System.

b. Covered Members

The Teachers' Retirement System was established on August 1, 1927 to provide retirement allowances and other benefits to teachers in the State. Effective January 1, 1980, the Teachers' Retirement System was closed to new members and the Teachers' Pension System was established. As a result, teachers hired after December 31, 1979 become members of the Teachers' Pension System as a condition of employment. Members remaining in the Teachers' Retirement System have the opportunity to irrevocably elect to transfer to the Teachers' Pension System. For those transferring, all prior service credit and member contributions on earnings above the social security wage base are transferred from the Teachers' Retirement System to the Teachers' Pension System, with member contri-

butions on earnings up to the social security wage base being refunded (see note 5).

On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension System was established. As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979 become members of the Employees' Pension System as a condition of employment, while all State correctional officers and members of the Maryland General Assembly continue to be enrolled as members of the Employees' Retirement System. State employees and employees of participating governmental units remaining in the Employees' Retirement System have the opportunity to irrevocably elect to transfer to the Employees' Pension System. For those transferring, all prior service credit and member contributions on earnings above the social security wage base are transferred from the Employees' Retirement System to the Employees' Pension System with member contributions on earnings up to the social security wage base being refunded (see note 5). Currently, 127 governmental units participate in the Employees' Systems.

The State Police Retirement System was established on July 1, 1949 to provide retirement allowances and other benefits to any police employee or cadet of the Maryland State Police.

The Judges' Retirement System was established on June 30, 1969 to provide retirement allowances and other benefits for State and local, appointed or elected judges.

The Law Enforcement Officers' Pension System was established on July 2, 1990 to provide retirement allowances and other benefits for certain State and local law enforcement officers. This System includes both retirement plan and pension plan provisions which are applicable to separate portions of this System's membership. The retirement plan provisions are only applicable to those members who, on the date they elected to participate in this System, were members of the Employees' Retirement System. This System's pension plan provisions are applicable to all other participating law enforcement officers.

The Local Fire and Police System was established on July 1, 1989 to provide retirement allowances and other benefits for law enforcement officers and fire fighters employed by participating governmental units. This System includes both retirement plan and pension plan

provisions which are applicable to separate portions of this System's membership. The retirement plan provisions are only applicable to those officers and fire fighters who, on the date they elected to participate in this System, were members of the Employees' Retirement System. This System's pension plan provisions are applicable to all other participating governmental unit law enforcement officers and fire fighters.

The following table presents a summary of membership by system as of June 30, 2001, with comparative 2000 totals:

	Inactive & Deferred Vested	Retirees & Beneficiaries	Active Plan Participants		
			Vested	Non-vested	Total
Teachers' Retirement & Pension Systems	17,337	40,126	60,472	32,825	93,297
Employees' Retirement & Pension Systems	25,746	41,914	57,871	30,115	87,986
Judges' Retirement System	13	297	281	—	281
State Police Retirement System	24	1,518	1,161	417	1,578
Local Fire and Police System	30	21	91	49	140
Law Enforcement Officers' Pension System	49	309	980	338	1,318
Totals as of June 30, 2001	<u>43,199</u>	<u>84,185</u>	<u>120,856</u>	<u>63,744</u>	<u>184,600</u>
Totals as of June 30, 2000	<u>42,514</u>	<u>80,773</u>	<u>120,238</u>	<u>59,348</u>	<u>179,586</u>

c. Summary of Significant Plan Provisions

All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. Retirement allowances are computed using both the highest three years' average final salary (AFS) and the actual number of years of accumulated creditable service. Pension allowances are computed using both the highest three consecutive years' AFS and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determine how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors. A brief summary of the retirement eligibility requirements of, and the benefits available under, the various systems follows:

Service Retirement Allowances

A member of either the Teachers' or Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of eligibility service regardless of age. The annual retirement allowance equals 1/55 (1.8%) of the member's AFS multiplied by the number of years of accumulated creditable service.

A member of either the Teachers' or Employees' Pension System is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. Generally, the annual pension allowance for a member of either the Teachers' or Employees' Pension System equals 1.2% of the member's AFS, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFS, multiplied by the number of years of creditable service accumulated subse-

quent to June 30, 1998. However, the annual pension allowance for a member of the Employees' Pension System, who is employed by a participating governmental unit that does not provide the enhanced pension benefits, equals 0.8% of the member's AFS up to the social security integration level (SSIL), plus 1.5% of the member's AFS in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service.

A member of the State Police Retirement System is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 22 years of eligibility service regardless of age. The annual retirement allowance equals 2.55% of the member's AFS multiplied by the number of years of accumulated creditable service and may not exceed 71.4% of the member's AFS.

A member of the Judges' Retirement System is eligible for full retirement benefits upon attaining age 60. The annual retirement allowance for a member with at least 16 years of accumulated creditable service equals 2/3 (66.7%) of the salary of an active judge holding a comparable position. The annual retirement allowance is prorated if the member retires with fewer than 16 years of accumulated creditable service.

A member of the Law Enforcement Officers' Pension System is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 25 years of eligibility service regardless of age. The annual retirement allowance for a member who is covered under the retirement plan provisions equals 1/50 (2.0%) of the member's AFS multiplied by the number of years of accumulated creditable service up to 30 years, plus 1/100 (1.0%) of the member's AFS multiplied by the

number of years of accumulated creditable service in excess of 30 years. For members subject to the pension provisions, full service pension allowances equal 2.0% of AFS up to a maximum benefit of 60% (30 years of credit).

A member of the Local Fire and Police System who is covered under the retirement plan provisions is eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 25 years of eligibility service regardless of age. The annual retirement allowance equals $1/50$ (2.0%) of the member's AFS multiplied by the number of years of accumulated creditable service up to 30 years, plus $1/100$ (1.0%) of the member's AFS multiplied by the number of years of accumulated creditable service in excess of 30 years. A member who is covered under the pension plan provisions is eligible for full pension benefits upon the earlier of attaining age 62 or accumulating 25 years of eligibility service regardless of age. The annual pension allowance equals 1.0% of the member's AFS up to the SSIL, plus 1.5% of the member's AFS in excess of the SSIL, multiplied by the number of years of accumulated creditable service.

Vested Allowances

Any member (other than a judge) who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Judges have no minimum service requirements prior to vesting. A member who terminates employment prior to attaining retirement age and before accumulating 5 years of eligibility service receives a refund of all member contributions and interest.

Early Service Retirement

A member of either the Teachers' or Employees' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of eligibility service, whichever is less. The maximum reduction for a Teachers' or Employees' Retirement System member is 30%. A member of either the Teachers' or Employees' Pension System may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for a Teachers' or Employees' Pension System member is 42%. Members of the State Police, Judges', Law Enforcement Officers' and Local Fire and Police Systems are not eligible for early service benefits.

Disability and Death Benefits

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFS. A

member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. A member (other than a member of the Maryland General Assembly or a judge, both of which are ineligible for accidental disability benefits) who is permanently and totally disabled as the result of an accident occurring in the line of duty receives $2/3$ (66.7%) of the member's AFS plus an annuity based on all member contributions and interest. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

Adjusted Retirement Allowances

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the consumer price index. Generally, for Teachers' and Employees' Pension System retirees, the pension allowance adjustments are limited to 3% of the preceding year's allowance. However, annual increases to pension allowances for Employees' Pension System retirees who were employed by a participating governmental unit that does not provide enhanced pension benefits are limited to 3% of the initial allowance. Retirement allowances for legislators and judges are recalculated when the salary of an active member holding a comparable position is increased.

2. Summary of Significant Accounting Policies

a. Basis of Accounting

The System's financial statements are prepared on the accrual basis of accounting. Accordingly, investment purchases and sales are recorded as of their respective trade dates and all contributions, benefits and refunds are recognized in the period when due. In accordance with GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting"*, the System has elected to apply all applicable GASB pronouncements and only Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989.

b. Investment Limitations

The State Personnel and Pensions Article of the Annotated Code of Maryland authorizes the System to invest plan assets in stocks, bonds, notes, certificates of indebtedness, mortgage notes, real estate, debentures or other obligations, subject to the terms, conditions, limitations and restrictions imposed by the Board of Trustees of the State Retirement and Pension System

of Maryland. As such, no more than 25% of the assets invested in common stocks may be invested in non-dividend paying common stocks. In addition, no investment in any one organization may constitute more than 5% of the net plan assets available for pension benefits. The System did not exceed either of these investment limits.

c. Portfolio Valuation Method

The System investments are reported at fair value. For fixed income securities, fair value is based on quoted market prices provided by independent pricing services. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages and mortgage related securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Fair value for real estate investments is based on estimated current values and independent appraisals. Fair value for alternative investments and mutual funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers. Investment amounts presented in the Statements of Plan Net Assets represent the fair value of the respective portfolios as of the fiscal year-end. Similarly, investment income amounts reported in the Statements of Changes in Plan Net Assets represent the income or loss derived from such investments for the year then ended. Accordingly, significant market fluctuations could periodically occur subsequent to the financial statement valuation date, which are not reflected in either the fair value of investments or the related investment income presented in these financial statements.

d. Securities Lending

The System's investment policies, as approved by the Board of Trustees, permit the System's custodial bank to lend System securities to broker-dealers and other entities. During fiscal year 2001, the System's custodial bank loaned securities of the type on loan at year-end for collateral in the form of cash (see note 3b), other securities, or letters of credit of at least 102% of the fair

value of domestic securities and international fixed income securities and 105% of the fair value of international equity securities. Collateral is marked-to-market daily. If the market value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day. Each such loan was executed with a simultaneous agreement to return the collateral for the same securities in the future. Securities on loan at year-end for cash collateral are presented as uncategorized in the schedule of custodial credit risk (see note 3). Securities on loan at year-end for collateral other than cash are categorized according to the custodial credit risk category applicable to the collateral received. In the event of a borrower's default, the System's custodial bank is obligated to indemnify the System if, and to the extent that, the fair value of collateral is insufficient to replace the loaned securities. Similarly, in the event of a borrower's failure to remit income distributions declared by the issuers of securities on loan, the System's custodial bank is obligated to indemnify the System for any portion of such distributions not recoverable from the borrower's collateral. The System has not experienced any loss due to credit or market risk on security lending activity since inception of the program. Further, as of June 30, 2001, the System had no credit risk exposure to borrowers because the fair value of collateral held exceeded the fair value of securities loaned.

Although the average term of the System's security loans is one week, each loan can be terminated at will by either the System or the borrower. Cash collateral is invested in two of the lending agent's short-term investment pools, which at June 30, 2001 had interest rate sensitivity durations of seventy-three and sixty-eight days. Because the relationship between the maturities of the investment pools and the System's security loans is affected by the maturities of the loans made by other entities that use the agent's pools, the System cannot match maturities. The System cannot pledge or sell collateral securities received unless and until a borrower defaults. Investments made with cash received as collateral and the corresponding liabilities are reported in the Statements of Plan Net Assets.

At June 30, 2001, the fair value of loaned securities and the related collateral were as follows (*expressed in thousands*):

	<u>Fair Value</u>	<u>Collateral</u>	<u>Percent Collateralized</u>
International equity securities	\$ 1,069,852	\$ 1,112,027	103.9%
Domestic & international fixed securities	<u>1,480,857</u>	<u>1,525,042</u>	103.0
Totals	<u><u>\$ 2,550,709</u></u>	<u><u>\$ 2,637,069</u></u>	

e. Derivatives

The System may invest in derivatives as permitted by guidelines established by the Board of Trustees. Compliance with these guidelines is monitored by Agency staff. Pursuant to such authority, the System invests in foreign currency forward contracts, options, futures, collateralized mortgage obligations, mortgage related securities, interest-only and principal-only securities. No derivatives were purchased with borrowed funds.

Derivatives are generally used to hedge against foreign currency risk and changes in interest rates, improve yield and adjust the duration of the System's fixed income portfolio. These securities are subject to changes in value due to changes in interest rates or currency valuations. Additionally, mortgage related securities are subject to prepayment risk when interest rates are falling. Credit risk for derivatives results from the same considerations as other counterparty risk assumed by the System, which is the risk that the counterparty might be unable to meet its obligations.

The System invests in foreign currency forward contracts to hedge the currency risk in its international and global portfolios. Because the fair value of foreign currency forward contracts is not included in the fair value of investments reported on the Statements of Plan Net Assets, the following schedule is presented to summarize the fair value of all foreign currency forward contracts outstanding as of June 30, 2001 (*expressed in thousands*):

<u>Purchases</u>			<u>Sales</u>		
Currency	Amount (local currency)	Fair Value	Currency	Amount (local currency)	Fair Value
Canadian dollar	13,228	\$ 8,707	Australian dollar	15	\$ 8
Euro currency	84,610	71,538	Canadian dollar	30,836	20,299
Swiss franc	17,103	9,528	Euro currency	109,464	92,643
U.S. dollar	154,577	154,577	Japanese yen	13,643,007	110,499
Total purchases		<u><u>\$ 244,350</u></u>	Pound sterling	11,197	15,718
			U.S. dollar	4,353	4,353
			Total sales		<u><u>\$ 243,520</u></u>

f. Administrative and Investment Expenses

All of the System's administrative and investment expenses (e.g., salaries of Agency employees, investment advisory fees) are incurred centrally and charged to each individual retirement or pension system on the basis of its percentage ownership in the System's net assets. All of the System's administrative and investment expenses are funded from investment income. See pages 29 and 30 for detailed schedules of administrative and investment expenses, respectively.

g. Federal Income Tax Status

During the fiscal years ended June 30, 2001 and 2000, the System qualified under Section 401(a) of the Internal Revenue Code and was exempt from federal income taxes under Section 501(a) of the Code.

3. Cash Deposits and Investments

Cash and cash equivalents totaled \$919,888,000 and \$1,862,211,000 as of June 30, 2001 and 2000, respectively. Included as cash equivalents for financial statement presentation purposes were certain short-term investments (e.g., commercial paper, repurchase agreements) which are categorized in note 3b for custodial credit risk purposes as investments. These cash equivalent investments totaled \$886,841,000 and \$1,770,674,000 as of June 30, 2001 and 2000, respectively.

a. Cash Deposits

Cash deposits are categorized to give an indication of the level of custodial credit risk assumed by the System. Category 1 includes deposits insured or collateralized with securities held by the System or its agent in the System's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the System's name. Category 3 includes deposits which are uncollateralized. As of June 30, 2001, the carrying amount of both the System's uninsured and uncollateralized deposits and bank balance was \$33,047,000 and comprises the System's Category 3 assets.

b. Investments

The System's investments are categorized to give an indication of the level of custodial credit risk assumed by the System. Category 1 includes investments insured or registered or for which the securities are held by the System's custodial bank in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty, its trust department or its agent, but not in the System's name.

All of the System's investments that are eligible for categorization meet the criteria of Category 1. All other investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

The following table presents a summary of the System's investments, by category of custodial credit risk as of June 30, 2001, with comparative 2000 totals (*expressed in thousands*):

	Category 1	Carrying Value	
		2001	2000
Investments			
Commercial paper	\$ 275,911	\$ 275,911	\$ 995,165
Repurchase agreements	8,549	8,549	10,017
U.S. Government obligations	1,196,979	1,196,979	1,540,681
Domestic corporate obligations	2,953,636	2,953,636	2,461,484
Mortgage related securities	2,500,014	2,500,014	2,322,529
Domestic stocks	10,245,420	10,245,420	11,513,233
International obligations	69,737	69,737	17,552
International stocks	4,095,778	4,095,778	4,900,107
Total investments to be categorized	<u>\$21,346,024</u>	<u>21,346,024</u>	<u>23,760,768</u>
Mutual funds		4,507,766	5,790,193
Real estate		768,297	661,143
Mortgages		3,776	3,832
Alternative investments		60,280	34,848
Global pooled short-term investments		602,381	765,492
Investments held by borrowers under securities loans with cash collateral:			
U.S. Government obligations		1,164,849	789,934
Domestic corporate obligations		82,479	42,146
Domestic stocks		222,017	463,957
International stocks		1,069,005	830,317
Collateral for loaned securities		2,623,837	2,179,954
Total invested assets		<u>\$32,450,711</u>	<u>\$35,322,584</u>

4. Contributions

The State Personnel and Pensions Article requires both active members and their respective employers to make contributions to the System. Rates for required contributions by active members are established by law. Members of the Teachers' and Employees' Retirement Systems are required to contribute 7% or 5% of earnable compensation depending upon the retirement option selected. Members of the State Police and Judges' Retirement Systems are required to contribute 8% and 6% of earnable compensation, respectively. Generally, members of the Teachers' and Employees' Pension Systems are required to contribute 2% of earnable compensation. However, members of the Employees' Pension System who are employed by a participating governmental unit that does not provide the enhanced pension benefits are required to contribute 5% of earnable compensation in excess of the social security taxable wage base.

Contribution rates for employer and other "non-employer" contributing entities are established by annual actuarial valuations using the entry age normal cost method with projection and other actuarial assumptions adopted by the Board of Trustees. These contribution rates have been established as the rates necessary to fund normal costs and amortize the unfunded actuarial accrued liability over a 40-year period (as provided by law) from July 1, 1980.

The State of Maryland (which is also a non-employer contributor to the Teachers' Retirement and Pension Systems and the Judges' Retirement System), the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund and 127 participating governmental units make all of the employer and other (non-employer) contributions to the System.

5. Refunds

Member contributions plus interest may be refunded to a member who withdraws from the System, or to the designated beneficiary following a member's death. In addition, members of the Teachers' and Employees' Retirement Systems who elect to transfer to the corresponding pension system receive refunds of all or part (if earnings have been greater than the social security taxable wage base) of their contributions plus interest. That portion of any member's contributions not refunded is transferred with credited interest to the applicable pension system. Employer contributions may also be refunded with interest to any participating governmental unit electing to withdraw from the System. For the fiscal years ended June 30, 2001 and 2000, refunds to members and withdrawing employers were as follows (*expressed in thousands*):

	2001	2000
Member refunds	\$16,977	\$14,476
Employer refunds	-	2,329
Total refunds	<u>\$16,977</u>	<u>\$16,805</u>

Required Supplementary Information

Schedule of Funding Progress

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	UAAL as a Percentage of Covered Payroll [(b - a) / c]
1992	\$14,381,367	\$20,002,773	\$5,621,406	71.90 %	\$5,023,781	112%
1993	15,684,924	21,175,256	5,490,332	74.07	5,064,529	108
1994	16,272,577	21,875,463	5,602,886	74.39	5,246,249	107
1995	17,666,582	23,092,537	5,425,955	76.50	5,532,150	98
1996	19,455,280	24,240,883	4,785,603	80.26	5,640,834	85
1997	21,920,696	25,383,206	3,462,510	86.36	5,657,385	61
1998	24,850,355	27,416,935	2,566,580	90.64	6,148,300	42
1999*	27,646,579	28,475,380	828,801	97.09	6,388,973	13
2000	30,649,380	30,279,866	(369,514)	101.22	6,796,240	(5)
2001	31,914,778	32,469,942	555,164	98.29	7,418,720	7

* The 1999 actuarial accrued liability does not include an additional \$153 million liability due to municipal employers voluntarily electing enhanced benefits during the period July 1, 1999 to December 31, 1999.

Schedule of Contributions from Employers and Other Contributing Entity

(Expressed in Thousands)

Fiscal Year Ended June 30,	Annual Required Contributions	Percentage Contributed
1992	\$659,128	100 %
1993	667,553	100
1994	657,429	100
1995	689,342	100
1996	721,615	100
1997	740,258	100
1998	735,788	100
1999	693,353	100
2000	682,422	100
2001	634,309	100

Notes to the Required Supplementary Information

1. Description of Schedule of Funding Progress

The Schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2001 and each of the nine preceding fiscal years. The data presented in the schedule were obtained from the System's independent actuary's annual valuation report for each year presented.

The schedule is presented to provide a consistent basis for measuring the System's annual progress toward funding its actuarial accrued liability in accordance with its actuarial funding method. The primary measure of funding progress is the System's funded ratio (i.e., actuarial value of assets expressed as a percentage of the actuarial accrued liability). An increase in the funded ratio indicates improvement in the System's ability to pay all projected benefits as they become due. The System is fully funded if the funded ratio is greater than or equal to 100 percent. During the year ended June 30, 2001, the System's funded ratio decreased from 101.22 percent to 98.29 percent.

The Schedule of Funding Progress also discloses the relationship between the System's covered payroll (i.e., all elements included in compensation paid to active members on which contributions are based) and the unfunded actuarial accrued liability. This relationship, expressed as a ratio, is a measure of the significance of the unfunded actuarial accrued liability relative to the capacity to pay all contributions required to fund the liability. A decrease in this ratio indicates improvement in the System's strength. During the year ended June 30, 2001, the System's ratio of the unfunded actuarial accrued liability to its covered payroll went from (5) percent to 7 percent.

2. Actuarial Methods and Assumptions

a. Funding Method

The System uses the entry age normal cost method with projection to determine the actuarial accrued liability on which future employer contribution rates will be based. Under this funding method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded actuarial liability rate.

The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 19-year period to June 30, 2020. The new

layer of UAAL which arose during the year ended June 30, 2001 is being amortized over a 25 year period from June 30, 2001.

b. Asset Valuation Method

Assets are valued for funding purposes using a five-year moving average. Under this method, the year end actuarial asset value equals 1/5 of the current fiscal year end fair value, as reported in the financial statements, plus 4/5 of the "expected market value". For purposes of this calculation, the "expected market value" is the preceding fiscal year's actuarial asset value, adjusted for the current fiscal year's cash flows with interest accumulated at the actuarial assumed rate of return on investments. This asset valuation method was effective beginning in fiscal year 2001.

c. Actuarial Assumptions

The assumptions used for the actuarial valuation were recommended by the System's independent actuary, based upon periodic analyses of the System's experience, and adopted by the Board of Trustees. Differences between assumed and actuarial experience (i.e., actuarial gains and losses) are part of the unfunded actuarial liability. The following significant assumptions were used in the actuarial valuation as of June 30, 2001:

- a rate of return on investments of 8 percent compounded annually (adopted June 30, 1998);
- projected salary increases of 5 percent compounded annually, attributable to inflation (adopted June 30, 1988);
- additional projected salary increases ranging from 0.94 percent to 6.82 percent per year attributable to seniority and merit (adopted June 30, 1988);
- post-retirement benefit increases ranging from 3 percent to 6 percent per year depending on the system (adopted June 30, 1982);
- rates of mortality, termination of service, disablement and retirement based on actual experience during the period from 1981 through 1996 (adopted June 30, 1998); and
- an increase in the aggregate active member payroll of 5 percent annually (adopted June 30, 1988).

Other Supplementary Information

Fund Balance Accounts

As provided by law, all System assets must be credited, according to the purpose for which they are held, to either the Annuity Savings Fund, the Accumulation Fund or the Expense Fund. These funds are classified as accounts for financial reporting purposes and are further explained as follows:

a. Annuity Savings Fund:

Members' contributions together with interest thereon, at statutory interest rates, are credited to the Annuity Savings Fund. Upon retirement, members' accumulated contributions and interest are transferred from the Annuity Savings Fund to the Accumulation Fund.

b. Accumulation Fund:

Contributions made by employers, other contributions and investment income are credited to the Accumulation Fund. All retirement, disability and death benefits are paid from this Fund.

c. Expense Fund:

All expenses for the administration and operation of the System are recorded in the Expense Fund. During the year, funds are transferred from the Accumulation Fund to the Expense Fund to cover expenses incurred.

Schedule of Fund Balances

for the Fiscal Year Ended June 30, 2001 (with Comparative 2000 Totals)

(Expressed in Thousands)

	Annuity Savings Fund	Accumulation Fund	Expense Fund	Totals	
				2001	2000
Fund balances, beginning of year	\$1,662,396	\$31,448,294	\$ -	\$33,110,690	\$29,985,549
Additions:					
Net investment income	-	(3,072,738)	(66,025)	(3,138,763)	3,487,722
Contributions (note 4):					
Employers	-	246,452	-	246,452	264,083
Members	189,769	-	-	189,769	182,507
Other	-	387,857	-	387,857	418,339
Deductions:					
Benefit payments	-	(1,272,804)	-	(1,272,804)	(1,190,954)
Refunds (note 5)	(17,031)	54	-	(16,977)	(16,805)
Administrative expenses (note 2f)	-	-	(24,823)	(24,823)	(19,751)
Transfers:					
From the Accumulation Fund to the Annuity Savings Fund for interest credited to members' accounts	74,441	(74,441)	-	-	-
To the Accumulation Fund from the Annuity Savings Fund for contributions of retiring members	(156,587)	156,587	-	-	-
From the Accumulation Fund to the Expense Fund for administrative and investment expenses	-	(90,848)	90,848	-	-
Net changes in fund balances	90,592	(3,719,881)	-	(3,629,289)	3,125,141
Fund balances, end of year	\$1,752,988	\$27,728,413	\$ -	\$29,481,401	\$33,110,690

Schedule of Administrative Expenses

for the Fiscal Years Ended June 30, 2001 and 2000

(Expressed in Thousands)

	2001	2000
Personnel services:		
Staff salaries	\$ 8,736	\$ 7,231
Fringe benefits	<u>2,190</u>	<u>1,963</u>
Total personnel services	<u>10,926</u>	<u>9,194</u>
Professional and contractual services:		
Actuarial	221	265
Legal and financial	187	150
Data processing	9,117	7,584
Other contractual services	<u>371</u>	<u>390</u>
Total professional and contractual services	<u>9,896</u>	<u>8,389</u>
Miscellaneous:		
Communications	1,074	879
Rent	1,314	636
Equipment and supplies	887	372
Other	<u>726</u>	<u>281</u>
Total miscellaneous	<u>4,001</u>	<u>2,168</u>
Total administrative expenses	<u>\$ 24,823</u>	<u>\$ 19,751</u>

Schedule of Investment Expenses

for the Fiscal Years Ended June 30, 2001 and 2000

(Expressed in Thousands)

	2001	2000
Investment advisors:		
Equity managers	\$ 48,869	\$ 46,239
Fixed managers	8,117	7,208
Real estate managers	7,748	6,784
Total investment advisory fees	<u>64,734</u>	<u>60,231</u>
 Other investment service fees:		
Master custody	634	541
Income verification services	259	254
Other investment expenses	398	336
Total other investment service fees	<u>1,291</u>	<u>1,131</u>
 Total investment expenses	 <u>\$ 66,025</u>	 <u>\$ 61,362</u>

Transfer Refund Rate

Members of the Teachers' and Employees' Retirement Systems who elect to transfer to the corresponding pension systems receive transfer refunds. Such refunds include interest calculated using the transfer refund rate in effect for the calendar year in which the transfer becomes effective. The transfer refund rate is determined at the end of each fiscal year for the upcoming calendar year in accordance with Title 22 of the State Personnel and Pensions Article of the Annotated Code of Maryland and the related regulations. Accordingly, the refund interest rate is required to be calculated using realized investment income and total investments valued at their historical cost. The transfer refund rates in effect for calendar years 2001

and 2000 were 11.7 and 11.2 percent, respectively. For purposes of computing the 2001 and 2000 transfer refund rates, the following cost basis financial data, in addition to certain preceding years' cost basis financial data, were used (*expressed in thousands*):

	Fiscal year 2000 data	Fiscal year 1999 data
Realized investment income	\$ 2,641,213	\$ 2,709,935
Cost basis of investments	26,374,554	24,108,110

Schedule of Plan Net as of June 30, 2001 (Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System
Assets:			
Cash & cash equivalents (note 3)	\$ 557,477	\$ 293,662	\$ 16,009
Receivables:			
Contributions:			
Employers	3	8,768	323
Members	307	2,936	3
Accrued investment income	76,608	42,057	897
Investment sales proceeds	33,651	19,514	343
Due from other systems	1,724	—	—
Total receivables	112,293	73,275	1,566
Investments, at fair value (notes 2 & 3):			
U.S. Government obligations	1,498,728	792,857	12,052
Domestic corporate obligations	1,895,839	1,024,614	20,676
International obligations	112,794	63,143	1,777
Domestic stocks	8,497,238	5,036,230	102,335
International stocks	3,310,860	1,986,874	37,551
Mortgages & mortgage related securities	1,595,259	839,381	11,690
Real estate	493,334	225,799	12,239
Alternative investments	35,790	20,878	463
Collateral for loaned securities	1,550,033	900,995	32,759
Total investments	18,989,875	10,890,771	231,542
Total assets	19,659,645	11,257,708	249,117
Liabilities:			
Accounts payable & accrued expenses	29,762	15,261	466
Investment commitments payable	320,724	176,965	4,711
Obligation for collateral for loaned securities	1,550,033	900,995	32,759
Other liabilities	647	381	13
Due to other systems	1,059	674	—
Total liabilities	1,902,225	1,094,276	37,949
Net assets held in trust for pension benefits	\$ 17,757,420	\$ 10,163,432	\$ 211,168
(A schedule of funding progress is presented on page 26)			

* Intersystem due from/due to have been eliminated in the financial statements.

Assets by System

State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Total
\$ 36,452	\$ 1,065	\$ 15,223	\$ 919,888	\$ —	\$ 919,888
315	—	695	10,104	—	10,104
249	—	92	3,587	—	3,587
3,929	46	502	124,039	—	124,039
2,270	12	242	56,032	—	56,032
—	—	10	1,734	(1,734)	—
<u>6,763</u>	<u>58</u>	<u>1,541</u>	<u>195,496</u>	<u>(1,734)</u>	<u>193,762</u>
51,654	615	5,922	2,361,828	—	2,361,828
83,230	1,106	10,650	3,036,115	—	3,036,115
6,754	99	952	185,519	—	185,519
676,518	3,703	75,764	14,391,788	—	14,391,788
267,565	1,159	28,407	5,632,416	—	5,632,416
51,233	585	5,642	2,503,790	—	2,503,790
28,521	986	7,418	768,297	—	768,297
2,795	20	334	60,280	—	60,280
120,262	1,861	17,927	2,623,837	—	2,623,837
<u>1,288,532</u>	<u>10,134</u>	<u>153,016</u>	<u>31,563,870</u>	<u>—</u>	<u>31,563,870</u>
<u>1,331,747</u>	<u>11,257</u>	<u>169,780</u>	<u>32,679,254</u>	<u>(1,734)</u>	<u>32,677,520</u>
1,930	13	198	47,630	—	47,630
18,295	265	2,593	523,553	—	523,553
120,262	1,861	17,927	2,623,837	—	2,623,837
51	1	6	1,099	—	1,099
—	—	1	1,734	(1,734)	—
<u>140,538</u>	<u>2,140</u>	<u>20,725</u>	<u>3,197,853</u>	<u>(1,734)</u>	<u>3,196,119</u>
\$ <u>1,191,209</u>	\$ <u>9,117</u>	\$ <u>149,055</u>	\$ <u>29,481,401</u>	\$ <u>—</u>	\$ <u>29,481,401</u>

Schedule of Changes in Plan for the Fiscal Year

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System
Additions:			
Contributions (note 4):			
Employers	\$ 15,802	\$ 195,994	\$ 14,339
Members	104,713	74,599	1,379
Other	387,621	—	236
Total contributions	<u>508,136</u>	<u>270,593</u>	<u>15,954</u>
Investment income:			
Net depreciation in fair value of investments	(2,256,667)	(1,391,968)	(25,640)
Interest	330,256	179,204	4,107
Dividends	150,028	86,549	2,044
Real estate operating net income	17,990	8,302	440
Income before securities lending activity	<u>(1,758,393)</u>	<u>(1,117,913)</u>	<u>(19,049)</u>
Gross income from securities lending activity	86,153	50,348	1,807
Securities lending borrower rebates	(78,206)	(45,703)	(1,641)
Securities lending agent fees	(1,802)	(1,053)	(38)
Net income from securities lending activity	<u>6,145</u>	<u>3,592</u>	<u>128</u>
Total investment income	<u>(1,752,248)</u>	<u>(1,114,321)</u>	<u>(18,921)</u>
Less investment expenses:			
Investment advisory fees	(38,882)	(22,417)	(448)
Other investment expenses	(776)	(448)	(9)
Total investment expenses	<u>(39,658)</u>	<u>(22,865)</u>	<u>(457)</u>
Net investment income	<u>(1,791,906)</u>	<u>(1,137,186)</u>	<u>(19,378)</u>
Transfers from other systems	5,932	2,995	2
Total additions	<u>(1,277,838)</u>	<u>(863,598)</u>	<u>(3,422)</u>
Deductions:			
Benefit payments	783,952	422,452	15,497
Refunds (note 5)	11,291	5,325	7
Administrative expenses (note 2f)	14,914	8,602	169
Transfers to other systems	5,016	11,506	20
Total deductions	<u>815,173</u>	<u>447,885</u>	<u>15,693</u>
Net (decrease) increase in plan assets	(2,093,011)	(1,311,483)	(19,115)
Net assets held in trust for pension benefits:			
Beginning of the fiscal year	19,850,431	11,474,915	230,283
End of the fiscal year	<u>\$ 17,757,420</u>	<u>\$ 10,163,432</u>	<u>\$ 211,168</u>

* Intersystem transfers have been eliminated in the financial statements.

Net Assets by System

Ended June 30, 2001

State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Total
\$ 6,891	\$ 805	\$ 12,621	\$ 246,452	\$ —	\$ 246,452
6,653	12	2,413	189,769	—	189,769
—	—	—	387,857	—	387,857
<u>13,544</u>	<u>817</u>	<u>15,034</u>	<u>824,078</u>	<u>—</u>	<u>824,078</u>
(200,140)	(813)	(19,093)	(3,894,321)	—	(3,894,321)
15,410	253	2,177	531,407	—	531,407
11,651	108	1,328	251,708	—	251,708
1,048	39	229	28,048	—	28,048
<u>(172,031)</u>	<u>(413)</u>	<u>(15,359)</u>	<u>(3,083,158)</u>	<u>—</u>	<u>(3,083,158)</u>
6,768	119	871	146,066	—	146,066
(6,144)	(108)	(790)	(132,592)	—	(132,592)
(141)	(2)	(18)	(3,054)	—	(3,054)
<u>483</u>	<u>9</u>	<u>63</u>	<u>10,420</u>	<u>—</u>	<u>10,420</u>
<u>(171,548)</u>	<u>(404)</u>	<u>(15,296)</u>	<u>(3,072,738)</u>	<u>—</u>	<u>(3,072,738)</u>
(2,677)	(20)	(290)	(64,734)	—	(64,734)
(53)	—	(5)	(1,291)	—	(1,291)
<u>(2,730)</u>	<u>(20)</u>	<u>(295)</u>	<u>(66,025)</u>	<u>—</u>	<u>(66,025)</u>
<u>(174,278)</u>	<u>(424)</u>	<u>(15,591)</u>	<u>(3,138,763)</u>	<u>—</u>	<u>(3,138,763)</u>
24	2	9,553	18,508	(18,508)	—
<u>(160,710)</u>	<u>395</u>	<u>8,996</u>	<u>(2,296,177)</u>	<u>(18,508)</u>	<u>(2,314,685)</u>
44,776	399	5,728	1,272,804	—	1,272,804
329	—	25	16,977	—	16,977
1,024	7	107	24,823	—	24,823
146	1,264	556	18,508	(18,508)	—
<u>46,275</u>	<u>1,670</u>	<u>6,416</u>	<u>1,333,112</u>	<u>(18,508)</u>	<u>1,314,604</u>
(206,985)	(1,275)	2,580	(3,629,289)	—	(3,629,289)
1,398,194	10,392	146,475	33,110,690	—	33,110,690
<u>\$ 1,191,209</u>	<u>\$ 9,117</u>	<u>\$ 149,055</u>	<u>\$ 29,481,401</u>	<u>\$ —</u>	<u>\$ 29,481,401</u>



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Investment Section



State Police Retirement System

The General Assembly added a third benefit system, the State Police Retirement System, in 1949. Membership in the police system is restricted to uniformed employees of the Maryland State Police. The mission of the Maryland State Police is to fulfill its role as the state's lead coordinating law enforcement organization with commitment to pride, equality, respect and dignity. More than 1,500 officers throughout 23 counties strive to improve the quality of life for the citizens of Maryland by ensuring public safety.

Chief Investment Officer's Report

Investment Objectives

The Board of Trustees (the "Board") is charged with the responsibility of managing the assets of the State Retirement and Pension System. The Board is required to discharge its fiduciary duties solely in the interest of the participants, with the care, skill and diligence, which a prudent person would ordinarily exercise under similar circumstances. This standard of care not only permits but encourages diversifying investments across various asset classes.

Investment objectives are designed to support fulfillment of the Agency's mission - to optimize risk-adjusted returns in order to ensure timely payment of benefits to members and beneficiaries.

Investment objectives are implemented according to investment policies developed by the Board. The prudent person standard allows the Board to establish investment policies based on investment criteria that it defines, and it allows the Board to delegate investment authority to investment professionals.

System assets are managed by internal portfolio managers and external investment management firms, who employ both active and passive strategies. Investment management firms are selected and retained based on rigorous performance and organizational factors. Firms engaged must have a demonstrated track record and a clearly defined and applied investment process.

The System is a long-term investor, and consequently, long-term results are emphasized over short-term gains. The long-term investment objectives established by the Board are to achieve a real rate of return of at least 3.0% and to achieve a nominal rate of return, which equals or exceeds the 8.0% actuarial return assumption.

Asset allocation is a key determinant of a successful investment program, and it is credited with being responsible for determining as much as 90% of a pension plan's total return in a given year. Asset allocation is the process, which results in the weightings assigned to each asset class. The Board takes both asset and liability side considerations into account when reviewing asset allocation.

From an asset side perspective, the Board reviews and approves the CAPM assumptions (Capital Asset Pricing Model), including the risk and return projections for each asset class as well as

the correlations among the asset classes. Diversification is achieved by combining asset classes, which are not perfectly correlated with each other. This may result in offsetting a market decline in one asset class with appreciation in another asset class. The benefit of this diversification is a reduction in the volatility of the total portfolio's investment performance.

From the liability side perspective, the Board works closely with its actuary and incorporates its funded status when determining its risk posture. Avoiding adverse contribution experience is an important consideration.

Multiple scenarios for possible asset mixes are reviewed. This process results in ranges, which are approved by the Board for each asset class, and the targets are typically the mid-points of the ranges. As of June 30, 2001, the approved ranges for each asset class were:

Asset Class	Allowable Ranges
Equity	up to 80%
Domestic Equity	40-60%
International Equity	15-30%
Alternative Investments	0-1%
Real Estate	2-7%
Fixed Income	
Domestic Investment Grade	10-30%
Domestic High Yield	0-5%
Cash Reserves	0-5%

Capital Market Overview

As of the end of the fiscal year, bonds and real estate outperformed stocks. The capital markets continued to experience volatility throughout the year, and the U.S. dollar remained strong against major currencies.

Stocks suffered as the technology sector experienced significant declines, and bonds rose as the FOMC (Federal Open Market Committee) cut rates 275 basis points to a level of 3.75%, on concerns of a weakening economy. Inflation remained moderate, with the CPI (the Consumer Price Index, an inflation indicator) rising 3.2% for the 12-month period.

The following chart displays the fiscal year performance for some of the System's key benchmarks:

Benchmarks	FY 2001 Performance
Equity Markets	
U.S. Equities	
S&P 500	-14.83%
Russell 3000	-13.93%
Russell 2000	0.57%
CSFB Convertible Securities	-11.83%
International Equities	
MSCI EAFE	- 23.61%
SSBI Extended Market	- 8.07%
Bond Markets	
SSBI Broad Investment Grade	11.26%
ML High Yield Master II	- 0.92%
Real Estate	
Russell NCREIF (1 quarter lag)	11.88%
Wilshire Real Estate Securities	24.60%
Short-Term Markets	
Three-month Treasury Bill	5.9%

U.S. equity market declines were led by information technology, which experienced a 52.3% drop for the fiscal year. Financial stocks were up 23.1%, and utility stocks were up 21.1%. Value outperformed growth, and the international markets followed the lead of the U.S. markets. In fact, only three developed markets turned in positive results. New Zealand was up 5%, Australia was up 2.9%, and Ireland was up 2.9%. When the international equity results were translated into U.S. dollar terms, the results appear worse than the U.S. equity markets due to the strength of the U.S. dollar versus the Euro and the yen.

With regard to fixed income, the yield curve returned to a normal slope, having been inverted during most of the prior fiscal year. Five and ten year U.S. Treasury yields fell 123 and 62 basis points, respectively. And high yield bonds under performed, falling about 1% over the fiscal year.

Investment Performance

Investment performance is calculated using time-weighted rates of return in compliance with AIMR standards. Total return includes interest and dividends as well as capital appreciation.

The investment program experienced a decline of 9.4% for the fiscal year. This decline was less than that of the broad equity markets, thanks to the benefits of a well-diversified portfolio. Rolling total returns for 3, 5, and 10-year period were 3.1%, 8.7% and 10.3%, respectively. Both the 5 and the 10-year results exceeded both the actuarial target of 8% and the real return tar-

get of 3.0%. Again, it is important to note that the System is a long-term investor.

The market value of System assets under management declined from \$32.9 billion on June 30, 2000 to \$29.4 billion on June 30, 2001. The System's equity investments declined by 17.3%, with U.S. equities returning -15.4% and international equities returning -21.0%. Convertible bonds declined by 16.2%, giving up some of their gains from the prior year, which closed ahead by 41.7%. This category is included under the equity allocation. The System's fixed income securities returned 10.2%, with the investment grade portfolios aggregating to 11.5%, and high yield bonds declining but not yet having a full year's worth of results. Real estate investments returned 18.5 % for the fiscal year, with REITs (Real Estate Investment Trusts) reported as of June 30, 2001 and the remaining properties reported as of March 31, 2001.

The Trust's investment performance exceeded that of its benchmarks for all asset classes except domestic equity. This was due to the under performance of growth stocks.

Investment Activity

Fiscal 2001 was a busy year for the System. The Board reviewed and revised its asset allocation policy. The current policy is reflected under the Investment Objectives section of this report. This led to the reduction of the System's international equity exposure, with a revised target of 20%. The proceeds will go to increasing the System's exposure to mid and small-to-mid cap domestic equity value managers.

Additional changes included modifying the System's brokerage policy and revising the Equity Real Estate Master Plan. The amended real estate document now allows for expansion of the System's investment activities beyond core real estate and into the value added and opportunistic categories. The amended brokerage policy increases the targets for the System's investment managers to trade with brokerage firms located in Maryland as well as with nationwide minority brokerage firms.

With regard to proxy voting, Agency staff voted an estimated 1500 ballots for approximately 1200 U.S. companies. Votes for shares of commingled funds and international investments are typically delegated to the managers of those respective funds.

Respectfully submitted,



Carol Boykin, CFA
Chief Investment Officer and
Secretary to the Investment Committee

Investment Portfolios by Manager

as of June 30, 2001

(Expressed in Thousands)

	Fair Value	Investment Advisory Fees		Fair Value	Investment Advisory Fees
Equity Managers			Fixed Income Managers		
State Street Global Advisors	\$ 5,048,493	\$ 475	Internally Managed	\$ 4,723,160	\$ N/A
Internally Managed	4,792,928	N/A	Pacific Investment		
Bank of Ireland Asset			Management Company	1,294,494	2,726
Management Limited	2,092,746	4,881	Standish, Ayer & Wood, Inc.	1,151,946	1,603
Capital Guardian Trust Company	995,941	3,611	W.R. Huff Asset		
Credit Suisse Asset			Management Co., LLC	561,054	2,535
Management, LLC	933,921	3,104	Morgan Stanley Dean Witter		
Zurich Scudder Investments	929,948	4,681	Investment Management	182,888	567
Templeton Investment Counsel, Inc.	865,311	2,675	Lazard Asset Management	103,062	345
Dimensional Fund Advisors, Inc.	792,013	837	Fountain Capital Management, LLC	100,692	341
Legg Mason Capital Management, Inc.	537,563	1,577		<u>\$ 8,117,296</u>	<u>\$ 8,117</u>
Harbor International Fund	467,632	3,840			
GEM Capital Management, Inc.	300,004	1,534	Real Estate Managers		
Advent Capital Management	242,248	1,210	LaSalle Investment		
J. & W. Seligman & Co., Inc.	220,838	563	Management Securities, L.P.	\$ 573,959	\$ 1,236
Robert W. Torray & Co., Inc.	210,353	1,049	LaSalle Investment Management, Inc.	327,369	2,651
The Edgar Lomax Company	210,345	515	J.P. Morgan Investment		
Chapman Capital Management, Inc.	190,250	1,738	Management, Inc.	186,161	1,464
Trust Company of the West	172,255	1,339	TimesSquare Real Estate Investors	166,329	1,602
Relational Investors, LLC	162,500	8,410	Internally Managed	152,918	N/A
Brown Investment			Sentinel Real Estate Corporation	61,041	674
Advisory & Trust Company	157,401	911	Lubert-Adler Management, Inc.	6,563	92
Greenway Partners, L.P.	149,070	1,620	AEW Capital Management, L.P.	93	29
Brown Capital Management, Inc.	115,253	1,084		<u>\$ 1,474,433</u>	<u>\$ 7,748</u>
Progress Investment					
Management Company	99,505	686	* Investment managers no longer under contract as of 6/30/01.		
T. Rowe Price Associates, Inc.	90,564	511			
Harbour Vest Partners, LLC	25,868	746			
Adams Street Partners, LLC	18,501	850			
Abbott Capital Management, LLC	9,348	330			
Other *	1,797	92			
	<u>\$ 19,832,596</u>	<u>\$ 48,869</u>			

Investment Portfolio Summary

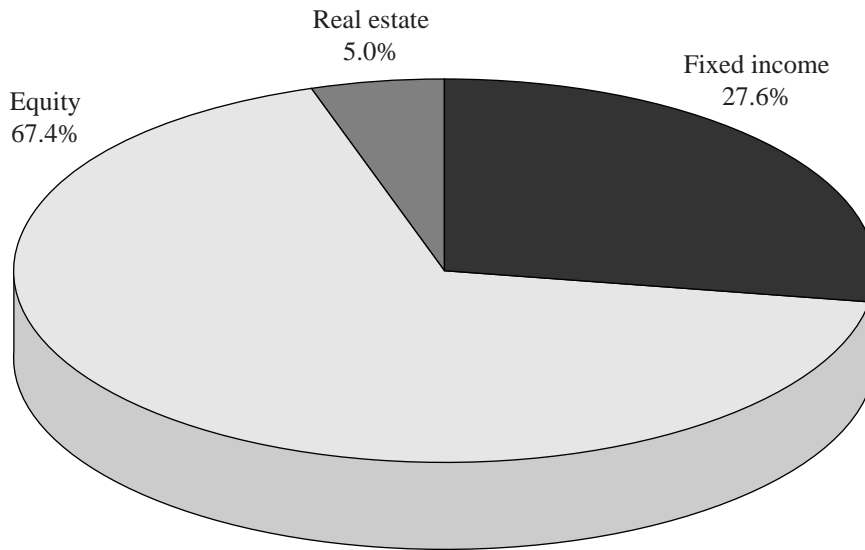
as of June 30, 2001 and 2000

(Expressed in Thousands)

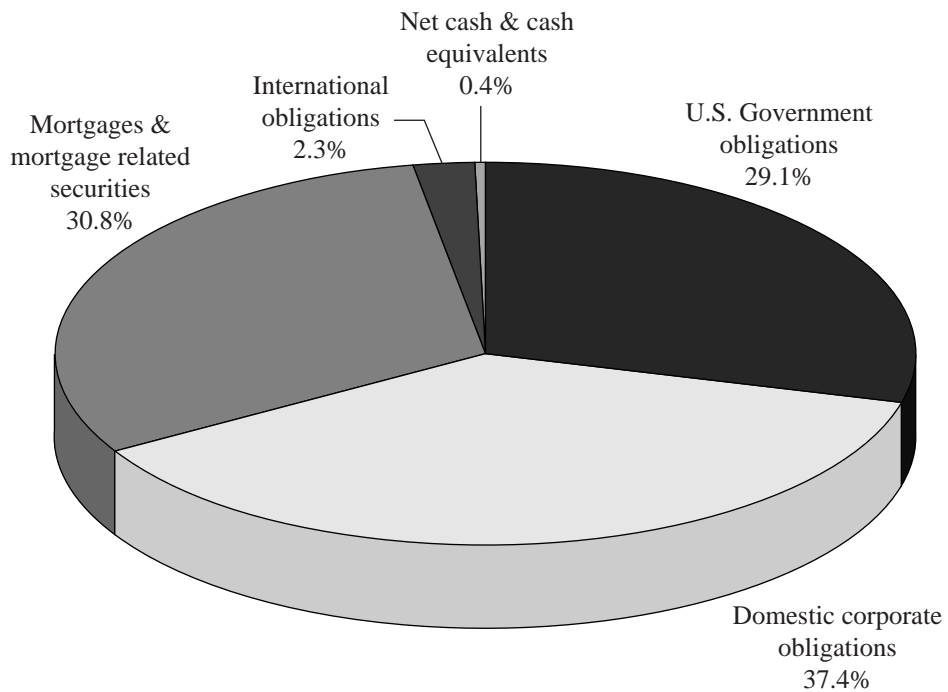
	2001		2000	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value
Fixed Income				
Domestic corporate obligations	\$ 3,036,115	10.3%	\$ 2,503,630	7.6%
Mortgages & mortgage related securities	2,503,790	8.5	2,326,361	7.1
U.S. Government obligations	2,361,828	8.0	2,330,615	7.0
International obligations	185,519	0.7	144,240	0.4
Net cash & cash equivalents	30,044	0.1	695,704	2.1
*Total Fixed Income	<u>8,117,296</u>	<u>27.6</u>	<u>8,000,550</u>	<u>24.2</u>
Equity				
Domestic stocks	13,702,468	46.6	15,937,278	48.3
International stocks	5,632,416	19.1	6,867,162	20.8
Alternative investments	53,717	0.2	34,848	0.1
Net cash & cash equivalents	443,995	1.5	893,007	2.8
Total Equity	<u>19,832,596</u>	<u>67.4</u>	<u>23,732,295</u>	<u>72.0</u>
Real Estate				
Real Estate Investment Trusts	689,320	2.3	566,680	1.7
Pooled funds	413,624	1.3	376,690	1.1
Directly owned real estate	354,673	1.2	284,452	0.9
Alternative investments	6,563	0.1	0	0.0
Net cash & cash equivalents	10,253	0.1	21,650	0.1
Total Real Estate	<u>1,474,433</u>	<u>5.0</u>	<u>1,249,472</u>	<u>3.8</u>
Total Portfolio	<u>\$ 29,424,325</u>	<u>100.0%</u>	<u>\$ 32,982,317</u>	<u>100.0%</u>

* Security lending collateral payable has been netted against the actual collateral. The amounts net to zero.

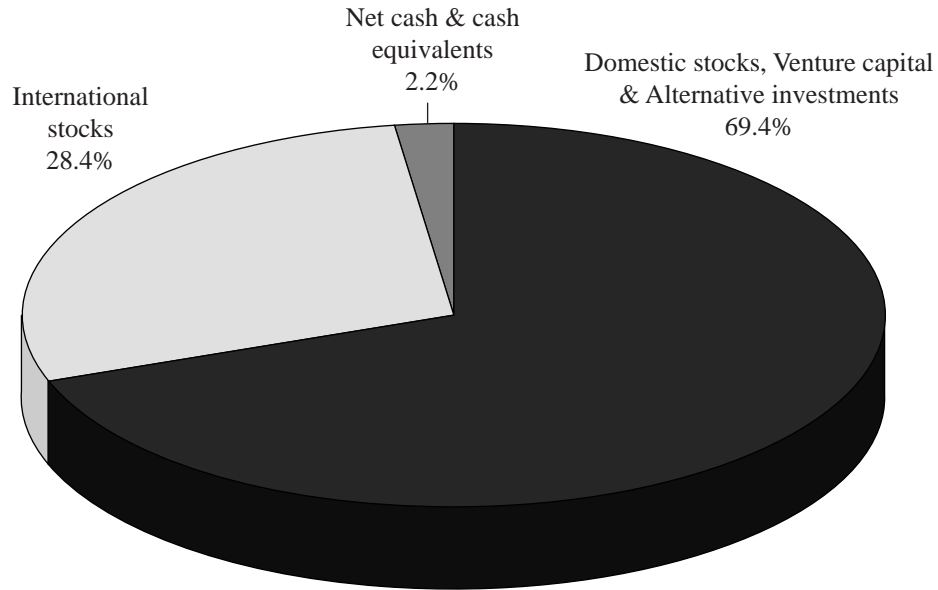
Investment Portfolio Allocation as of June 30, 2001



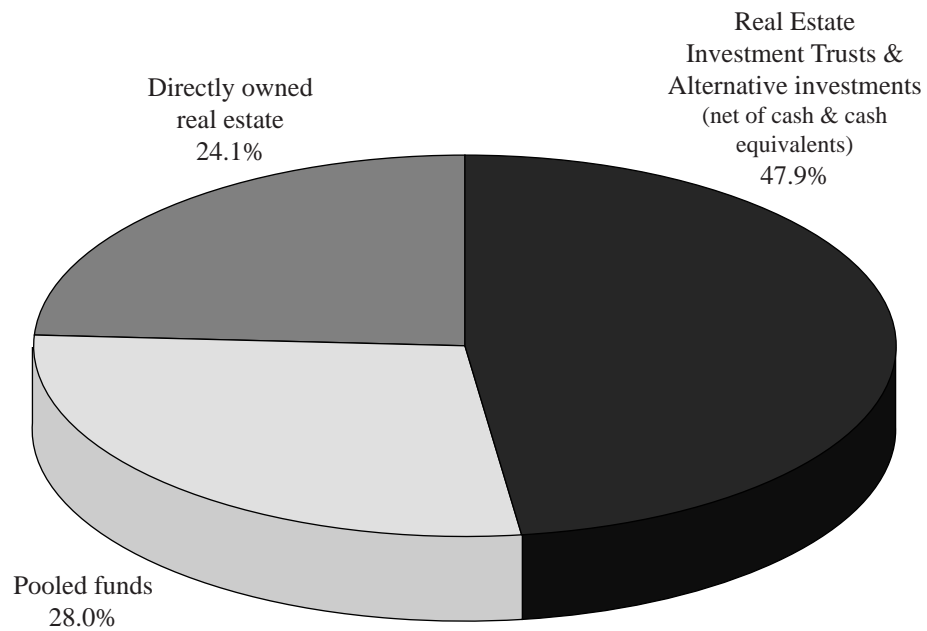
Fixed Income Distribution by Type as of June 30, 2001



Equity Distribution by Strategy as of June 30, 2001

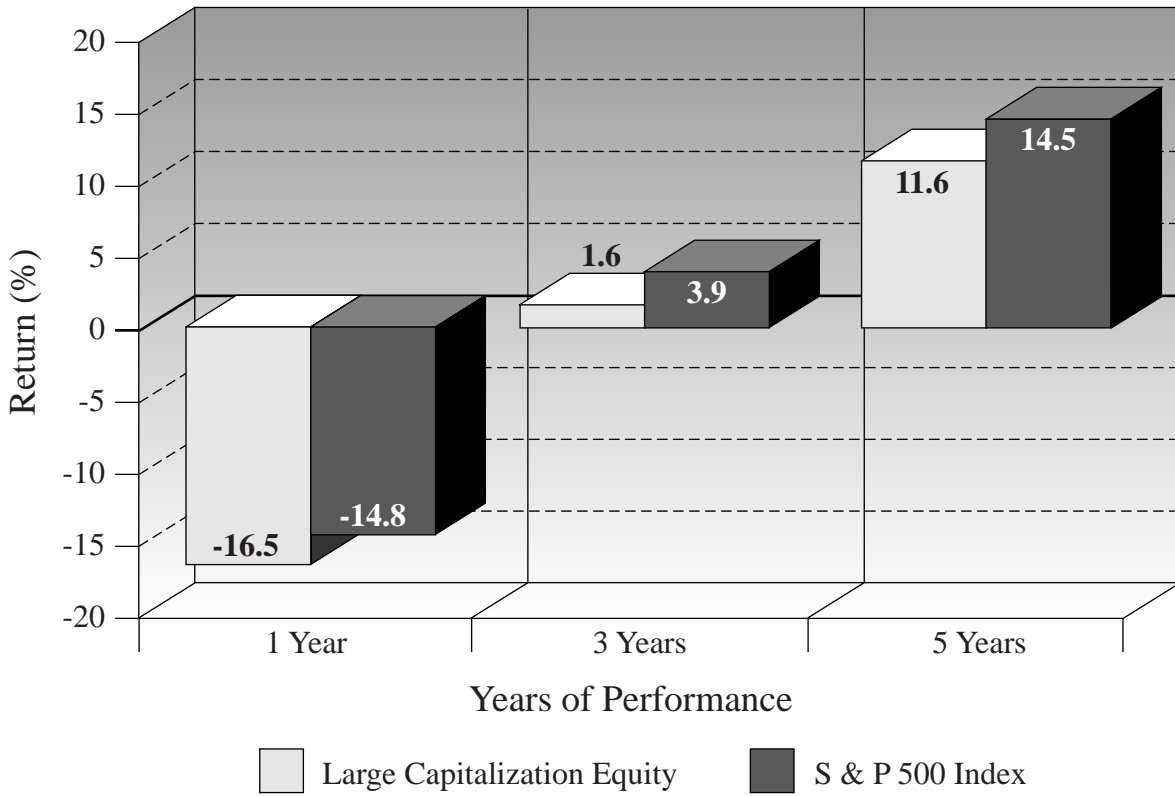


Real Estate Distribution by Strategy as of June 30, 2001

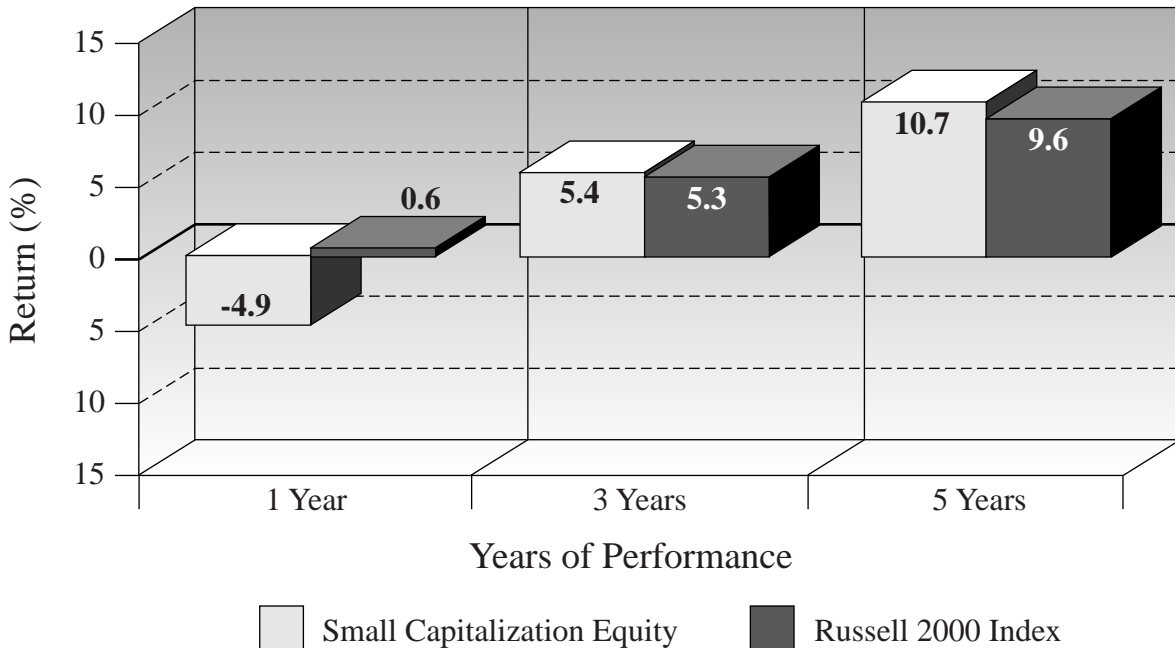


Comparative Investment Returns Ending June 30, 2001

Large Capitalization Equity

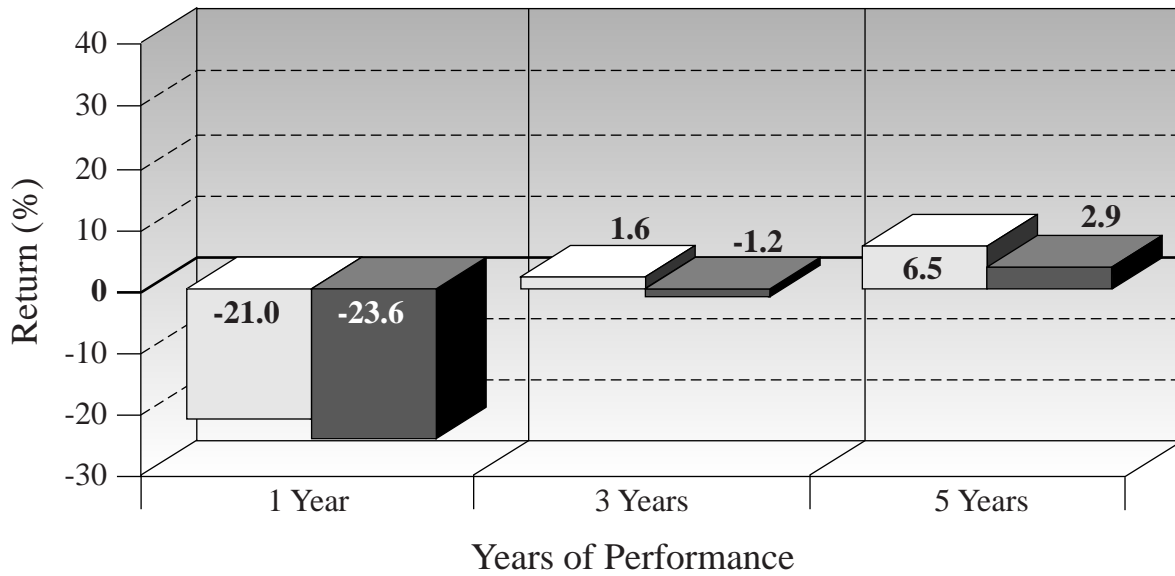


Small Capitalization Equity



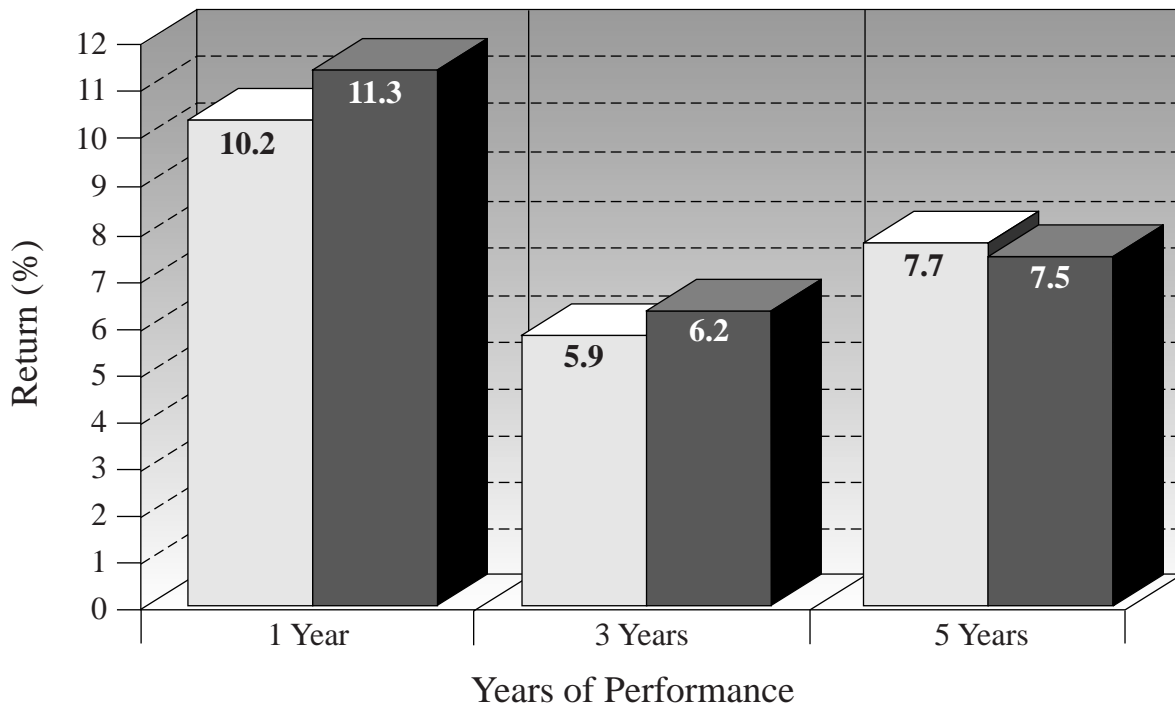
Comparative Investment Returns Ending June 30, 2001

International / Global / Emerging Equity



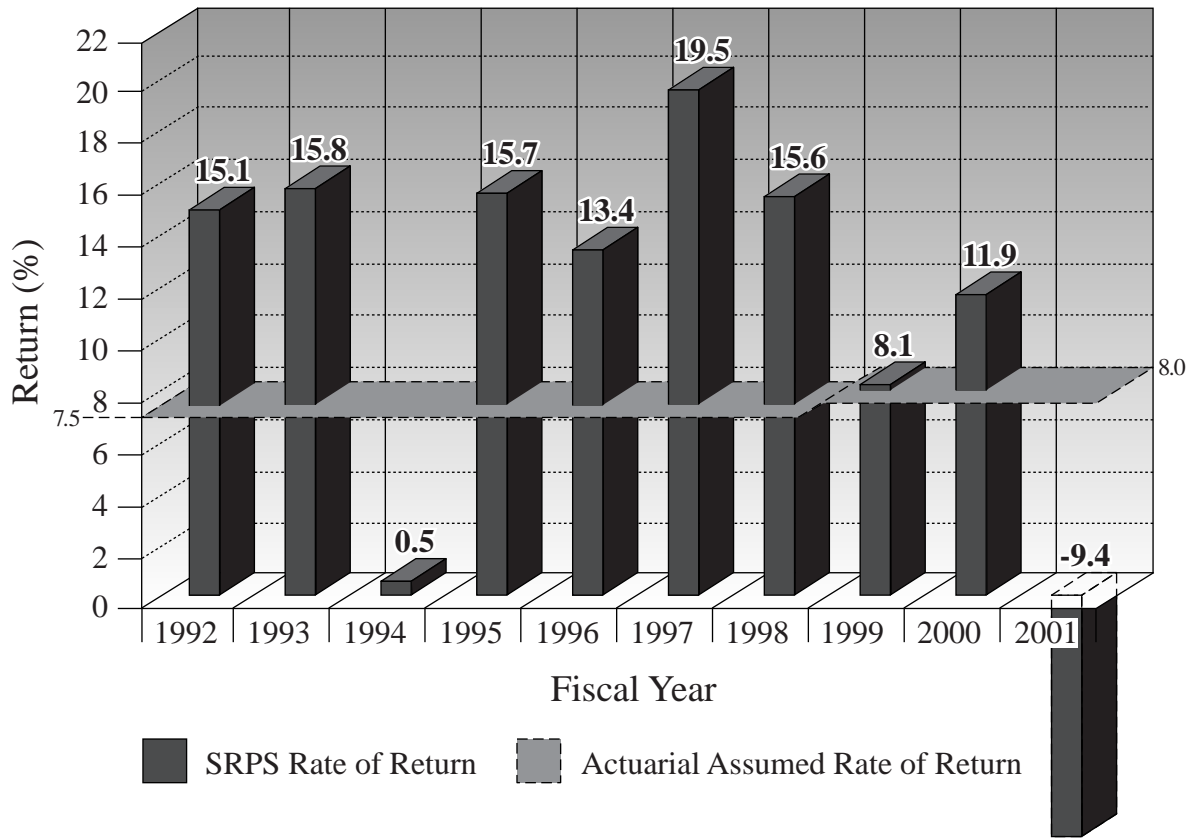
International / Global / Emerging Equity Portfolio Performance
 International / MSCI EAFE Index

Fixed Income

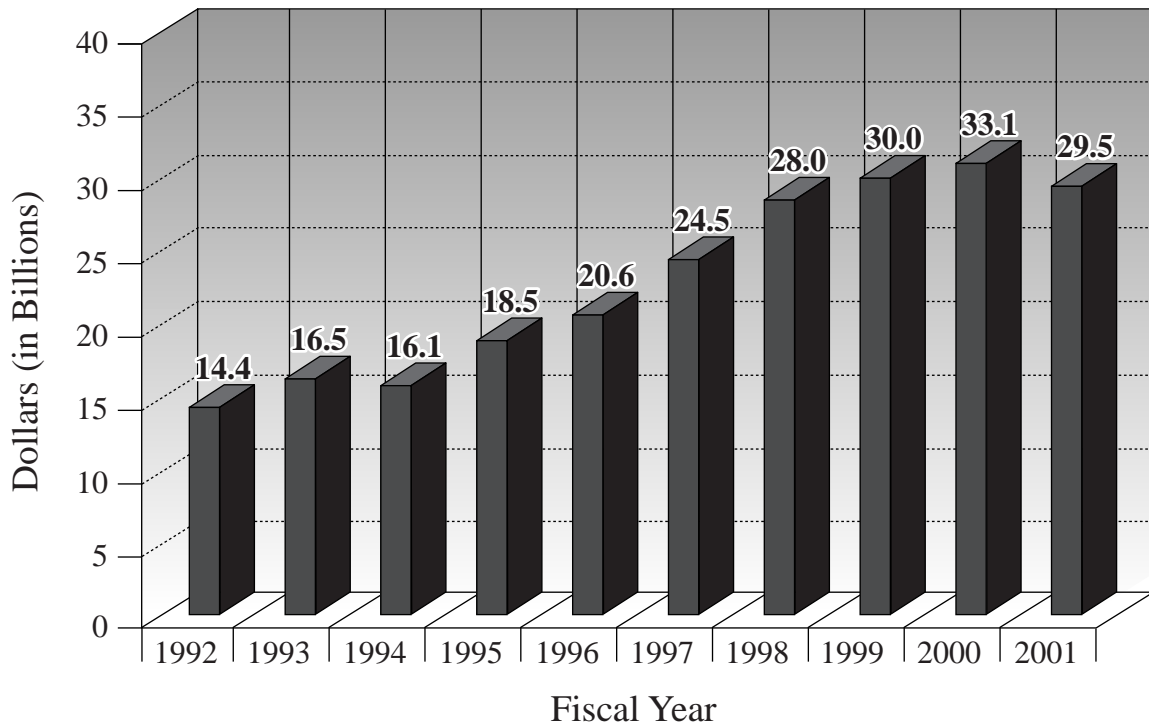


Fixed Income Portfolio Performance
 Salomon Broad Investment Grade Index

Ten-Year History of Time-Weighted Annual Returns



Ten-Year Growth of Investment Portfolio



Largest 25 Holdings as of June 30, 2001

EQUITY INCOME SECURITIES:	No. of Shares	Fair Value
General Electric Company	8,206,485	\$ 400,066,144
Microsoft Corporation	4,430,682	323,439,786
Pfizer, Inc.	5,210,897	208,696,425
International Business Machines Corporation	1,692,014	191,197,582
Wal-Mart Stores, Inc.	3,772,590	184,102,392
Intel Corporation	5,589,387	163,489,570
Citigroup, Inc.	2,863,350	151,299,414
Exxon Corporation	1,611,850	140,795,098
America Online, Inc. Del.	2,614,484	138,567,652
Johnson & Johnson	2,735,731	136,786,550
Merck & Co., Inc.	1,911,463	122,161,600
ING Groep NV	1,823,958	119,204,565
SBC Communications Inc.	2,853,966	114,329,878
Cisco Systems, Inc.	5,938,716	108,084,631
Vodafone Airtouch	48,561,421	107,567,473
Shell Transport & Trading Co.	12,929,983	107,471,783
Philip Morris Companies, Inc.	2,074,600	105,285,950
Federal National Mortgage Association	1,122,206	95,555,841
Coca-Cola Company	2,070,226	93,160,170
GlaxoSmithKline	3,308,991	93,075,334
Oracle Corporation	4,769,865	90,627,435
Bristol-Myers Squibb Co.	1,726,929	90,318,387
Tyco International Ltd.	1,645,818	89,697,081
Home Depot, Inc.	1,922,789	89,505,828
American International Group, Inc.	1,038,672	89,325,792
TOTAL		<u>\$3,553,812,361</u>

FIXED INCOME SECURITIES:	Par	Fair Value
Federal Home Loan Bank, 5.80% due Sept. 2, 2008	\$ 239,350,000	\$ 236,844,006
GNMA I TBA, 7.50% due Dec. 31, 2099	207,500,000	212,751,825
Federal National Mortgage Assn. Princ. Strip, 0.00% due Feb. 15, 2008	265,500,000	182,241,855
Federal National Mortgage Assn. Remic, 6.50% due Dec. 25, 2022	141,149,000	144,059,492
Grand Metro Investment Corp., 0.00% due Jan. 6, 2004	129,725,000	112,592,219
United States Treasury Notes, 6.50% due May 31, 2002	100,000,000	102,344,000
United States Treasury Bonds, 6.25% due May 15, 2030	93,370,000	98,709,830
United States Treasury Bonds, 12.00% due Aug. 15, 2013	70,550,000	97,667,304
Federal National Mortgage Assn., 7.25% due May 15, 2030	80,000,000	86,587,200
Citibank Credit Card Master Trust, 6.3231% due Aug. 15, 2006	101,500,000	85,827,101
United States Treasury Notes, 5.625% due Feb. 15, 2006	81,500,000	83,689,905
Federal Home Loan Mortgage Corp., 8.0714% due Nov. 15, 2021	71,565,000	75,948,356
Federal Home Loan Mortgage Corp., 5.125% due Oct. 15, 2008	79,500,000	75,699,105
United States Treasury Bonds, 5.50% due Aug. 15, 2028	80,000,000	75,612,800
Federal National Mortgage Assn. Remic, 6.50% due Nov. 18, 2023	63,711,000	64,686,415
Deutsche Ausgleichbk, 5.125% due Sept. 22, 2003	60,000,000	60,390,600
GNMA I TBA, 6.50% due Dec. 15, 2099	60,000,000	59,343,600
Federal Home Loan Mortgage Corp., 6.00% due May 15, 2017	46,200,000	46,041,072
United States Treasury Notes, 4.75% due Nov. 15, 2008	46,000,000	44,390,000
Prudential-Bache CMO Trust, 8.485% due Oct. 20, 2020	38,671,603	40,242,443
Federal Republic of Germany, 5.25% due Jan. 04, 2011	46,140,000	39,673,800
Government Backed Trust, 0.00% due May 15, 2007	55,000,000	39,328,300
GMNA II Pool, 6.50% due Aug. 20, 2029	38,615,896	38,133,198
Federal National Mortgage Assn., 7.125% due Mar. 15, 2007	35,000,000	37,477,300
Federal Home Loan Mortgage Corp., 6.45% due April 29, 2009	37,800,000	37,470,384
TOTAL		<u>\$2,177,752,110</u>

A complete list of portfolio holdings is available upon request.

Commissions to Brokers for the Fiscal Year Ended June 30, 2001

(Expressed in Thousands)

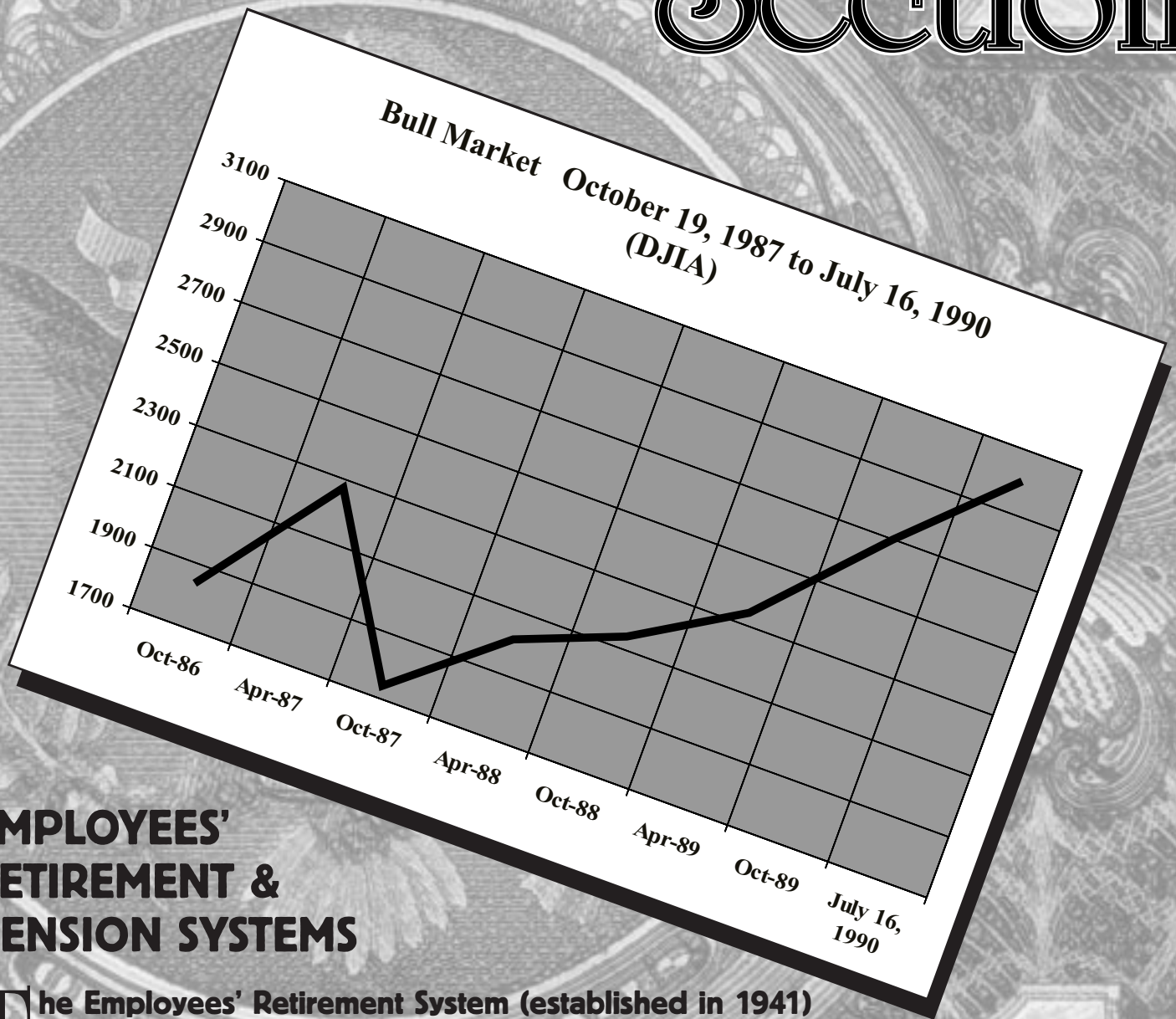
Brokers *	Total Shares	Total Commission	Commission Per Share
Merrill Lynch & Co., Inc.	126,930	\$ 1,428	\$ 0.011
Salomon Smith Barney, Inc.	77,007	985	0.013
Deutsche Bank AG	523,444	708	0.001
Goldman Sachs & Co.	18,424	659	0.036
Morgan Stanley Dean Witter & Co.	31,922	605	0.019
HSBC Securities	29,243	599	0.020
Bear Stearns & Co.	15,398	584	0.038
Lehman Brothers, Inc.	19,942	505	0.025
Kleinwort Benson	17,630	500	0.028
UBS AG	31,680	484	0.015
SBC Warburg	32,765	453	0.014
ABN Amro	16,724	434	0.026
Credit Suisse First Boston	31,431	371	0.012
J.P. Morgan Securities, Inc.	10,624	325	0.031
Credit Lyonnais Securities	9,479	178	0.019
Societe Generale	4,600	166	0.036
Ferris Baker Watts, Inc.	3,063	155	0.051
Jefferies & Co.	2,885	155	0.054
Legg Mason, Inc.	2,904	147	0.051
Exane S. A.	1,060	140	0.132
Warburg Dillon Read	7,243	136	0.019
Weiss Peck and Greer	2,852	134	0.047
Investment Technology Group, Inc.	4,352	117	0.027
SG Cowen Securities Corp.	1,863	111	0.060
Donaldson, Lufkin & Jenrette, Inc.	3,416	107	0.031
ING Baring Securities	3,793	100	0.026
First Union Corp.	1,909	95	0.050
Fox Pitt Kelton, Inc.	1,389	94	0.068
Commerzbank	3,767	91	0.024
Bankers Trust Co.	3,105	88	0.028
Paine Webber Group, Inc.	1,632	83	0.051
Prudential Securities, Inc.	1,719	80	0.047
Cazenove & Co.	12,192	77	0.006
Other broker fees	86,684	2,353	0.027
Total broker commissions	<u>1,143,071</u>	<u>\$ 13,247</u>	\$ 0.012

* Proceeds from the sale and disbursements for the purchase of securities are reported net of brokers' commissions. As such, brokers' commissions are not included as investment expenses on the Statements of Changes in Plan Net Assets. Other broker fees include 170 other brokers each receiving less than \$75,000 in total commissions.



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Actuarial Section



EMPLOYEES' RETIREMENT & PENSION SYSTEMS

The Employees' Retirement System (established in 1941) and the Employees' Pension System (established in 1980) combined account for more than half of all State Retirement and Pension System members. Active membership in the combined employees' systems at the end of 2001 exceeded 87,000 participants. Membership includes all regular employees of the State of Maryland. Over 120 local governmental units have voluntarily joined the system to provide survivor, disability and retirement benefits for their employees. The governor, members of the General Assembly, and state correctional officers are also included as members of the combined employees' systems.



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Board of Trustees
State Retirement and Pension System of Maryland
120 E. Baltimore Street
Baltimore, MD 21202

Dear Members of the Board:

At your request, we conducted our annual actuarial valuation of the State Retirement & Pension System of Maryland as of June 30, 2001. The results of the valuation are contained in the following report.

Funding Objective

The funding objective of the System is to establish contribution rates which, over time, will remain level as a percent of payroll. In order to achieve this, a contribution rate has been determined which will provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus a level percent of payroll amortization of the pre-2001 unfunded liability to the year 2020, and of each subsequent layer of unfunded liability over a 25 year period from the last year it first arises.

Assumptions

The assumptions and methods used in performing this valuation meet the parameters set for disclosure presented in the financial section of the System's Comprehensive Annual Financial Report (CAFR) by Government Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Reliance on Others

In preparing our report, we have relied, without audit, on employee census data and financial information provided by the State Retirement Agency. Census data provided to us by the Agency has been reviewed for reasonableness, and for consistency with the data certified by the System's auditors.

Supporting Schedules

Certain information presented in the System's June 30, 2001 CAFR was derived from our June 30, 2001 actuarial valuation report. In this regard, we were responsible for producing all supporting schedules to be found in the Actuarial Section.

Additionally, we were responsible for producing all data presented in the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to the Required Supplementary Information shown in the Financial Section of the 2001 CAFR.

Certification

I, Gene Kalwarski, am a consulting actuary for Milliman USA. I am also a member of the American Academy of Actuaries and meet their qualification standards to render the actuarial opinion contained herein. On the basis of the foregoing, I certify that, to the best of my knowledge, this report is complete and accurate and has been prepared in accordance with Maryland's Annotated Code and generally recognized and accepted actuarial principles and practices which are consistent with the applicable Guides to Professional Conduct, Amplifying Opinions, and supporting Recommendations and Interpretations of the American Academy of Actuaries.

Sincerely,
Milliman USA

Gene M. Kalwarski, F.S.A.
Principal

Offices In Principal Cities Worldwide

BOARD SUMMARY

Valuation Comments

This report presents the results of the June 30, 2001 actuarial valuation of the State Retirement and Pension System of Maryland (SRPS). The primary purposes of performing the annual actuarial valuation are to:

- determine the contributions to be paid by the State in Fiscal Year 2003;
- measure and disclose, as of the valuation date, the financial condition of the fund;
- indicate trends in the financial progress of the fund;
- provide specific information and documentation required by the Government Accounting Standards Board (GASB).

Actuary's Comments

As a result of Systems assets earning a negative 9.36%, considerably below the 8% assumption, the System has a total unfunded actuarial liability of \$555 million as of June 30, 2001. This compares to a \$369 million surplus measured at the June 30, 2000 valuation. However, in relative terms, the overall System funding ratio of assets to liabilities only fell from 101.2% in 2000, to 98.3% this year. This funded status is substantially better than would have been expected when the State first established the goal to extinguish unfunded liabilities by the year 2020.

Thanks to asset smoothing method changes instituted by the Board last year, which discounted much of the prior decade's asset run-up, the resulting impact from this year's investment performance was minimized. The actuarial, or smoothed, rate of return measured from this past year was a positive 6.0%, or 2% less than our assumption. This investment loss produced an increase in the unfunded liability of \$608 million

more than expected. Combined with a liability loss of \$463 million, due largely to pay increases above assumed levels, results in a total System plan experience net loss of \$1,071 million.

Finally, while the results are not on the favorable side this year, we emphasize again, as we have so often in the past, that financing of any retirement system is a long term proposition, and that annual fluctuations are to be expected, and should not by themselves be cause for concern. We continue to maintain that the overall System's financial condition is healthy, and that there are procedures, assumptions and methods in place, which in our opinion adequately and appropriately finance the emerging long-term liabilities of the System.

The balance of this section summarizes System trends, and provides the principal details on this year's experience.

Prior Year Experience

Assets

Plan assets for this Fund are measured on both a market value and an actuarial or smoothed value basis. The actuarial smoothing method, described in detail in Appendix C, essentially reflects only 20% of a current year's actual market performance. In periods of high returns, this method significantly discounts the amount of asset gains above the assumed return of 8%. Conversely, in periods of returns below assumed, the losses are discounted. The primary advantage of this smoothing technique is contribution stability.

For the plan year ending June 30, 2001, while the Fund earned a negative 9.36% on a market value basis, on a smoothed basis, the return was a positive 6.0%. While on a market basis, the Fund experienced an investment loss of \$5,700 million, the actuarial or smoothed basis produced a loss of \$608 million. The specific changes between the prior year amounts and this year's are presented below.

Item (In Millions)	Market Value	Actuarial Value
June 30, 2000 value	\$33,111	\$30,649
Employer Contributions	634	634
Member Contributions	190	190
Benefit Payments	(1,380)	(1,380)
Expected Investment Earnings (8%)	2,627	2,430
Expected Value June 30, 2001	\$35,182	\$32,523
INVESTMENT GAIN (LOSS)	(5,700)	(608)
June 30, 2001 value	\$29,482	\$31,915

Liabilities

Three different measures of liabilities are calculated for this fund: a total value of future obligations (PVB), an actuarial liability (EAN), and an accounting liability (PVAB). Only the actuarial liability is analyzed in terms of a gain or loss experience, which then is used to determine the System's funding and accounting (GASB) disclosures. During the plan year ending in 2001, the actuarial liabilities experienced an overall loss of \$463 million, which is 1.4% of the total actuarial liability being measured. The primary cause for liability experience being worse than anticipated this past year, were pay increases. We will continue to monitor gains and losses to ensure there is no significant pattern.

LIABILITIES (In Millions)	Total Value (PVB)	Actuarial (EAN)	Accounting (PVAB)
June 30, 2000	\$36,575	\$30,280	\$24,283
June 30, 2001	\$39,203	\$32,470	\$26,323

Unfunded Liabilities and Funding Ratios

The difference between assets and liabilities is the unfunded liability. This is measured in two ways: unfunded actuarial liabilities, which compare the actuarial liabilities to the actuarial asset value, and unfunded accrued benefits, which compare the present value of benefits accrued as of the valuation date to the market value of assets. These amounts are shown for June 30, 2000 and June 30, 2001, as well as the corresponding funding ratios for each (assets divided by liabilities).

(In Millions)	Actuarial	PVAB
June 30, 2000 Net (Surplus) Unfunded	(\$369)	(\$8,827)
Funding Ratio	101.2%	136.4%
June 30, 2001 Net (Surplus) Unfunded	\$555	(\$3,159)
Funding Ratio	98.3%	112.0%

Contributions

In this summary, we present the overall State contribution rate, and compare it to the rate developed in the June 30, 2000 actuarial valuation. In summary, due to both investment losses and liability losses, the overall System contribution requirement, payable in FY 2003, has increased by 0.72% of payroll. It is important to note that last year the Board implemented two changes to the funding procedures, an increase in the asset smoothing factor from three to five, and an increase in the amortization period for funding future (including this year's) gains and losses, from the year 2020 to 25 year periods for each year's gain or loss. Had those changes not been implemented the overall System contribution rate increase would have been about doubled, from 0.72% to 1.42%.

Rate as Percent of Covered Payroll	
June 30, 2000 State Rate	7.98%
Increase due to Plan Changes	0.05%
Increase due to Investment Loss (prior to factor change)	0.95%
Increase due to Liability Loss	0.42%
Decrease due to Change in Methods	(0.70%)
June 30, 2001 State Rate	8.70%

Membership

There are four types of plan participants, current active workers, previous terminations who retain a right to a deferred vested benefit, previous terminations who are not vested but have member contributions in the System (inactives), and participants in pay status. Below, we compare totals in each group between June 30, 2000 and 2001.

As shown below, there was an overall increase in participation during the year of 3%.

	6/30/2001	6/30/2000	Change
Active Participants	184,600	179,586	2.8%
Terminated Vested Participants	29,365	28,307	3.7%
Inactive Participants	13,834	14,207	(2.6)%
Participants In Pay Status	84,185	80,773	4.2%
TOTAL PARTICIPANTS	311,984	302,873	3.0%

Trends

One of the best ways to measure or evaluate the financial condition of a pension plan, is to examine the historical trends that are evolving. Below, we present three charts which present trend information from 1993 through the end of 2001, on the System's assets and liabilities, annual cash flows in an out of the fund, and the State contribution rate. Our comments on each follow.

Chart A: ASSET / LIABILITIES

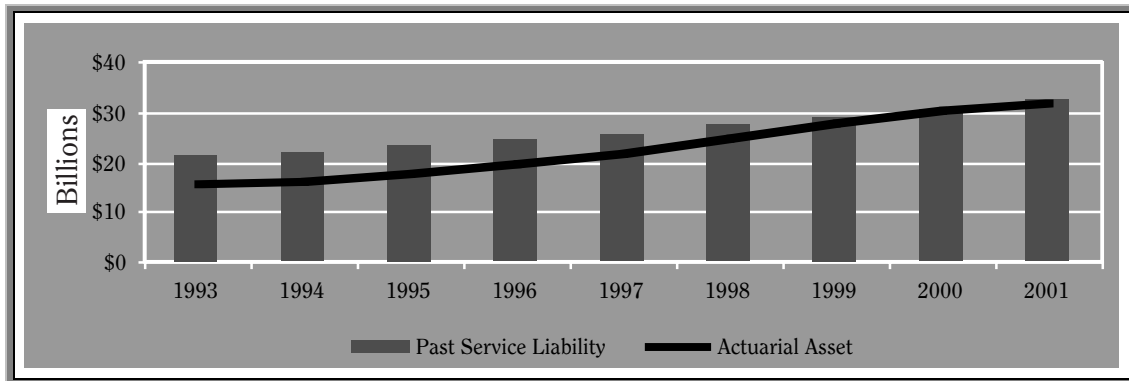


Chart B: CASH FLOWS

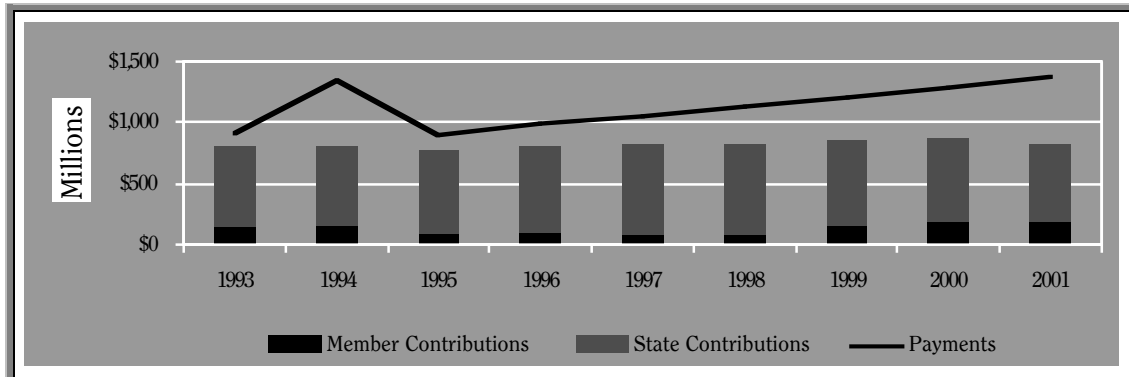
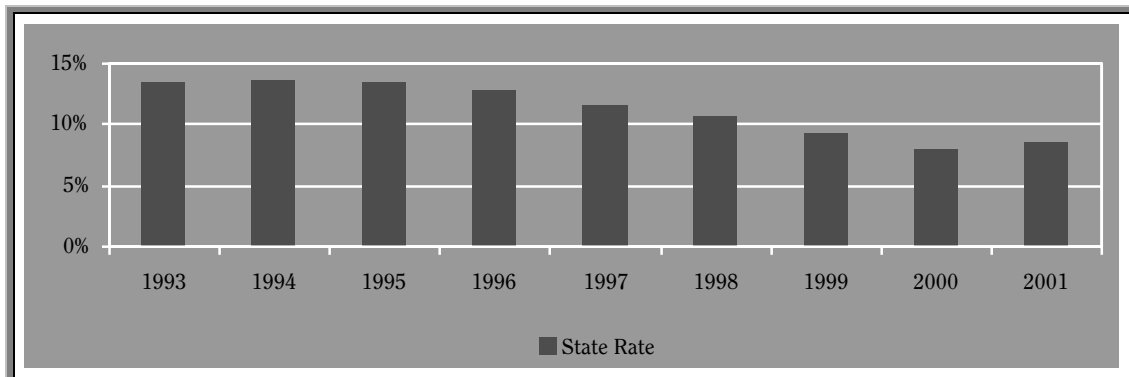


Chart C: STATE CONTRIBUTION RATE



Comments

Chart A places into perspective the aforementioned investment and liability performance losses of this past year. Despite those losses, the ratio of assets to liabilities, which have continuously grown, not just over the period in the chart but since early 1980's, are as of this year, the second best ever for the State.

Chart B presents an emerging trend that will have investment implications. It is a trend being faced by many state-wide retirement systems, with the aging of our baby boomer

generations. Payments to retirees are on the increase. While cash into the fund, from employer and employee contributions are stable or declining. This is not unanticipated, and essentially explains the past need for total fund buildup.

Finally, Chart C, looks only at the State contribution rate which is used each year to determine the upcoming fiscal year State appropriation. It shows the impact of the past decade's sustained investment gains, a continuous lowering of the rate, until this year. Yet even this year's rate is the second lowest over the entire period.

Actuarial Methods and Assumptions

Funding Method

The System uses the entry age normal cost method with projection to determine the actuarial accrued liability on which future employer contribution rates will be based. Under this funding method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded actuarial liability rate.

The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 19-year period to June 30, 2020. The new layer of UAAL which arose during the year ended June 30, 2001 is being amortized over a 25 year period from June 30, 2001.

Asset Valuation Method

Assets are valued for funding purposes using a five-year moving average. Under this method, the year end actuarial asset value equals 1/5 of the current fiscal year end fair value, as reported in the financial statements, plus 4/5 of the "expected market value". For purposes of this calculation, the "expected market value" is the preceding fiscal year's actuarial asset value, adjusted for the current fiscal year's cash flows with interest accumulated at the actuarial assumed rate of return on investments. This asset valuation method was effective beginning in fiscal year 2001.

Actuarial Assumptions

The assumptions used for the actuarial valuation were recommended by the System's independent actuary, based upon periodic analyses of the System's experience, and adopted by the Board of Trustees. Differences between assumed and actuarial experience (i.e., actuarial gains and losses) are part of the unfunded actuarial liability. The following significant assumptions were used in the actuarial valuation as of June 30, 2001:

- a rate of return on investments of 8 percent compounded annually (adopted June 30, 1998);
- projected salary increases of 5 percent compounded annually, attributable to inflation (adopted June 30, 1988);
- additional projected salary increases ranging from 0.94 percent to 6.82 percent per year attributable to seniority and merit (adopted June 30, 1988);
- post-retirement benefit increases ranging from 3 percent to 6 percent per year depending on the system (adopted June 30, 1982);
- rates of mortality, termination of service, disablement and retirement based on actual experience during the period from 1981 through 1996 (adopted June 30, 1998); and
- an increase in the aggregate active member payroll of 5 percent annually (adopted June 30, 1988).

Accounting Statement Information

The Total Systems of the State of Maryland

	2001	2000
A. FASB #35 basis		
1. Present value of benefits accrued to date:		
a. Members currently receiving payments	\$ 15,373,574,031	\$ 14,077,502,697
b. Former vested members	566,159,109	559,162,255
c. Active members	<u>10,383,223,591</u>	<u>9,646,684,674</u>
2. Total present value of accrued benefits (1 (a) + 1 (b) + 1 (c))	26,322,956,731	24,283,349,626
3. Assets at market value	<u>29,481,509,782</u>	<u>33,110,690,456</u>
4. Unfunded value of accrued benefits (2-3)	<u>\$ (3,158,553,061)</u>	<u>\$ (8,827,340,830)</u>
5. Ratio of assets to value of benefits (3/2)	112.00%	136.35%
B. GASB #25 basis		
1. Actuarial accrued liabilities for retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 15,939,733,140	\$ 14,636,664,952
2. Actuarial accrued liabilities for current employees	<u>16,530,208,653</u>	<u>15,643,201,778</u>
3. Total actuarial accrued liability (1+2)	32,469,941,793	30,279,866,730
4. Net actuarial assets available for benefits	<u>31,914,778,425</u>	<u>30,649,380,445</u>
5. Unfunded actuarial accrued liability (3-4)	<u>\$ 555,163,368</u>	<u>\$ (369,513,715)</u>

Summary of Unfunded Actuarial

Valuation Date June 30,	Actuarial Liabilities For				Actuarial Value of Assets
	Active Member Contributions	Retirees, Term Vested and Inactives	Active Members Employer Fin. Portion	Total Liabilities	
1992	\$ 1,521,360,035	\$ 8,367,721,533	\$ 10,113,691,911	\$ 20,002,773,479	\$ 14,381,367,328
1993	1,522,095,569	9,214,710,929	10,438,449,084	21,175,255,582	15,684,924,051
1994	1,466,974,205	9,994,023,038	10,414,465,996	21,875,463,239	16,272,576,616
1995	1,503,414,664	10,622,091,333	10,967,030,922	23,092,536,919	17,666,581,953
1996	1,538,891,321	11,552,405,340	11,149,586,097	24,240,882,758	19,455,279,738
1997	1,502,991,713	12,714,514,210	11,165,702,737	25,383,208,660	21,920,695,723
1998	1,505,629,954	12,866,065,299	13,045,239,668	27,416,934,921	24,850,355,227
1999	1,580,530,209	13,583,779,499	13,311,070,338	28,475,380,046	27,646,578,997
2000	1,662,397,147	14,636,664,952	13,980,804,631	30,279,866,730	30,649,380,445
2001	1,752,989,299	15,939,733,140	14,777,219,354	32,469,941,793	31,914,778,425

Summary of Retirees and Beneficiaries Added to and Removed from Rolls

Fiscal Year Ended	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase in Annual Allowances	Average Annual Allowance
	Number	Annual Allowance	Number	Annual Allowances	Number	Annual Allowances		
1992	3,956	\$49,394,903	1,727	\$18,523,007	55,843	\$645,581,071	9.36%	\$11,561
1993	5,207	58,378,258	1,732	8,440,324	59,318	711,531,666	10.22	11,995
1994	4,505	44,993,432	1,933	9,358,981	61,890	772,412,629	8.56	12,480
1995	4,839	43,915,820	2,143	10,702,372	64,594	827,273,808	7.10	12,807
1996	4,784	47,649,016	2,316	11,930,488	67,062	901,855,498	9.02	13,448
1997	7,157	119,374,380	2,731	33,641,211	71,488	987,588,667	9.51	13,815
1998	5,217	90,497,436	2,366	30,768,198	74,339	1,047,317,905	6.05	14,088
1999	5,514	93,034,053	2,375	30,628,858	77,478	1,109,723,100	5.96	14,323
2000	5,758	115,003,079	2,463	31,450,868	80,773	1,211,400,269	7.41	14,998
2001	6,071	145,073,765	2,659	34,172,397	84,185	1,322,301,637	9.15	14,998

Liabilities / Solvency Test

Ratio of Assets to Actuarial Liabilities				Unfunded Actuarial Liability (UAL)	Annualized Payroll (Active Members)	UAL as % of Payroll
Active Member Contributions	Retirees Term Vested and Inactives	Active Members Employer Fin. Portion	Funded Ratio (Assets/Liab. Coverage)			
100 %	100 %	44.42 %	71.90 %	\$ 5,621,406,151	\$ 5,023,780,800	112 %
100	100	47.40	74.07	5,490,331,531	5,064,529,252	108
100	100	46.20	74.39	5,602,886,623	5,246,249,283	107
100	100	50.52	76.50	5,425,954,966	5,532,149,777	98
100	100	57.08	80.26	4,785,603,020	5,640,833,581	85
100	100	68.99	86.36	3,462,512,937	5,657,384,942	61
100	100	80.33	90.64	2,566,579,694	6,148,300,166	42
100	100	93.77	97.09	828,801,049	6,388,973,031	13
100	100	102.64	101.22	(369,513,715)	6,796,240,322	(5)
100	100	96.24	98.29	555,163,368	7,418,720,421	7

Statement of Changes in Total Actuarial Present Value of All Accrued Benefits

(Expressed in Millions)

	Accumulated Benefit Obligation (FASB 35)
Actuarial present value of accrued benefits at June 30, 2000	\$ 24,283
Increase (decrease) during year attributable to:	
Passage of Time	1,889
Benefits Paid - FY 2001	(1,380)
Benefits Accrued, Other Gains/Losses	1,527
Plan Amendment & Changes in Actuarial Assumptions	4
Net Increase	2,040
Actuarial present value of accrued benefits at June 30, 2001	\$ 26,323

Report of the Actuary on the Valuation of the State Retirement and Pension System of Maryland as of June 30, 2001

Summary of Principal Results

	June 30, 2001	June 30, 2000	% Change
1. Participant Data			
Number of:			
Active Members	184,600	179,586	2.8%
Retired Members and Beneficiaries	84,185	80,773	4.2
Vested Deferred Members	29,365	28,307	3.7
Inactive Status Members	13,834	14,207	(2.6)
Total Participants	<u>311,984</u>	<u>302,873</u>	3.0
Annual Salaries of Active Members*	\$ 7,418,720,421	\$ 6,796,240,322	9.2
Annual Retirement Allowances for Retired Members and Beneficiaries	\$ 1,322,301,637	\$ 1,211,400,269	9.2
2. Assets and Liabilities			
Total Actuarial Liability	\$ 32,469,941,793	\$ 30,279,866,730	7.2
Assets for Valuation Purposes	31,914,778,425	30,649,380,445	4.1
Unfunded Actuarial Liability (Surplus)	<u>\$ 555,163,368</u>	<u>(\$ 369,513,715)</u>	250.2
FASB Accrued Liability	\$ 26,322,956,731	\$ 24,283,349,626	8.4
Market Value of Assets	29,481,509,792	33,110,690,456	(11.0)
Unfunded FASB Accrued Liability (Surplus)	<u>(\$ 3,158,553,061)</u>	<u>(\$ 8,827,340,830)</u>	64.2

* Does not include members of State Police and LEOPS who have elected the DROP.

Report of the Actuary on the Twenty-second Annual Valuation of the Teachers' Combined System of the State of Maryland as of June 30, 2001

Summary of Principal Results

	June 30, 2001	June 30, 2000	% Change
1. Participant Data			
Number of:			
Active Members	93,297	90,928	2.6%
Retired Members and Beneficiaries	40,126	38,145	5.2
Vested Deferred Members	11,084	10,614	4.4
Inactive Status Members	6,253	6,103	2.5
Total Participants	<u>150,760</u>	<u>145,790</u>	3.4
Annual Salaries of Active Members	\$ 4,092,041,875	\$ 3,753,095,749	9.0
Annual Retirement Allowances for Retired Members and Beneficiaries	\$ 814,309,146	\$ 744,128,619	9.4
2. Assets and Liabilities			
Total Actuarial Liability	\$ 20,126,942,916	\$ 18,994,293,580	6.0
Assets for Valuation Purposes	<u>19,182,748,593</u>	<u>18,419,538,878</u>	4.1
Unfunded Actuarial Liability	<u>\$ 944,194,323</u>	<u>\$ 574,754,702</u>	64.3
FASB Accrued Liability	\$ 16,578,147,167	\$ 15,318,391,567	8.2
Market Value of Assets	<u>17,757,484,649</u>	<u>19,850,431,279</u>	(10.5)
Unfunded FASB Accrued Liability (Surplus)	<u>(\$ 1,179,337,482)</u>	<u>(\$ 4,532,039,712)</u>	74.0

Report of the Actuary on the Twenty-second Annual Valuation of the Employees' Combined System of the State of Maryland as of June 30, 2001

Summary of Principal Results

	June 30, 2001	June 30, 2000	% Change
1. Participant Data			
Number of:			
Active Members	87,986	85,425	3.0%
Retired Members and Beneficiaries	41,914	40,730	2.9
Vested Deferred Members	18,238	17,655	3.3
Inactive Status Members	7,508	8,051	(6.7)
Total Participants	<u>155,646</u>	<u>151,861</u>	2.5
Annual Salaries of Active Members	\$ 3,146,870,214	\$ 2,870,990,482	9.6
Annual Retirement Allowances for Retired Members and Beneficiaries	\$ 436,065,377	\$ 406,284,042	7.3
2. Assets and Liabilities			
Total Actuarial Liability	\$ 10,789,907,444	\$ 9,907,682,550	8.9
Assets for Valuation Purposes	<u>11,021,958,221</u>	<u>10,593,916,557</u>	4.0
Unfunded Actuarial Liability (Surplus)	<u>(\$ 232,050,777)</u>	<u>(\$ 686,234,007)</u>	66.2
FASB Accrued Liability	\$ 8,427,739,300	\$ 7,761,666,177	8.6
Market Value of Assets	<u>10,163,468,197</u>	<u>11,474,915,353</u>	(11.4)
Unfunded FASB Accrued Liability (Surplus)	<u>(\$ 1,735,728,897)</u>	<u>(\$ 3,713,249,176)</u>	53.3

Report of the Actuary on the Fifty-second Annual Valuation of the State Police Retirement System of the State of Maryland as of June 30, 2001

Summary of Principal Results

	June 30, 2001	June 30, 2000	% Change
1. Participant Data			
Number of:			
Active Members	1,578	1,636	(3.6)%
Retired Members and Beneficiaries	1,518	1,388	9.4
Vested Deferred Members	17	19	(10.5)
Inactive Status Members	7	3	133.3
Total Participants	<u>3,120</u>	<u>3,046</u>	2.4
Annual Salaries of Active Members*	\$ 80,829,245	\$ 82,609,627	(2.2)
Annual Retirement Allowances for Retired Members and Beneficiaries	\$ 48,112,876	\$ 41,224,900	16.7
2. Assets and Liabilities			
Total Actuarial Liability	\$ 993,846,504	\$ 911,272,684	9.1
Assets for Valuation Purposes	<u>1,305,556,360</u>	<u>1,269,417,772</u>	2.9
Unfunded Actuarial Liability (Surplus)	<u>(\$ 311,709,856)</u>	<u>(\$ 358,145,088)</u>	13.0
FASB Accrued Liability	\$ 850,355,817	\$ 801,565,680	6.1
Market Value of Assets	<u>1,191,212,970</u>	<u>1,398,194,639</u>	(14.8)
Unfunded FASB Accrued Liability (Surplus)	<u>(\$ 340,857,153)</u>	<u>(\$ 596,628,959)</u>	42.9

* Does not include members who elected DROP.

Report of the Actuary on the Twenty-second Annual Valuation of the Pension Plan of Judges and Their Surviving Spouses as of June 30, 2001

Summary of Principal Results

	June 30, 2001	June 30, 2000	% Change
1. Participant Data			
Number of:			
Active Members	281	283	(0.7)%
Retired Members and Beneficiaries	297	285	4.2
Vested Deferred Members	13	13	0.0
Inactive Status Members	0	0	0.0
Total Participants	<u>591</u>	<u>581</u>	1.7
Annual Salaries of Active Members	\$ 31,308,984	\$ 30,891,317	1.4
Annual Retirement Allowances for Retired Members and Beneficiaries	\$ 16,348,558	\$ 14,922,496	9.6
2. Assets and Liabilities			
Total Actuarial Liability	\$ 254,913,338	\$ 236,446,486	7.8
Assets for Valuation Purposes	<u>229,022,330</u>	<u>216,374,434</u>	5.9
Unfunded Actuarial Liability	<u>\$ 25,891,008</u>	<u>\$ 20,072,052</u>	29.0
FASB Accrued Liability	\$ 226,739,559	\$ 213,064,248	6.4
Market Value of Assets	<u>211,168,347</u>	<u>230,283,168</u>	(8.3)
Unfunded FASB Accrued Liability (Surplus)	<u>\$ 15,571,212</u>	<u>(\$ 17,218,920)</u>	190.4

Report of the Actuary on the Eleventh Annual Valuation of the Law Enforcement Officers' Pension System of the State of Maryland as of June 30, 2001

Summary of Principal Results

	June 30, 2001	June 30, 2000	% Change
1. Participant Data			
Number of:			
Active Members	1,318	1,130	16.6%
Retired Members and Beneficiaries	309	206	50.0
Vested Deferred Members	9	4	125.0
Inactive Status Members	40	32	25.0
Total Participants	<u>1,676</u>	<u>1,372</u>	22.2
Annual Salaries of Active Members*	\$ 61,930,821	\$ 51,544,069	20.2
Annual Retirement Allowances for Retired Members and Beneficiaries	\$ 7,042,118	\$ 4,464,110	57.8
2. Assets and Liabilities			
Total Actuarial Liability	290,503,784	\$ 214,822,353	35.2
Assets for Valuation Purposes	<u>165,478,453</u>	<u>140,033,780</u>	18.3
Unfunded Actuarial Liability (Surplus)	<u>\$ 124,825,331</u>	<u>(\$ 74,788,573)</u>	66.9
FASB Accrued Liability	\$ 230,671,777	\$ 178,735,677	29.1
Market Value of Assets	<u>149,057,875</u>	<u>146,474,430</u>	1.8
Unfunded FASB Accrued Liability	<u>\$ 81,613,902</u>	<u>\$ 32,261,247</u>	153.0

* Does not include members who elected DROP.

Report of the Actuary on the Eleventh Annual Valuation of the Local Fire and Police System of the State of Maryland as of June 30, 2001

Summary of Principal Results

	June 30, 2001	June 30, 2000	% Change
1. Participant Data			
Number of:			
Active Members	140	138	1.5%
Retired Members and Beneficiaries	21	19	10.5
Vested Deferred Members	4	2	100.0
Inactive Status Members	26	18	44.4
Total Participants	<u>191</u>	<u>177</u>	7.9
Annual Salaries of Active Members	\$ 5,739,282	\$ 5,516,642	4.0
Annual Retirement Allowances for Retired Members and Beneficiaries	\$ 423,562	\$ 376,102	12.6
2. Assets and Liabilities			
Total Actuarial Liability	\$ 13,827,807	\$ 12,920,585	7.0
Assets for Valuation Purposes	<u>9,814,468</u>	<u>8,878,274</u>	10.5
Unfunded Actuarial Liability	<u>\$ 4,013,339</u>	<u>\$ 4,042,311</u>	(0.7)
FASB Accrued Liability	\$ 9,303,111	\$ 8,412,662	10.6
Market Value of Assets	<u>9,117,752</u>	<u>9,135,473</u>	(0.2)
Unfunded FASB Accrued Liability (Surplus)	<u>\$ 185,359</u>	<u>(\$ 722,811)</u>	12.6

Schedule of Active Membership Valuation Data by Plan

Teachers' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1992	24,850	\$ 1,108,905,933	\$ 44,624	1.45 %
1993	22,598	1,029,724,826	45,567	2.11
1994	19,135	887,582,851	46,385	1.80
1995	18,011	877,613,890	48,727	5.05
1996	16,850	843,710,972	50,072	2.76
1997	15,619	799,096,847	51,162	2.18
1998	14,346	760,092,729	52,983	3.56
1999	13,043	717,946,647	55,045	3.89
2000	11,634	670,271,756	57,613	4.67
2001	10,396	654,641,638	62,971	9.30

Teachers' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1992	49,999	\$ 1,554,790,625	\$ 31,096	1.28 %
1993	53,235	1,685,895,609	31,669	1.84
1994	58,898	1,934,173,528	32,839	3.69
1995	61,749	2,108,777,126	34,151	4.00
1996	63,818	2,221,492,064	34,810	1.93
1997	66,978	2,352,121,326	35,118	0.88
1998	71,435	2,559,167,548	35,825	2.01
1999	75,578	2,858,920,323	37,827	5.59
2000	79,297	3,082,823,993	38,878	2.78
2001	82,901	3,437,400,237	41,464	6.65

Employees' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1992	17,855	\$ 546,938,058	\$ 30,632	0.79 %
1993	16,775	517,025,369	30,821	0.62
1994	15,852	491,015,282	30,975	0.50
1995	15,306	491,241,364	32,095	3.62
1996	14,850	490,784,260	33,049	2.97
1997	13,469	445,726,994	33,093	0.13
1998	13,149	439,012,253	33,388	0.89
1999	12,657	442,912,527	34,993	4.81
2000	12,213	449,491,594	36,804	5.18
2001	11,962	467,982,863	39,122	6.30

Schedule of Active Membership Valuation Data by Plan

(continued)

Employees' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1992	67,118	\$ 1,717,196,225	\$ 25,585	0.79 %
1993	67,447	1,737,891,857	25,767	0.71
1994	69,653	1,837,305,530	26,378	2.37
1995	71,328	1,955,054,635	27,409	3.91
1996	70,215	1,984,030,014	28,257	3.09
1997	68,195	1,953,776,617	28,650	1.39
1998	68,893	2,009,168,386	29,164	1.79
1999	70,426	2,216,109,788	31,467	7.90
2000	73,212	2,421,498,888	33,075	5.11
2001	76,024	2,678,887,451	35,237	6.54

Judges' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1992	260	\$ 22,213,378	\$ 85,436	0.70 %
1993	264	22,605,184	85,626	0.22
1994	266	22,831,506	85,833	0.24
1995	260	23,063,700	88,707	3.35
1996	264	23,917,131	90,595	2.13
1997	268	25,007,240	93,311	3.00
1998	273	25,552,537	93,599	0.31
1999	283	30,307,258	107,093	14.42
2000	283	30,891,317	109,157	1.93
2001	281	31,308,984	111,420	2.07

State Police Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1992	1,676	\$ 61,225,453	\$ 36,531	0.10 %
1993	1,583	58,001,744	36,640	0.30
1994	1,584	59,097,769	37,309	1.83
1995	1,577	60,677,175	38,476	3.13
1996	1,544	60,823,269	39,393	2.38
1997	1,588	62,936,492	39,633	0.61
1998	1,635	70,663,067	43,219	9.05
1999	1,647	78,780,262	47,833	10.68
2000	1,636	82,609,627	50,495	5.56
2001	1,578	80,829,245	51,223	1.44

Schedule of Active Membership Valuation Data by Plan

(continued)

Law Enforcement Officers' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1992	249	\$ 9,030,814	\$ 36,268	(0.40%)
1993	277	9,775,208	35,290	(2.70)
1994	277	10,176,944	36,740	4.11
1995	301	11,368,811	37,770	2.80
1996	294	11,645,942	39,612	4.88
1997	317	12,904,416	40,708	2.77
1998	755	30,511,663	40,413	(0.72)
1999	862	37,305,049	43,277	7.09
2000	1,130	51,544,069	45,614	5.40
2001	1,318	61,930,821	46,988	3.01

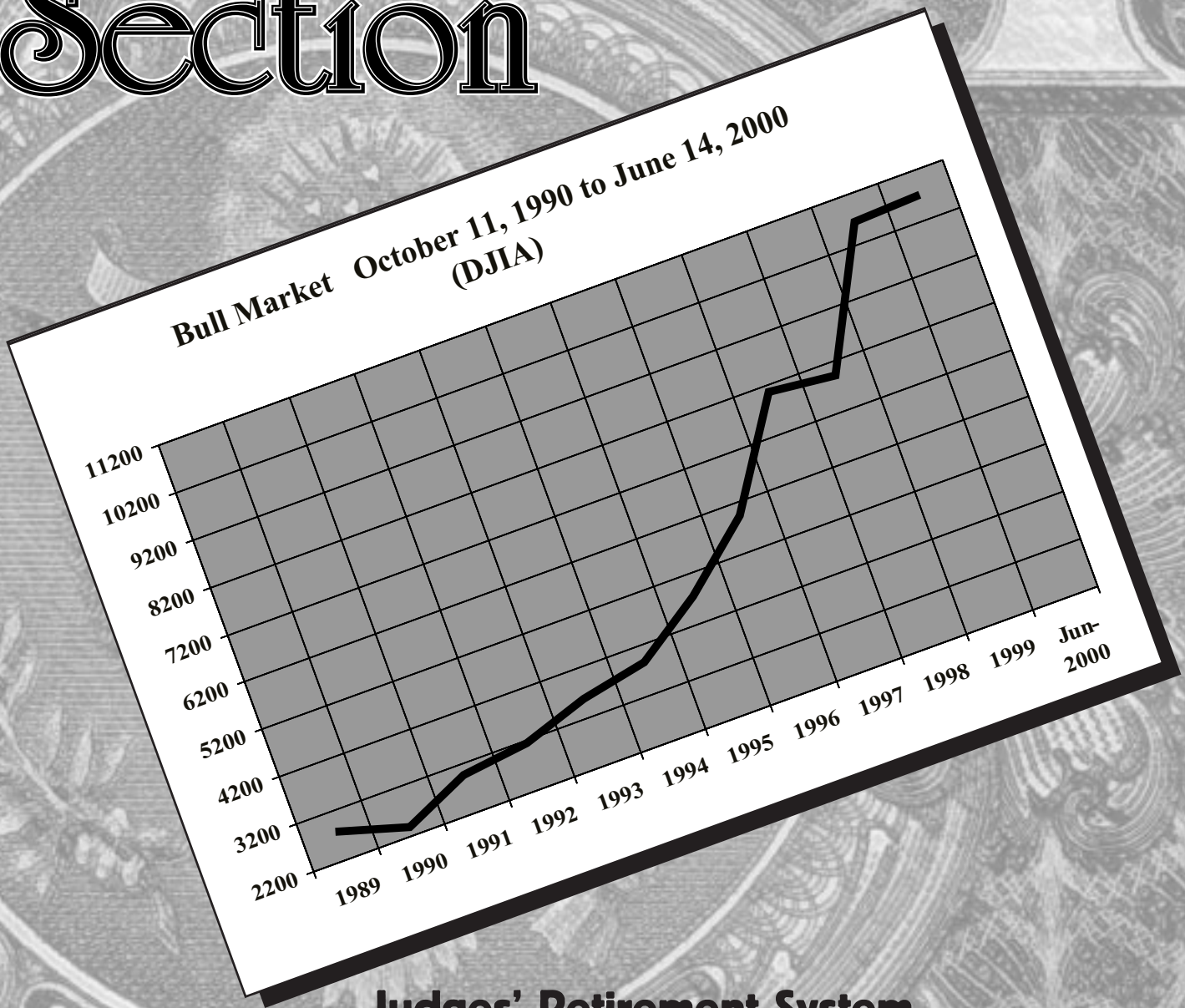
Local Fire and Police

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1992	116	\$ 3,480,314	\$ 30,003	(4.26%)
1993	117	3,609,455	30,850	2.82
1994	131	4,065,873	31,037	0.61
1995	134	4,353,076	32,486	4.67
1996	133	4,429,929	33,308	2.53
1997	168	5,815,010	34,613	3.92
1998	177	6,287,842	35,525	2.63
1999	178	6,691,177	37,591	5.82
2000	184	7,109,078	38,636	2.78
2001	140	5,739,282	40,995	6.11



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Statistical Section



Judges' Retirement System

The Judges' Retirement System was established by the General Assembly in 1969. Future survivor, disability and retirement benefits will be provided to its current active membership of 281 participants. The Judicial System of Maryland is responsible for issuing findings of fact and conclusions of law in both criminal and civil matters. Membership includes judges of the District Court, Circuit Court, Court of Appeals and the Court of Special Appeals, as well as State Workers' Compensation Commissioners.

Schedule of Retired Members by Type as of June 30, 2001

Amount of Monthly Benefit	Number of Retirees	Type of Retirement						
		1	2	3	4	5	6	7
\$ 1 - 300	13,985	10,328	1,250	939	32	51	1,047	338
301 - 600	13,624	8,661	1,514	1,029	86	60	1,967	307
601 - 900	10,666	7,024	1,139	706	96	143	1,387	171
901 - 1,200	9,295	6,242	1,109	524	110	288	917	105
1,201 - 1,500	7,805	5,159	1,242	353	87	321	593	50
1,501 - 1,800	6,767	4,516	1,161	280	100	271	410	29
1,801 - 2,100	5,829	4,126	906	175	78	256	274	14
2,101 - 2,400	5,153	4,014	626	128	42	153	182	8
2,401 - 2,700	4,124	3,515	309	86	35	113	58	8
2,701 - 3,000	2,524	2,144	188	55	27	83	25	2
Over 3,000	4,413	3,799	173	167	30	206	32	6
	<u>84,185</u>	<u>59,528</u>	<u>9,617</u>	<u>4,442</u>	<u>723</u>	<u>1,945</u>	<u>6,892</u>	<u>1,038</u>

Type of Retirement:

- 1 - Normal retirement for age and service
- 2 - Early retirement
- 3 - Survivor payment - normal or early retirement
- 4 - Survivor payment - death in service
- 5 - Accidental disability retirement
- 6 - Ordinary disability retirement
- 7 - Survivor payment - disability retirement

Schedule of Benefit Expense by Type (Expressed in Thousands)

Fiscal Year	Age & Service Benefits		Death In Service Pre- Retirement	Disability Benefits			Death After Retirement Post - Retirement	Total
	Retirees	Survivors	Benefits	Retirees		Survivors	Benefits	
				Accidental	Ordinary			
1992	\$ 556,164	\$ 32,000	\$ 6,706	\$ 13,884	\$ 37,017	\$ 2,980	\$ 6,607	\$ 655,358
1993	623,065	35,080	7,051	16,320	39,807	3,593	10,567	735,483
1994	668,488	37,924	7,084	18,458	42,378	3,904	7,669	785,905
1995	713,331	41,036	7,323	20,889	44,764	4,418	12,395	844,156
1996	758,148	44,670	6,863	23,812	48,578	4,885	10,765	897,721
1997	823,755	48,178	6,352	26,419	51,660	5,445	11,294	973,103
1998	887,541	51,908	6,756	28,465	55,661	5,866	11,577	1,047,774
1999	942,736	55,997	6,335	33,788	59,219	6,451	10,560	1,115,086
2000	974,585	62,158	7,372	25,801	96,168	14,073	10,797	1,190,954
2001	1,039,129	66,756	7,561	29,230	103,575	15,599	10,954	1,272,804

of Retirement and Option Selected

Max.	#Option Selected						
	Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt. 5	Opt. 6	Opt. 7
5,368	3,461	1,844	1,274	1,281	325	422	10
4,409	2,947	1,612	1,811	2,012	241	577	15
3,119	1,927	1,416	1,545	1,989	185	473	12
2,428	1,516	1,481	1,466	1,740	215	442	7
1,987	1,278	1,357	1,178	1,372	214	411	8
1,801	1,006	1,125	1,023	1,294	154	355	9
1,833	738	911	852	1,151	111	224	9
1,548	634	808	785	1,012	105	252	9
1,339	509	478	649	909	49	185	6
909	269	289	405	528	27	86	11
1,655	364	584	838	798	41	114	19
<u>26,396</u>	<u>14,649</u>	<u>11,905</u>	<u>11,826</u>	<u>14,086</u>	<u>1,667</u>	<u>3,541</u>	<u>115</u>

Option Selected:

- Max. - At member's death, all payments cease. Surviving beneficiary(ies) will receive pro-rated payment for the number of days in the final month.
- Opt. 1 - Guarantees return of the present value of the retirement benefit less the total payments already paid to the member.
- Opt. 2 - Guarantees the same payment to the designated beneficiaries for their lifetime.
- Opt. 3 - Guarantees one half the member's payment to the designated beneficiaries for their lifetime.
- Opt. 4 - Guarantees return of the member's accumulated contributions and interest less the member's accumulated reserves already paid.
- Opt. 5 - Guarantees the same payment to the designated beneficiaries for their lifetime, unless the beneficiaries predecease the respective members. Allowance then increases to the maximum.
- Opt. 6 - Guarantees one half the member's payment to the designated beneficiaries for their lifetime, unless the beneficiaries predecease the respective members. Allowance then increases to the maximum.
- Opt. 7 - Special option calculation performed by actuary.

Summary of Membership

	Total	Teachers' Retirement	Teachers' Pension	*Employees' Retirement
From 7/1/96 to 6/30/97				
Active Members	166,602	15,619	66,978	13,469
Average Annual Salary	\$ 33,957	\$ 51,163	\$ 35,118	\$ 33,092
Retired Members	71,488	27,330	5,481	25,882
Average Annual Retirement Allowances	\$ 13,815	\$ 19,704	\$ 10,560	\$ 10,992
Vested Former Members	35,966	2,062	11,681	1,443
From 7/1/97 to 6/30/98				
Active Members	170,663	14,346	71,435	13,149
Average Annual Salary	\$ 34,574	\$ 52,983	\$ 35,825	\$ 33,388
Retired Members	74,339	27,841	6,499	25,827
Average Annual Retirement Allowances	\$ 14,088	\$ 20,311	\$ 10,513	\$ 11,411
Vested Former Members	37,476	1,965	12,442	1,372
From 7/1/98 to 6/30/99				
Active Members	174,674	13,043	75,578	12,657
Average Annual Salary	\$ 36,577	\$ 55,045	\$ 37,827	\$ 34,993
Retired Members	77,478	28,383	7,674	25,730
Average Annual Retirement Allowances	\$ 14,557	\$ 21,170	\$ 10,945	\$ 11,917
Vested Former Members	39,665	1,906	13,304	1,377
From 7/1/99 to 6/30/00				
Active Members	179,586	11,634	79,294	12,213
Average Annual Salary	\$ 37,844	\$ 57,613	\$ 38,878	\$ 36,804
Retired Members	80,773	29,061	9,084	25,489
Average Annual Retirement Allowances	\$ 14,998	\$ 22,050	\$ 11,376	\$ 12,394
Vested Former Members	42,514	1,857	14,860	1,401
From 7/1/00 to 6/30/01				
Active Members	184,600	10,396	82,901	11,962
Average Annual Salary	\$ 40,188	\$ 62,971	\$ 41,464	\$ 39,122
Retired Members	84,185	29,599	10,527	25,212
Average Annual Retirement Allowances	\$ 15,707	\$ 23,282	\$ 11,893	\$ 13,137
Vested Former Members	43,199	1,730	15,607	1,350

* Includes members of the Maryland General Assembly and correctional officers.

Data by Plan

Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Fire and Police
68,195	268	1,588	317	168
\$ 28,650	\$ 93,311	\$ 39,633	\$ 40,708	\$ 34,613
11,221	273	1,175	117	9
\$ 5,400	\$ 45,012	\$ 26,592	\$ 21,612	\$ 19,920
20,723	14	22	11	10
68,893	273	1,635	755	177
\$ 29,164	\$ 93,599	\$ 43,219	\$ 40,413	\$ 35,525
12,513	275	1,234	139	11
\$ 5,437	\$ 49,811	\$ 27,462	\$ 21,499	\$ 19,891
21,622	16	24	21	14
70,426	283	1,647	862	178
\$ 31,467	\$ 107,093	\$ 47,833	\$ 43,277	\$ 37,591
13,937	284	1,286	170	14
\$ 5,685	\$ 51,292	\$ 30,026	\$ 21,702	\$ 19,422
22,988	13	29	30	18
73,212	283	1,636	1,130	184
\$ 33,075	\$ 109,157	\$ 50,495	\$ 45,614	\$ 38,636
15,241	285	1,388	206	19
\$ 5,929	\$ 52,360	\$ 29,701	\$ 21,670	\$ 19,795
24,305	13	22	36	20
76,024	281	1,578	1,318	140
\$ 35,237	\$ 111,420	\$ 51,223	\$ 46,988	\$ 40,995
16,702	297	1,518	309	21
\$ 6,278	\$ 55,046	\$ 31,695	\$ 22,790	\$ 20,170
24,396	13	24	49	30

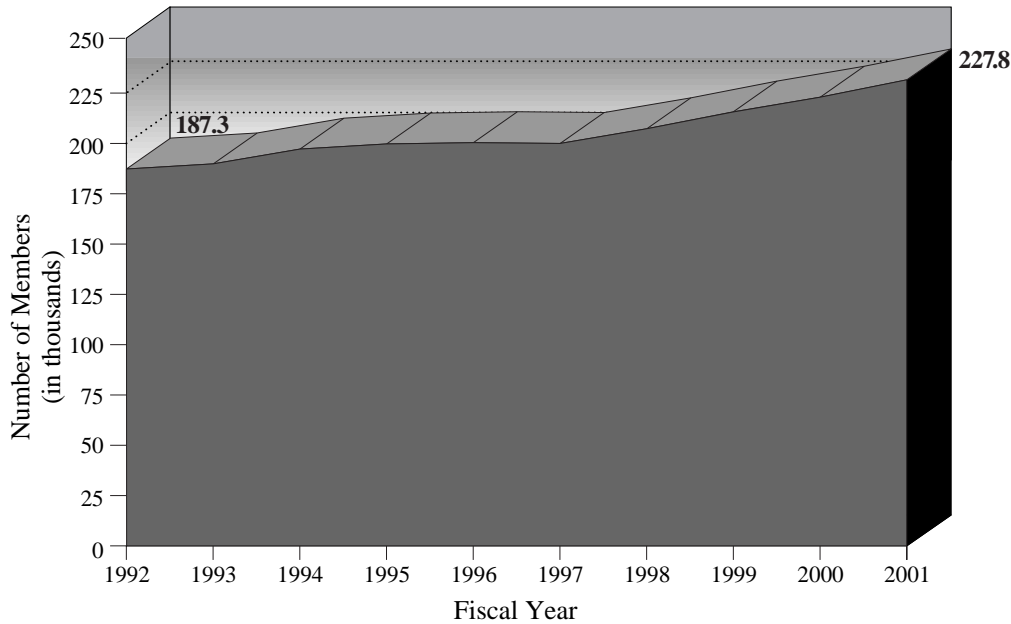
Ten-Year History of Membership by Plan

Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Fire and Police
1992	187,271	27,386	58,328	18,219	81,010	270	1,690	251	117
1993	190,142	25,026	61,915	18,422	82,515	273	1,595	278	118
1994	199,310	21,458	69,582	17,403	88,570	275	1,600	284	138
1995	201,058	20,223	71,941	16,842	89,742	273	1,592	307	138
1996	201,832	18,981	74,673	16,326	89,567	277	1,564	304	140
1997	202,568	17,681	78,659	14,912	88,918	282	1,610	328	178
1998	208,139	16,311	83,877	14,521	90,515	289	1,659	776	191
1999	214,339	14,949	88,882	14,034	93,414	296	1,676	892	196
2000	222,100	13,491	94,154	13,614	97,517	296	1,658	1,166	204
2001	227,799	12,126	98,508	13,312	100,420	294	1,602	1,367	170

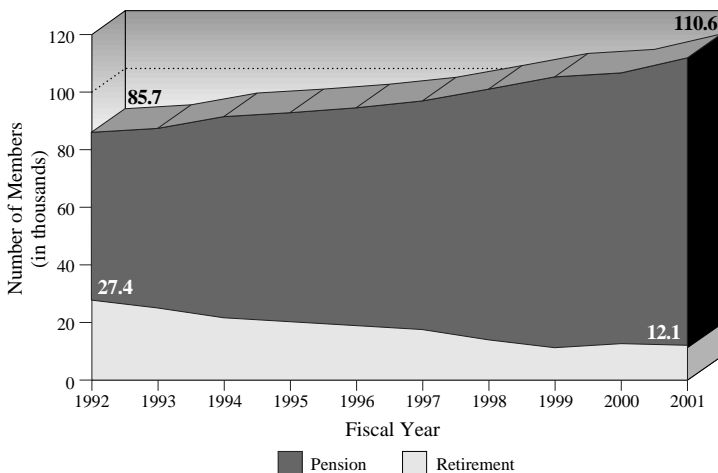
Note: Includes vested former members

* Includes members of the Maryland General Assembly and correctional officers.

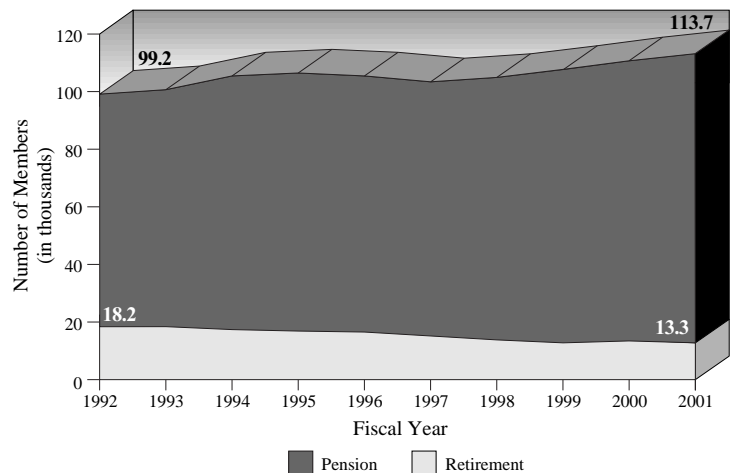
Total System Membership



Membership in Teachers' Plans



Membership in Employees' Plans

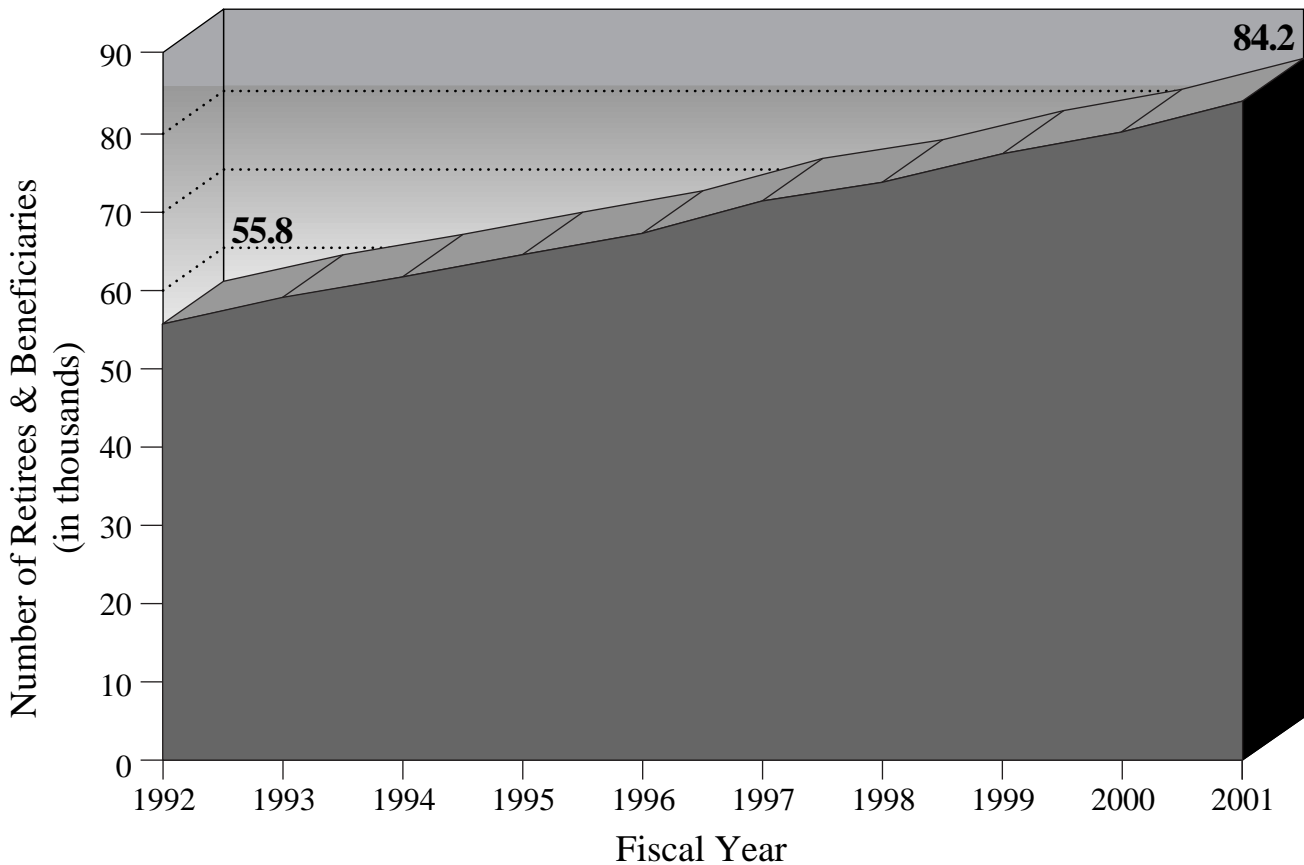


Ten-Year History of Retirees and Beneficiaries by Plan

Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement	
								Officers' Pension	Local Fire and Police
1992	55,843	24,059	1,711	24,136	4,846	226	826	38	1
1993	59,318	25,287	2,276	24,562	5,976	234	920	59	4
1994	61,890	25,887	2,935	24,802	6,972	240	972	76	6
1995	64,594	26,379	3,686	24,994	8,143	251	1,046	87	8
1996	67,062	26,794	4,530	24,946	9,307	260	1,112	104	9
1997	71,488	27,330	5,481	25,882	11,221	273	1,175	117	9
1998	74,339	27,841	6,499	25,827	12,513	275	1,234	139	11
1999	77,478	28,383	7,674	25,730	13,937	284	1,286	170	14
2000	80,773	29,061	9,084	25,489	15,241	285	1,388	206	19
2001	84,185	29,599	10,527	25,212	16,702	297	1,518	309	21

* Includes members of the Maryland General Assembly and correctional officers.

Total System Retirees and Beneficiaries



Ten-Year History of Changes in Fund Balance for the Years Ended June 30, (Expressed in Millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Fund balance, beginning of year	\$12,504.7	\$14,382.8	\$16,505.4	\$16,061.1	\$18,467.3	\$20,755.7	\$24,542.8	\$28,061.2	\$29,985.6	\$33,110.7
Contributions	780.7	769.7	751.1	779.2	809.5	824.7	814.4	855.7	864.9	824.1
Net investment income	1,800.1	2,224.4	90.6	2,497.8	2,436.0	3,985.3	3,782.2	2,225.4	3,487.7	(3,138.8)
Benefit and expense payments	(702.7)	(871.5)	(1,286.0)	(870.8)	(957.1)	(1,022.9)	(1,078.2)	(1,156.7)	(1,227.5)	(1,314.6)
Fund balance, end of year	<u>\$14,382.8</u>	<u>\$16,505.4</u>	<u>\$16,061.1</u>	<u>\$18,467.3</u>	<u>\$20,755.7</u>	<u>\$24,542.8</u>	<u>\$28,061.2</u>	<u>\$29,985.6</u>	<u>\$33,110.7</u>	<u>\$29,481.4</u>

Ten-Year History of Employer Contribution Rates by Plan

Fiscal Year	State						Participating Governmental Units			
	Combined State Contribution Rate	Teachers' Combined Rate	Employees' Combined Rate	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Combined Participating Governmental Unit Contribution Rate	Local Fire and Police	Employees' Retirement	Employees' Pension
1992	13.83 %	16.44 %	8.94 %	56.87 %	26.79 %	34.33 %	7.43 %	16.65 %	9.60 %	6.94 %
1993	13.89	16.31	9.15	54.98	28.72	33.58	7.88	15.43	10.24	7.35
1994	13.40	15.76	8.70	54.25	25.74	32.56	7.64	15.85	11.97	6.76
1995	13.43	15.92	8.70	52.84	19.36	34.07	7.15	16.17	9.43	6.69
1996	13.61	16.22	8.61	52.51	19.13	35.68	7.96	16.31	11.58	7.35
1997	13.50	16.09	8.54	52.56	17.65	35.15	7.92	16.19	10.91	7.46
1998	12.90	15.48	8.21	52.49	13.08	26.27	7.04	16.29	11.96	6.96
1999	11.67	13.99	7.13	52.12	10.91	25.60	6.02	16.42	10.91	5.91
2000	10.70	12.54	7.15	48.18	1.26	22.96	3.83	14.99	8.70	3.70
2001	9.31	10.95	5.71	46.75	8.44	23.38	2.95	15.00	7.81	2.81

Ten-Year History of Revenues by Source and Expenses by Type

(Expressed in Thousands)

REVENUES

Fiscal Year	Members' Contributions	Employers' and Other Contributions	Annual Covered Payroll	Employers' and Other Contributions as a Percent of Covered Payroll	Net Investment Income	Total Revenues
1992	\$ 121,524	\$ 659,128	\$ 5,023,781	13.12 %	\$ 1,800,088	\$ 2,580,740
1993	102,163	667,553	5,064,529	13.18	2,224,444	2,994,160
1994	93,626	657,429	5,246,249	12.53	90,567	841,622
1995	89,835	689,342	5,532,150	12.46	2,497,840	3,277,017
1996	87,862	721,615	5,640,834	12.79	2,436,042	3,245,519
1997	84,444	740,258	5,657,385	13.08	3,985,260	4,809,962
1998	78,609	735,788	6,148,300	11.97	3,782,237	4,596,634
1999	162,342	693,353	6,388,973	10.85	2,225,398	3,081,093
2000	182,507	682,422	6,796,240	10.04	3,487,722	4,352,651
2001	189,769	634,309	7,418,720	8.55	(3,138,763)	(2,314,651)

EXPENSES

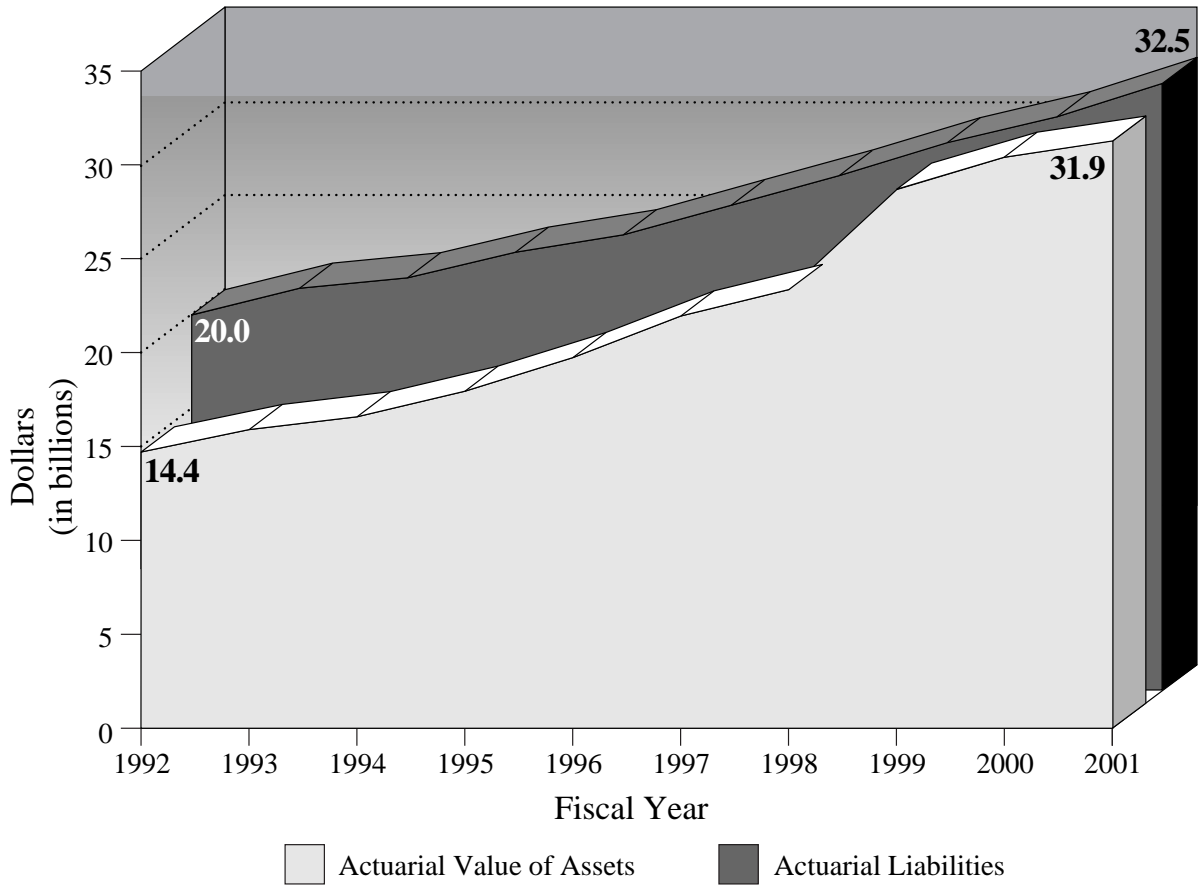
Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
1992	\$ 655,358	\$ 6,813	\$ 40,562	\$ 702,733
1993	735,483	10,399	125,671	871,553
1994	785,905	8,687	491,361	1,285,953
1995	844,156	8,208	18,451	870,815
1996	897,721	8,568	50,871	957,160
1997	973,103	9,717	40,060	1,022,880
1998	1,047,774	10,441	20,007	1,078,222
1999	1,115,086	24,742	16,898	1,156,726
2000	1,190,954	19,751	16,805	1,227,510
2001	1,272,804	24,823	16,977	1,314,604

Contributions Required and Made

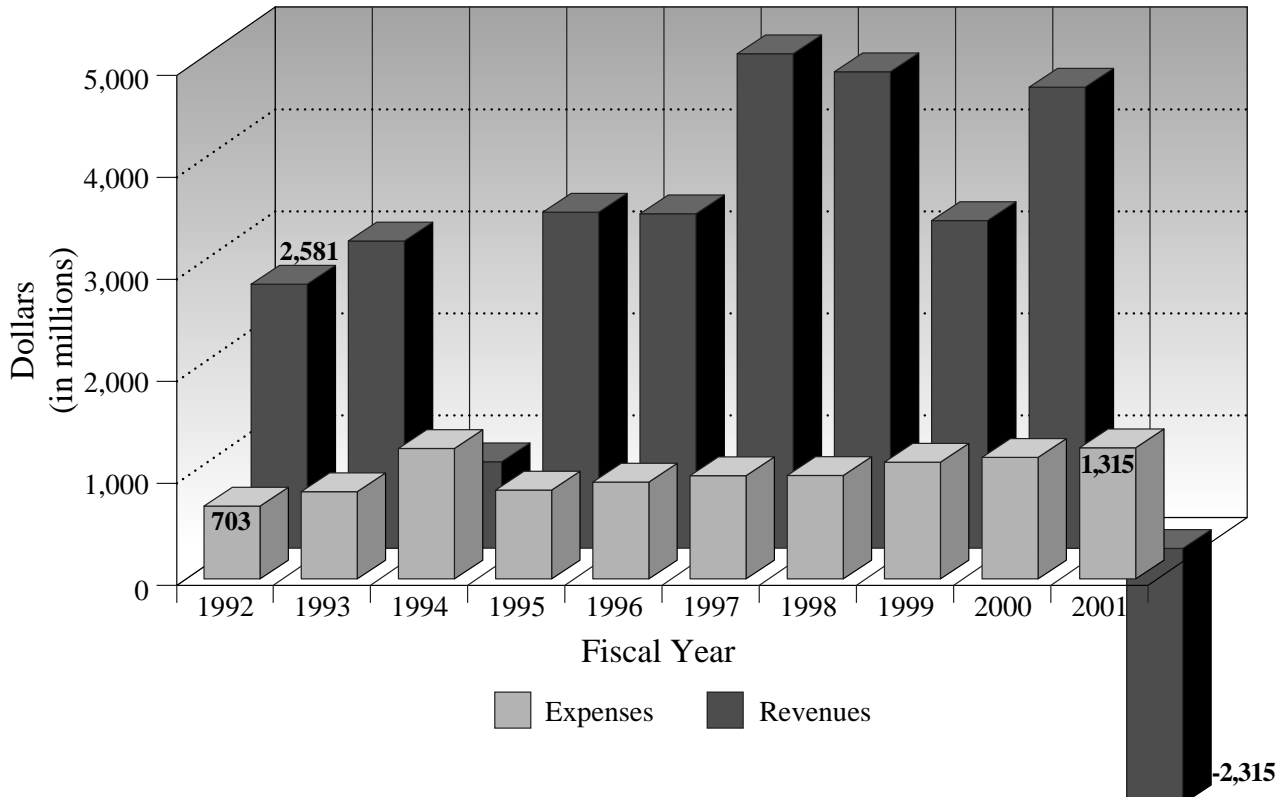
(Expressed in Thousands)

	Teachers' Retirement and Pension	Employees' Retirement and Pension	Judges' Retirement	State Police Retirement	Local Fire and Police	Law Enforcement Officers' Pension	Totals	
							2001	2000
Employer and Other Contributions:								
Normal	\$ 298,422	\$ 242,692	\$ 11,535	\$ 26,535	\$ 598	\$ 9,096	\$ 588,878	\$ 535,044
Unfunded Actuarial Liability	105,001	(46,698)	3,040	(19,644)	207	3,525	45,431	147,378
Total Employer Contributions	<u><u>\$ 403,423</u></u>	<u><u>\$ 195,994</u></u>	<u><u>\$ 14,575</u></u>	<u><u>\$ 6,891</u></u>	<u><u>\$ 805</u></u>	<u><u>\$ 12,621</u></u>	<u><u>\$ 634,309</u></u>	<u><u>\$ 682,422</u></u>
Contribution Rates Expressed as a Percentage of Payroll:								
State:								
Normal	8.10%	6.15%	37.00%	32.50%	-	16.85%	7.94%	7.82%
Unfunded Actuarial Liability	2.85%	-0.44%	9.75%	-24.06%	-	6.53%	1.37%	2.88%
Total State	<u><u>10.95%</u></u>	<u><u>5.71%</u></u>	<u><u>46.75%</u></u>	<u><u>8.44%</u></u>	<u><u>N/A</u></u>	<u><u>23.38%</u></u>	<u><u>9.31%</u></u>	<u><u>10.70%</u></u>
Participating Governmental Units:								
Normal	-	5.15%	-	-	11.15%	-	5.22%	5.22%
Unfunded Actuarial Liability	-	-2.34%	-	-	3.85%	-	-2.27%	-1.39%
Total Municipal	<u><u>N/A</u></u>	<u><u>2.81%</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>15.00%</u></u>	<u><u>N/A</u></u>	<u><u>2.95%</u></u>	<u><u>3.83%</u></u>

Ten-Year History of Funding Progress



Ten-Year History of Revenues vs. Expenses



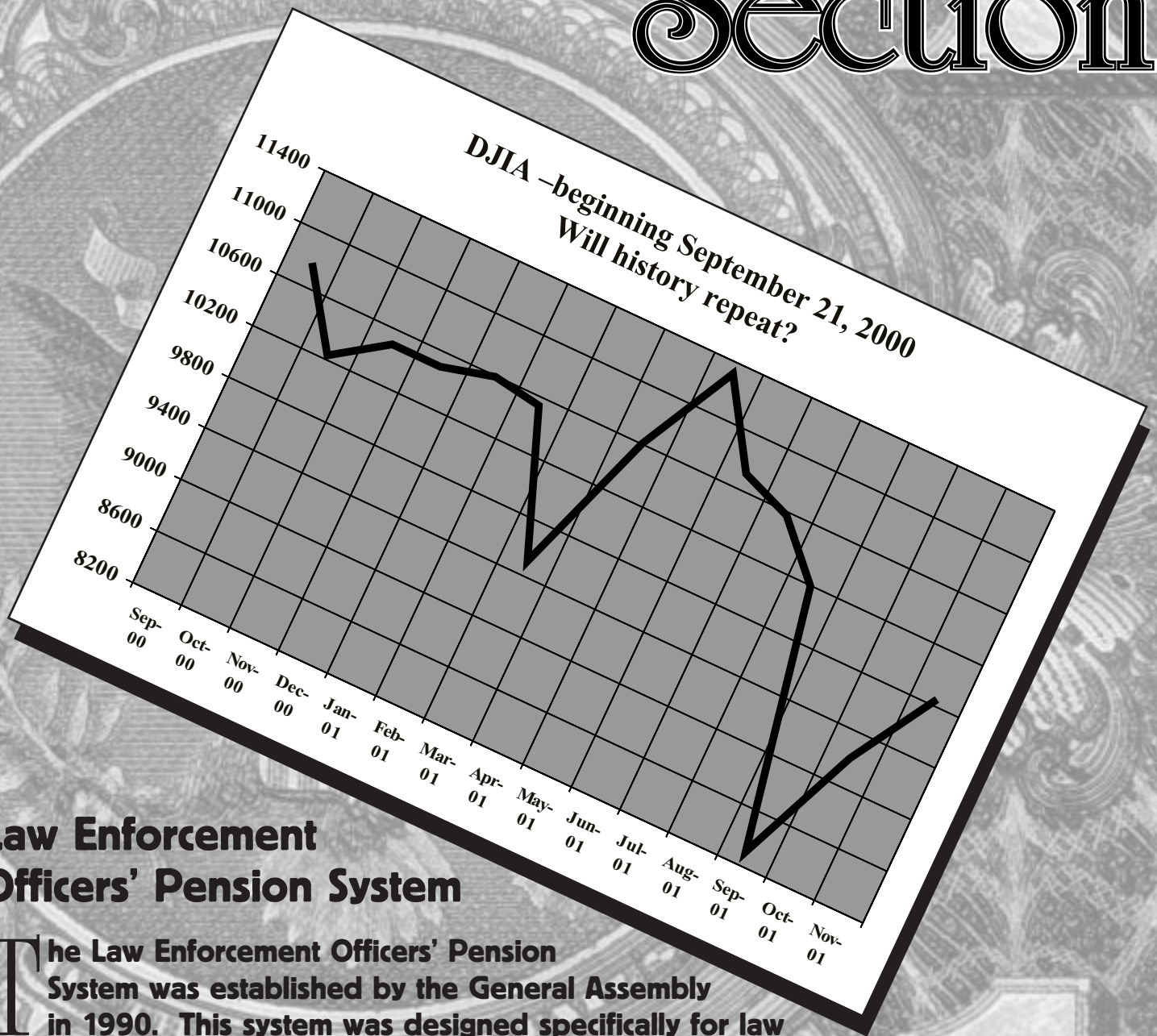
Governmental Units Participating in the Employees' Retirement and Pension Systems as of June 30, 2001

Allegany Community College	Eastern Shore Regional Library	Preston, Town of
Allegany County Board of Education	Frederick County Board of Education	Prince Georges Community College
Allegany County Commission	Fruitland, City of	Prince Georges County Board of Education
Allegany County Housing Authority	Garrett County Board of Education	Prince Georges County Crossing Guards
Allegany County Library	Garrett County Commission	Prince Georges County Government
Allegany County Transit Authority	Garrett County Community Action Committee	Prince Georges County Memorial Library
Annapolis, City of	Garrett County Office for Children, Youth and Family	Princess Anne, Town of
Anne Arundel County Board of Education	Garrett County Roads Board	Queen Anne's County Board of Education
Anne Arundel County Community College	Greenbelt, City of	Queen Anne's County Commission
Anne Arundel County Economic Opportunity Commission	Hagerstown, City of	Regional Educational Service Agency of Appalachian Maryland
Baltimore Metropolitan Council	Hagerstown Junior College	St. Mary's County Board of Education
Berlin, Town of	Harford Community College	St. Mary's County Commission
Brunswick, Town of	Harford County Board of Education	Salisbury, City of
Calvert County Board of Education	Harford County Government	Shore up!
Cambridge, City of	Harford County Library	Snow Hill, Town of
Caroline County Board of Education	Housing Authority of Cambridge	Somerset County Board of Education
Carroll County Board of Education	Howard Community College	Somerset County Commission
Carroll County Public Library	Howard County Board of Education	Somerset County Sanitary District, Inc.
Carroll Soil Conservation District	Howard County Community Action Committee	Southern Maryland Tri-County Community Action Committee
Catoctin & Frederick Soil Conservation District	Hurlock, Town of	St. Michaels, Commissioners of
Cecil County Board of Education	Hyattsville, City of	Takoma Park, City of
Cecil County Commission	Kent County Board of Education	Talbot County Board of Education
Cecil County Library	Lower Shore Private Industry Council	Talbot County Council
Charles County Community College	Manchester, Town of	Tri-County Council of Western Maryland
Chesapeake Bay Commission	Maryland Health & Higher Education Facilities Authority	Upper Marlboro, Town of
Cheverly, Town of	Middletown, Town of	Walkersville, Town of
Cresaptown Civic Improvement Association	Montgomery College	Washington County Board of Education
Crisfield, City of	Mount Rainier, City of	Washington County Board of License Commission
Crisfield Housing Authority	New Carrollton, City of	Washington County Library
Cumberland, City of	North Beach, Town of	Westminister, City of
Cumberland, City of - Police Department	Northeast Maryland Waste Disposal Authority	Worcester County Board of Education
Dorchester County Board of Education	Oakland, Town of	Worcester County Commission
Dorchester County Commission	Oxford, Town of	Worcester County Liquor Board
Dorchester County Roads Board	Pocomoke City	Wor-Wic Tech Community College

Withdrawn Governmental Units

Anne Arundel County Government	Howard County Government	Washington County Commission
Bethesda Fire Department	Interstate Commission on the Potomac River Basin	Washington County License Commissioners
Calvert County Commission	Lexington Market Authority	Washington County Roads Board
Caroline County Roads Board	Maryland Environmental Services	Washington County Sanitary District
Carroll County Government	Maryland National Capital Park & Planning Commission	Washington Suburban Sanitary Commission
Chevy Chase Fire Department	Montgomery County Board of Education	Wicomico County Department of Recreation and Parks
Elkton, Town of	Montgomery County Government	Wicomico County Roads Board
Frederick County Government	Montgomery County Public Library	
Harford County Liquor Board	Rockville, City of	
Health Systems Agency of Western Maryland	St. Mary's Nursing Home	
Howard County Economic Development Authority	University of Maryland Medical System	

Plan Summary Section



Law Enforcement Officers' Pension System

The Law Enforcement Officers' Pension System was established by the General Assembly in 1990. This system was designed specifically for law enforcement officers employed by the Department of Natural Resources (DNR). In recent years this system has been expanded to include other Maryland State and local government law enforcement officer groups. The Maryland Natural Resources Police represent the largest participating group as well as the oldest state law enforcement organization in Maryland. This plan comprises highly trained professional officers who perform their duties on land, in the air, and on the water. This system provides future survivor, disability and retirement benefits for 980 participants.

Teachers' Retirement System

The Teachers' Retirement System (TRS) was established on August 1, 1927 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Prior to January 1, 1980, membership in the TRS was a condition of employment for State and local teachers and certain board of education, public library and community college employees, unless those who were eligible elected to participate in an optional retirement program. Effective July 1, 1971 Baltimore City teachers and retired teachers were included in the TRS.

Effective January 1, 1980, the TRS was effectively closed to new membership when the Teachers' Pension System (TPS) was established. Individuals who were members of the TRS on December 31, 1979, continue their TRS membership unless, and until, they elect to transfer to the TPS.

Member Contributions

All member contributions to the TRS are based on a specified percentage of annual earnable compensation. Members who elected in 1984 to receive unlimited future cost-of-living adjustments (COLA) contribute 7% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 7% or 2% more than the rate of contribution in effect on the date of their enrollment. This option is referred to as Selection A (Unlimited COLA).

Members who elected in 1984 to receive limited future COLA's contribute 5% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 5% or the rate of contribution in effect on the date of their enrollment. This option is referred to as Selection B (Limited COLA).

All other TRS members contribute 2%. This option is referred to as Selection C (Combination Formula), that provides a two-part benefit calculation upon retirement.

Service Retirement Allowances

Eligibility – TRS members are eligible for full service retirement allowances upon attaining age 60 or upon accumulating 30 years of eligibility service regardless of age.

Allowances – Full service retirement allowances equal 1/55 (1.8%) of the highest three years' average final salary (AFS) multiplied by the number of years and months of accumulated cred-

A Composite Picture		
	2001	2000
Total Membership		
Active Vested	10,395	11,620
Active Non-vested	1	14
Terminated Vested	1,730	1,857
Retired Members	29,599	29,061
Active Members		
Number	10,396	11,634
Average Age	54.4	53.8
Average Years of Service	27.4	26.7
Average Annual Salary	\$ 62,971	\$ 57,613
Retirees & Beneficiaries		
Number	29,599	29,061
Average Age	71.9	71.8
Average Monthly Benefit	\$ 1,940	\$ 1,837

itable service. Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to date of retirement. Service is accrued based on a full normal school year (ten months).

TRS members who have elected Selection A, B, or C continue to be eligible to transfer to the TPS. Upon transfer such members will receive a return of all, or a portion of their accumulated contributions, with interest calculated on the average rate of earnings on the cost basis of the System's assets over the five fiscal years preceding the transfer.

Early Retirement Allowances

Eligibility – TRS members are eligible for early service retirement allowances upon accumulating at least 25 years of eligibility service prior to attaining age 60.

Allowances – Early service retirement allowances equal the amount payable for a full service retirement reduced by 0.5% for each month by which the retirement date precedes the earlier of the date on which the member reaches age 60, or the date on which the member would have completed 30 years of service. The maximum reduction for a TRS member is 30 percent. The maximum reduction for a TRS member who elected Selection C is 42% on the second part of the benefit calculation.

Ordinary Disability Retirement Allowances

Eligibility – TRS members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances – Ordinary disability retirement allowances generally equal 1/55 (1.8%) of the highest three years' AFS multiplied by the number of years of accumulated creditable service. However, the ordinary disability benefits can be no greater than 1.8% of AFS for each year of creditable service the members would have received had they continued to work until age 60.

Accidental Disability Retirement Allowances

Eligibility – TRS members are eligible for accidental disability benefits if the Medical Board certifies that, in the course of job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances – Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, plus 2/3 (66.7%) of AFS. Allowances may not exceed the members' AFS.

Death Benefits

Eligibility – To be eligible for death benefits, TRS members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits – The benefit provided upon death for TRS members equals the members' annual earnable compensation at the time of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named as sole primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance calculated under Option 2 (100% survivor option).

Vested Retirement Allowances

Eligibility – TRS members are eligible for vested retirement allowances after separation from service and upon reaching normal retirement age, provided that at least five years of eligibility service was accumulated prior to separation.

Allowances – Vested allowances equal the normal service retirement allowances computed on the basis of the members' accumulated creditable service and AFS at the point of separation.

TRS members may elect to either withdraw their accumulated contributions, or transfer to the TPS, within five years of separation in lieu of receiving vested retirement allowances. If members do not withdraw their contributions, and die before attaining age 60, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances are adjusted each year based on the Consumer Price Index. Cost-of-living adjustments (COLAs) are effective July 1st of each year and are applied to all allowances payable for the year. However, the method by which the annual COLAs are computed depends upon elections made by members who were active on July 1, 1984 (or within 90 days of returning to service, for members who were inactive on July 1, 1984). Each option is explained below.

Selection A (Unlimited COLA) – TRS members who elected Selection A, agreed to contribute no more than 7% of earnable compensation in return for unlimited annual COLAs after retirement.

Selection B (Limited COLA) – TRS members who elected Selection B, agreed to contribute no more than 5% of earnable compensation in return for COLAs that are limited to 5% annually after retirement.

Selection C (Combination Formula) – TRS members who elected Selection C, agreed to contribute no more than 2% of earnable compensation in return for COLAs that, similar to the retirement benefit, are divided into two parts.

Part 1: For creditable service accumulated before electing Selection C, an allowance is calculated using the formula for determining a full service TRS retirement allowance. The COLAs are unlimited unless the member elected Selection B prior to electing Selection C, in which case COLAs are limited to 5%.

Part 2: For creditable service accumulated after electing Selection C, an allowance is calculated using the formula for determining a full service TPS pension allowance. The COLAs are limited to 3%.

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 7: Any benefit (monthly allowance) which is actuarially equivalent to the retirement allowance and is approved by the Board of Trustees.

Workers' Compensation Benefits Reduction

Disability retirement allowances are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are payable. The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.

Teachers' Pension System

The Teachers' Pension System (TPS) was established on January 1, 1980 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership in the TPS was a condition of employment for all State and local teachers and certain board of education, public library and community college employees hired after December 31, 1979, (unless those who are eligible elect to participate in an optional retirement program) until July 1, 1998. As of July 1, 1998, all TPS members, except for those who transfer from the TRS after April 1, 1998, became members of the Teachers' Contributory Pension System (TCPS).

Member Contributions

All TPS members are required to contribute 5% of earnable compensation in excess of the social security taxable wage base. Members of the TCPS are required to contribute 2% of earnable compensation.

Service Pension Allowances

Eligibility – TPS and TCPS members are eligible for full service pension allowances upon accumulating 30 years of eligibility service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowances:

- age 62, & five years of eligibility service
- age 63, & four years of eligibility service
- age 64, & three years of eligibility service
- age 65 or older, & two years of eligibility service

Allowances – For TPS members, full service pension allowances equal 0.8% of the highest three consecutive years' AFS up to the SSIL, plus 1.5% of AFS in excess of the SSIL, multiplied by the number of years of accumulated creditable service.

For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the 35 years immediately prior to the year of retirement.

For TCPS members, full service pension allowances equals 1.2% of AFS for service accrued prior to July 1, 1998, (or if greater the TPS benefit noted above on service prior to July 1, 1998), plus 1.4% of AFS for service accrued on and after July 1, 1998.

A Composite Picture

	2001	2000
Total Membership		
Active Vested	50,077	48,335
Active Non-vested	32,824	30,959
Terminated Vested	15,607	14,860
Retired Members	10,527	9,084
Active Members		
Number	82,901	79,294
Average Age	42.7	42.5
Average Years of Service	10.1	10.1
Average Annual Salary	\$ 41,464	\$ 38,878
Retirees & Beneficiaries		
Number	10,527	9,084
Average Age	64.6	64.4
Average Monthly Benefit	\$ 991	\$ 948

Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to date of retirement. Service is accrued based on a full normal school year (ten months).

Early Service Pension Allowances

Eligibility – TPS and TCPS members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.

Allowances – Early service pension allowances for both the TPS and TCPS equal the amount

payable for a full service pension reduced by 0.5% for each month by which the retirement date precedes the date on which the members reach age 62. The maximum reduction is 42 percent.

Ordinary Disability Pension Allowances

Eligibility – TPS and TCPS members are eligible for ordinary disability pension allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances – For TPS and TCPS members, ordinary disability pension allowances equal the full service pension allowances if the members are at least age 62 on the date of retirement. Otherwise, the allowances equal the full service pension allowances computed as though the members had continued to accrue service credits until age 62 without any change in the rate of earnable compensation.

Accidental Disability Pension Allowances

Eligibility – TPS and TCPS members are eligible for accidental disability pension allowances if the Medical Board certifies that, in the course of their job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances – For TPS and TCPS members, accidental disability pension allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFS. Allowances may not exceed the members' AFS.

TPS members who apply for disability retirement within two years of transfer from the TRS receive disability benefits as provided under the TRS, reduced by any refunded contributions.

Death Benefits

Eligibility – To be eligible for death benefits, TPS and TCPS members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits – The benefit provided upon death of TPS or TCPS members equals the members' annual earnable compensation on the date of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named as sole primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance calculated under Option 2 (100% survivor option).

If at the time of death, the members had:

- accrued at least 25 years of eligibility service, or
- attained age 55 with at least 15 years of eligibility service, or
- attained age 62, then

the survivor's allowance is determined as if the members had been eligible to retire, and had in fact retired, 30 days prior to the date of death.

Vested Pension Allowances

Eligibility – TPS and TCPS members are eligible for vested pension allowances after separation from service and upon reaching age 62, provided that at least five years of eligibility service was accumulated prior to separation. TPS and TCPS members may be eligible for reduced vested pension allowances upon attaining age 55 with at least 15 years of eligibility service. Vested allowances are reduced by 0.5% for each month by which the allowance commencement date precedes the date on which the members attain age 62.

Allowances – For the TPS and TCPS, vested allowances equal the normal service pension allowances computed on the basis of the members' accumulated creditable service and AFS at the point of separation.

TPS members who elect to withdraw their accumulated contributions remain eligible to receive the employer-provided share of the vested benefit. If members do not withdraw their contributions, and die before attaining age 62, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances for TPS and TCPS members are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and, beginning July 1998, are compounded annually for TCPS and TPS members. The Systems limit the increase a retiree may receive to a maximum of 3%.

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the pension allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 7: Any benefit (monthly allowance) which is actuarially equivalent to the retirement allowance and is approved by the Board of Trustees.

Workers' Compensation Benefits Reduction

Disability retirement allowances are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits were paid. The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.

Employees' Retirement System

The Employees' Retirement System (ERS) was established on October 1, 1941 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Prior to January 1, 1980, membership in the ERS was a condition of employment for all State employees (other than those eligible for participation in another system) and employees of participating governmental units. For certain elected and appointed officials, participation in ERS was optional.

Effective January 1, 1980, the ERS was effectively closed to new membership when the Employees' Pension System (EPS) was established. Individuals who were members of the ERS on December 31, 1979, continue their ERS membership unless, and until, they elect to transfer to the EPS.

Member Contributions

All member contributions to the ERS are based on a specified percentage of annual earnable compensation. Members who elected in 1984 to receive unlimited future COLAs contribute 7% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 7% or 2% more than the rate of contribution in effect on their date of enrollment. This option is referred to as Selection A (Unlimited COLA).

Members who elected in 1984 to receive limited future COLAs contribute 5% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 5% or the rate of contribution in effect on the date of their enrollment. This option is referred to as Selection B (Limited COLA).

Members who are State employees as well as members whose employer elected to participate in the Employees' Contributory Pension System (ECPS) contribute 2% of earnable compensation under an option that provides a two-part benefit calculation upon retirement. This option is referred to as Selection C (Combination Formula). All other ERS members whose employer elected not to participate in the ECPS contribute 5% of the portion of annual earnable compensation in excess of the social security wage base under Selection C.

Service Retirement Allowances

Eligibility – ERS members are eligible for full service retirement allowances upon attaining age 60 or upon accumulating 30 years of eligibility service regardless of age.

Allowances – Full service retirement allowances equal 1/55 (1.8%) of the highest three years' AFS multiplied by the number

of years and months of accumulated creditable service. Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to date of retirement.

ERS members who have elected Selection A, B or C continue to be eligible to transfer to the EPS. Upon transfer such members will receive a return of all, or a portion of their accumulated contributions, with interest calculated on the average rate of earnings on the cost basis of the System's assets over the five fiscal years preceding the transfer.

A Composite Picture

	2001	2000
Total Membership		
Active Vested	9,287	9,611
Active Non-vested	2,675	2,602
Terminated Vested	1,350	1,401
Retired Members	25,212	25,489
Active Members		
Number	11,962	12,213
Average Age	44.8	45.0
Average Years of Service	16.2	16.2
Average Annual Salary	\$ 39,122	\$ 36,804
Retirees & Beneficiaries		
Number	25,212	25,489
Average Age	72.7	72.4
Average Monthly Benefit	\$ 1,095	\$ 1,033

Early Retirement Allowances

Eligibility – ERS members are eligible for early service retirement allowances upon accumulating at least 25 years of eligibility service prior to attaining age 60.

Allowances – Early service retirement allowances equal the amount payable for a full service retirement reduced by 0.5% for each month by which the retirement date precedes the earlier of the date on which the member reaches age 60, or the date on which the member would have completed 30 years of service. The maximum reduction for an ERS member is 30 percent. The maximum reduction for an ERS member who elected Selection C is 42% on the second part of the benefit calculation.

Ordinary Disability Retirement Allowances

Eligibility – ERS members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances – Ordinary disability retirement allowances generally equal 1/55 (1.8%) of the highest three years' AFS multiplied by the number of years of accumulated creditable service. However, the ordinary disability benefits can be no greater than 1.8% of AFS for each year of creditable service the members would have received had they continued to work until age 60.

Accidental Disability Retirement Allowances

Eligibility – ERS members are eligible for accidental disability benefits if the Medical Board certifies that, in the course of job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances – Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, plus 2/3 (66.7%) of AFS. Allowances may not exceed the members' AFS.

Death Benefits

Eligibility – To be eligible for death benefits, ERS members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits – The benefit provided upon death for ERS members equals the members' annual earnable compensation at the time of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named sole primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance calculated under Option 2 (100% survivor option).

Vested Retirement Allowances

Eligibility – ERS members are eligible for vested retirement allowances after separation from service and upon reaching normal retirement age, provided that at least five years of eligibility service was accumulated prior to separation.

Allowances – Vested allowances equal the normal service retirement allowances computed on the basis of the members' accumulated creditable service and AFS at the point of separation.

ERS members may elect to either withdraw their accumulated contributions, or transfer to the EPS within two years of separation, in lieu of receiving vested retirement allowances. If members do not withdraw their contributions, and die before attaining age 60, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and are applied to all allowances payable for the year. However, the method by which the annual COLAs are computed depends upon elections made by members who were active on July 1, 1984 (or within 90 days of returning to service for members who were inactive on July 1, 1984). Each option is explained below.

Selection A (Unlimited COLA) – ERS members who elected Selection A, agreed to contribute no more than 7% of earnable compensation in return for unlimited annual COLAs after retirement.

Selection B (Limited COLA) – ERS members who elected Selection B, agreed to contribute no more than 5% of earnable compensation in return for COLAs that are limited to 5% annually after retirement.

Selection C (Combination Formula) – ERS members who elected Selection C, agreed to contribute 2% of earnable compensation (or 5% of earnable compensation in excess of the social

security wage base if the employer did not elect to participate in the ECPS) in return for COLAs that, similar to the retirement benefit, are divided into two parts:

Part 1: For creditable service accumulated before electing Selection C, an allowance is calculated using the formula for determining a full service ERS retirement allowance. The COLAs are unlimited unless the members elected Selection B prior to electing Selection C, in which case COLAs are limited to 5%.

Part 2: For creditable service accumulated after electing Selection C, an allowance is calculated using the formula for determining a full service EPS pension allowance. Generally, the COLAs are limited to 3%; however, if the employers do not participate in the ECPS, the COLA's are limited to 3% of the initial allowance.

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLA's) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 7: Any benefit (monthly allowance) which is actuarially equivalent to the retirement allowance and is approved by the Board of Trustees.

Workers' Compensation Benefits Reduction

Disability retirement allowances, except for employees of participating governmental units, are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are payable. The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.

Miscellaneous Provisions for Members of the Maryland General Assembly

Upon attaining age 60 with at least eight years of eligibility service, members of the Maryland General Assembly are eligible for a service retirement allowance. The allowance is equal to 3% of the current salary for an active legislator multiplied by the number of years of accumulated creditable service (to a maximum of 22 years, 3 months). The maximum benefit payable is two-thirds of the current legislative salary.

Reduced benefits are payable upon attaining age 50 with at least eight years of eligibility service. Early service retirement allowances equal the amount payable for a full service retirement reduced by 0.5% for each month by which the retirement date precedes the date on which the member reaches age 60.

Legislators contribute 5% of annual earnable compensation during the first 22 years and 3 months of service, after which no employee contributions are required. If legislators are separated from service before accumulating eight years of eligibility service, they may elect to continue to contribute an amount equal to the combined member and employer contributions until the date the members would have completed eight years of eligibility service. By doing so, such legislators would be eligible for a retirement allowance equal to 24% of the current salary for an active legislator, payable at age 60 (or a reduced benefit upon attaining age 50).

Legislators who are certified as disabled may resign their positions and receive a normal service retirement allowance. Upon the death of a legislator, the surviving spouse generally receives 50% of the amount to which the legislator would have been

entitled. However, the surviving spouse of a legislator who dies in office with fewer than eight years of eligibility service will receive a lump sum death benefit equal to the sum of the legislator's annual earnable compensation at the time of death, plus accumulated contributions.

Legislators' retirement allowances are adjusted based on changes in the salaries of current members of the General Assembly.

Miscellaneous Provisions for State Correctional Officers

State correctional officers, within certain grades, become members of the Correctional Officers' Retirement System (CORS) as a condition of employment. Correctional officers are eligible for normal service retirement allowances upon accumulating 20 years of eligibility service. Members are eligible to receive vested retirement allowance payments upon attaining age 55. For administrative convenience, the CORS is accounted for as a component of the ERS.

Employees' Pension System

The Employees' Pension System (EPS) was established on January 1, 1980 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership in the EPS was a condition of employment for all State employees (other than those eligible for participation in another system) until July 1, 1998, and continues to be a condition of employment for employees of participating governmental units that have not elected to participate in the Employees' Contributory Pension System (ECPS). As of July 1, 1998, EPS members who were State employees, except for those who transfer from the ERS after April 1, 1998, became members of the ECPS. As of July 1, 1999, EPS members who were employees of governmental units were eligible to participate in the ECPS retroactive to July 1, 1998, provided the participating governmental unit elected participation in the ECPS.

Member Contributions

All EPS members are required to contribute 5% of earnable compensation in excess of the social security wage base. Members of the ECPS are required to contribute 2% of earnable compensation.

A Composite Picture

	2001	2000
Total Membership		
Active Vested	48,584	48,117
Active Non-vested	27,440	25,095
Terminated Vested	24,396	24,305
Retired Members	16,702	15,241
Active Members		
Number	76,024	73,212
Average Age	45.0	44.7
Average Years of Service	11.0	11.0
Average Annual Salary	\$ 35,237	\$ 33,075
Retirees & Beneficiaries		
Number	16,702	15,241
Average Age	65.3	65.1
Average Monthly Benefit	\$ 523	\$ 494

Service Pension Allowances

Eligibility – EPS and ECPS members are eligible for full service pension allowances upon accumulating 30 years of eligibility service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowances:

- age 62, & five years of eligibility service
- age 63, & four years of eligibility service
- age 64, & three years of eligibility service
- age 65 or older, & two years of eligibility service

Allowances – For EPS members, full service pension allowances equal 0.8% of the highest three consecutive years' AFS up to the SSIL, plus 1.5% of AFS in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the 35 years immediately prior to the year of retirement.

For ECPS members, full service retirement allowances equal 1.2% of AFS for service accrued prior to July 1, 1998, (or if greater, the EPS benefit noted above on service prior to July 1, 1998), plus 1.4% of AFS for service accrued on and after July 1, 1998.

Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to date of retirement.

Early Service Pension Allowances

Eligibility – EPS and ECPS members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.

Allowances – Early service pension allowances for both the EPS and ECPS equal the amount payable for a full service pension reduced by 0.5% for each month by which the retirement date precedes the date on which the member reaches age 62. The maximum reduction is 42 percent.

Ordinary Disability Pension Allowances

Eligibility – EPS and ECPS members are eligible for ordinary disability pension allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances – For EPS and ECPS members, ordinary disability pension allowances equal the full service pension allowances if the members are at least age 62 on the date of retirement. Otherwise, the allowances equal the full service pension allowances computed as though the members had continued to accrue service credits until age 62 without any change in the rate of earnable compensation.

Accidental Disability Pension Allowances

Eligibility – EPS and ECPS members are eligible for accidental disability pension allowances if the Medical Board certifies that, in the course of their job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances – For EPS and ECPS members, accidental disability pension allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFS. Allowances may not exceed the members' AFS.

EPS and ECPS members who apply for disability retirement within two years of transfer from the ERS receive disability benefits as provided under the ERS, reduced by any refunded contributions.

Death Benefits

Eligibility – To be eligible for death benefits, EPS and ECPS members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits – The benefit provided upon death of EPS and ECPS members equals the members' annual earnable compensation on the date of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named sole

primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance calculated as payment under Option 2 (100% survivor option).

If at the time of death, the members had:

- accrued at least 25 years of eligibility service, or
- attained age 55 with at least 15 years of eligibility service, or
- attained age 62, then

the survivor's allowance is determined as if the members had been eligible to retire, and had in fact retired, 30 days prior to the date of death.

Vested Pension Allowances

Eligibility – EPS and ECPS members are eligible for vested pension allowances after separation from service and upon reaching age 62, provided that at least five years of eligibility service was accumulated prior to separation. EPS and ECPS members may be eligible for reduced vested pension allowances upon attaining age 55 with at least 15 years of eligibility service. Vested allowances are reduced by 0.5% for each month by which the allowance commencement date precedes the date on which the members attain age 62.

Allowances – For the EPS and ECPS, vested allowances equal the normal service pension allowances computed on the basis of the members' accumulated creditable service and AFS at the point of separation.

EPS members who elect to withdraw their accumulated contributions, remain eligible to receive the employer-provided share of the vested benefit. If members do not withdraw their contributions, and die before attaining age 62, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances for EPS and ECPS members are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and beginning July 1998, are compounded annually for ECPS members and EPS members, who are State employees, participating governmental unit employees, and for those who transferred from the ERS after April 1, 1998. The Systems limit the increase a retiree may receive to a maximum of 3%. COLAs for all other EPS members remain limited to 3% of the initial allowance annually.

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the pension allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 7: Any benefit (monthly allowance) which is actuarially equivalent to the retirement allowance and is approved by the Board of Trustees.

Workers' Compensation Benefits Reduction

Disability retirement allowances, except for retirees of a participating governmental unit, are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits were paid.

The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.

Judges' Retirement System

The Judges' Retirement System (JRS) was established on June 30, 1969 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership was optional for judges in office on June 30, 1969, but is now a condition of employment for all District Court, Circuit Court, Court of Appeals and Special Court of Appeals judges. Full-time masters in chancery and masters in juvenile causes appointed prior to June 30, 1989 and Workers' Compensation Commission judges are also members of the JRS.

A Composite Picture

	2001	2000
Total Membership		
Active Vested	281	283
Active Non-vested	—	—
Terminated Vested	13	13
Retired Members	297	285
Active Members		
Number	281	283
Average Age	55.5	55.2
Average Years of Service	9.7	9.6
Average Annual Salary	\$ 111,420	\$ 109,157
Retirees & Beneficiaries		
Number	297	285
Average Age	76.9	76.7
Average Monthly Benefit	\$ 4,587	\$ 4,363

Disability Retirement Allowances

Eligibility – JRS members are eligible for disability retirement allowances upon receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances – The disability retirement allowances for JRS members generally equal the full service retirement allowance based on the members' actual length of service. However, for members completing at least three years of eligibility service, the disability benefit will be no less than 1/3 (33.3%) of the members' annual earnable compensation at the time of retirement.

Member Contributions

All members contribute 6% of annual earnable compensation during the first 16 years of service. After accruing 16 years of credit, no member contributions are required.

Service Retirement Allowances

Eligibility – JRS members are eligible for full service retirement allowances upon attaining age 60 or upon retirement by order of the Court of Appeals, with at least 16 years of eligibility service. All JRS members must retire at age 70.

Allowances – Full service retirement allowances equal 2/3 (66.7%) of the current salary for an active judge holding a comparable position. If members retire with less than 16 years of eligibility service, the annual retirement allowance is prorated accordingly.

Early Retirement Allowances

Eligibility – JRS members are not eligible for early service retirement allowances.

Death Benefits

Eligibility – All JRS members, and former members, are eligible for death benefits regardless of age or length of service.

Benefits – The benefit provided upon death for JRS members, former members or retirees equals 50% of a full service retirement allowance.

Special provisions apply in circumstances where deceased JRS members, former members or retirees have no surviving spouses, but are survived by a minor child (under age 18). In the event that deceased JRS members or former members are not survived by spouses or minor children, then all accumulated contributions are refunded to the estate.

Vested Retirement Allowances

Eligibility – JRS members are immediately vested. Members leaving the bench before attaining age 60 are eligible to receive their service retirement allowances commencing upon attaining age 60.

Allowances – Vested allowances equal the normal service retirement allowances computed on the basis of the members' accumulated creditable service and the salaries of active judges holding comparable positions.

JRS members may elect to withdraw their accumulated contributions within six months of separation in lieu of receiving vested retirement allowances.

Optional Forms of Payment

Generally, JRS retirement allowances are paid as a 50% joint and survivor annuity to the retirees' surviving spouse, or if there is no spouse, to any child under age 18. If the retirees have neither a living spouse nor children under 18 at retirement, retirees may select any one of the following seven payment options.

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the retirement allowance at the

date of retirement minus the total amount of payments made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 7: Any benefit (monthly allowance) which is actuarially equivalent to the retirement allowance and is approved by the Board of Trustees.

State Police Retirement System

The State Police Retirement System (SPRS) was established on July 1, 1949 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership is a condition of employment for all uniformed officers of the Maryland State Police. The Superintendent of the Maryland State Police may elect membership in either the SPRS or the EPS.

Member Contributions

All SPRS members contribute 8% of annual earnable compensation during employment.

Service Retirement Allowances

Eligibility – SPRS members are eligible for full service retirement allowances upon attaining age 50 or upon accumulating 22 years of eligibility service regardless of age. Except for the Superintendent, all SPRS members must retire at age 60.

Allowances – Full service retirement allowances equal 2.55% of the highest three years' AFS up to a maximum 71.4% of AFS (28 years). Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to date of retirement.

A Composite Picture		
	2001	2000
Total Membership		
Active Vested	1,161	1,239
Active Non-vested	417	397
Terminated Vested	24	22
Retired Members	1,518	1,388
Active Members		
Number	1,578	1,636
Average Age	35.8	36.3
Average Years of Service	12.0	12.7
Average Annual Salary	\$ 51,223	\$ 50,495
Retirees & Beneficiaries		
Number	1,518	1,388
Average Age	58.1	58.3
Average Monthly Benefit	\$ 2,641	\$ 2,475

Early Retirement Allowances

Eligibility – SPRS members are not eligible for early service retirement allowances.

Ordinary Disability Retirement Allowances

Eligibility – SPRS members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances – Ordinary disability retirement allowances generally equal 2.55% of the highest three years' AFS multiplied by the number of years of creditable service up to a maximum of 28 years. The minimum ordinary disability retirement allowance is 35% of AFS.

Special Disability Retirement Allowances

Eligibility – SPRS members are eligible for special disability benefits if the Medical Board certifies that they became totally and permanently incapacitated for duty arising out of or in the actual performance of duty.

Allowances – Special disability allowances equal the sum of an

annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFS. Allowances may not exceed the members' AFS.

Ordinary Death Benefits

Eligibility – To be eligible for ordinary death benefits, SPRS members must have accumulated at least one but less than two years of eligibility service prior to the date of death.

Benefits – The ordinary death benefit equals the members' annual earnable compensation at time of death plus accumulated contributions.

Special Death Benefits

Members in Service

Eligibility – To be eligible for special death benefits, SPRS members in service must have accumulated at least two years of eligibility service prior to the date of death or died in the line of duty.

Benefits – The special benefit provided upon the death of SPRS members in service equals 50% of the members' annual earnable compensation at time of death paid as an annuity plus return of accumulated contributions. In cases where the deceased members are not survived by a spouse, the decedents' children or dependent parents, if any, will continue to receive an annuity equal to 50% of the members' annual earnable compensation until the youngest child reaches age 18, or for the life of each dependent parent.

Retired Members

Eligibility – To be eligible for special death benefits, SPRS retirees must have retired on either a service retirement allowance or a disability allowance.

Benefits – The special benefit provided upon the death of an SPRS retiree equals 50% of the retirees' retirement allowance, paid as an annuity. In cases where the deceased members are not survived by a spouse, the decedents' children, if any, will continue to receive 50% of the retirees' allowance until the youngest child reaches age 18.

In addition to the special death benefits explained above, the survivors of both deceased members in service and deceased retirees may be eligible for certain additional benefits based upon Title II of the federal Social Security Act.

Vested Retirement Allowances

Eligibility – SPRS members are eligible for vested retirement allowances after separation from service and upon reaching age 50, provided that at least five years of eligibility service was accumulated prior to separation.

Allowances – Vested allowances equal the normal service retirement allowances computed on the basis of the members' accumulated creditable service and AFS at the point of separation.

SPRS members may elect to withdraw their accumulated contributions within two years of separation in lieu of receiving vested retirement allowances. If members do not withdraw their

contributions, and die before attaining age 50, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and are applied to all allowances payable for the year.

Optional Forms of Payment

Generally, SPRS retirement allowances are paid as a 50% joint and survivor annuity to the retirees' spouse, or if there is no spouse, to any child under age 18. If the retirees have neither a living spouse nor children under 18 at retirement, the retirees may select any one of the following seven payment options.

Option 1: Payment guarantees a cash reserve equal to the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 7: Any benefit (monthly allowance) which is actuarially equivalent to the retirement allowance and is approved by the Board of Trustees.

Workers' Compensation Benefits Reduction

Disability retirement allowances are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are payable. The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.

Deferred Retirement Option Program

SPRS members are eligible to participate in a Deferred Retirement Option Program (DROP). To participate, the SPRS member must have at least 22 years of creditable service, but less than 28 years, and be under age 60. The maximum period of participation is 4 years. During the DROP period, the SPRS member is deemed retired and the retirement allowance is placed in an account earning 6% interest. At the end of the DROP period, the lump sum held in the DROP account is paid to the SPRS retiree. The SPRS member must end employment and fully retire at the end of the DROP period.

Law Enforcement Officers' Pension System

The Law Enforcement Officers' Pension System (LEOPS) was established on July 2, 1990 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership in the LEOPS is a condition of employment for all uniformed law enforcement officers of the Maryland State Department of Natural Resources; the Maryland Investigative Services Unit; the Maryland Transportation Authority Police Force; the Baltimore City Sheriff's Department; the State Fire Marshall's Office; the University of Maryland Police Force; Morgan University Police Force; the BWI Airport Fire and Rescue Department; the Department of General Services Police Force; the Department of Health and Hygiene; the Motor Vehicle Administration; and the Department of Labor, Licensing, and Regulation. In addition, membership includes law enforcement officers employed by a governmental unit that elects to participate in LEOPS.

The LEOPS consists of two separate components – a retirement plan and a pension plan. Retirement plan provisions are applicable to those officers who, on the date they elected to participate in the LEOPS, were members of ERS. Pension plan provisions are applicable to all other LEOPS members.

Member Contributions

All member contributions to the LEOPS are based on the members' annual earnable compensation. Members subject to retirement plan provisions that elected to receive unlimited future COLAs contribute 7% if enrolled in the ERS after June 30, 1973. Those members enrolled in the ERS before July 1, 1973 contribute the lesser of 7% or 2% more than the rate of contribution in effect on the date of enrollment. This option is referred to as Selection A (Unlimited COLA).

Members subject to retirement plan provisions that elected to receive limited future COLAs contribute 5% if enrolled in the ERS after June 30, 1973. Those members enrolled in the ERS before July 1, 1973 contribute the lesser of 5% or the rate of contribution in effect on the date of enrollment. This option is referred to as Selection B (Limited COLA).

Members subject to pension plan provisions contribute 4% of annual earnable compensation during employment.

A Composite Picture

	2001	2000
Total Membership		
Active Vested	980	904
Active Non-vested	338	226
Terminated Vested	49	36
Retired Members	309	206
Active Members		
Number	1,318	1,130
Average Age	39.7	41.2
Average Years of Service	12.6	13.8
Average Annual Salary	\$ 46,988	\$ 45,614
Retirees & Beneficiaries		
Number	309	206
Average Age	56.8	57.6
Average Monthly Benefit	\$ 1,899	\$ 1,806

Service Retirement Allowances

Eligibility – LEOPS members are eligible for full service retirement allowances upon attaining age 50 or upon accumulating 25 years of eligibility service regardless of age.

Allowances – For members subject to the retirement plan provisions, full service retirement allowances equal 1/50 (2.0%) of AFS for the first 30 years of creditable service, plus 1/100 (1.0%) of AFS for each additional year.

For members subject to the pension system provisions, full service pension allowances equal 2.0% of AFS up to a maximum benefit of 60% (30 years of credit).

Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to the date of retirement.

Early Retirement Allowances

Eligibility – LEOPS members are not eligible for early service retirement allowances.

Ordinary Disability Retirement Allowances

Eligibility – LEOPS members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service and receiving Medical Board certification as to their permanent incapacity to perform their necessary job functions.

Allowances – Ordinary disability retirement allowances for LEOPS members subject to retirement plan provisions equal the greater of the normal service retirement allowance or 25% of AFS.

Ordinary disability retirement allowances for LEOPS members subject to pension plan provisions equal the full service pension allowance if the member is at least age 50 on the date of retirement. Otherwise, the allowances equal full service pension allowances computed as though the member had continued to work until age 50 without any change in the rate of earnable compensation.

Accidental Disability Retirement Allowances

Eligibility – LEOPS members are eligible for accidental disability benefits if the Medical Board certifies that they became totally and permanently incapacitated for duty arising out of or in the actual performance of duty.

Allowances – Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFS. Allowances may not exceed the members' AFS.

Ordinary Death Benefits

Eligibility – To be eligible for ordinary death benefits, LEOPS members must have accumulated at least one but less than two years of eligibility service prior to the date of death.

Benefits – The ordinary death benefit equals the members' annual earnable compensation at the time of death plus accumulated contributions.

Special Death Benefits

Members in Service

Eligibility – To be eligible for special death benefits, LEOPS members in service must have accumulated at least two years of eligibility service prior to the date of death or died in the line of duty.

Benefits – The special death benefit provided upon death for LEOPS members in service equals 50% of the applicable ordinary disability allowance. In cases where the deceased members are not survived by a spouse, the decedents' children or dependent parents, if any, will continue to receive the special death benefit until the youngest child reaches age 18, or for the life of each dependent parent.

Retired Members

Eligibility – To be eligible for special death benefits, LEOPS retirees must have retired on either a service retirement allowance or a disability allowance.

Benefits – The special death benefit provided upon death for LEOPS retirees equals 50% of the retirees' retirement allowance, paid as an annuity. In cases where the deceased members are not survived by a spouse, the decedents' children, if any, will continue to receive 50% of the retirees' allowance until the youngest child reaches age 18.

Vested Pension Allowances

Eligibility – LEOPS members are eligible for vested pension allowances after separation from service and upon attaining age 50, provided that they accumulated at least five years of eligibility service prior to separation.

Allowances – Vested allowances equal the normal service retirement or pension allowances computed on the basis of the members' accumulated creditable service and AFS at the date of separation.

Cost-of-Living Adjustments

Retirement allowances are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each

year and are applied to all allowances payable for the year. For LEOPS members subject to retirement plan provisions, annual COLAs are determined under the various methods applicable to ERS members. Each method is explained below:

Selection A (Unlimited COLA) – LEOPS members who elected Selection A (while enrolled in the ERS), agreed to contribute 7% of earnable compensation in return for unlimited annual COLAs after retirement.

Selection B (Limited COLA) – LEOPS members who elected Selection B (while enrolled in the ERS), agreed to contribute no more than 5% of earnable compensation in return for COLAs which are limited to 5% annually after retirement.

For all other LEOPS members, annual COLA's are limited to 3% of the annual allowance.

Optional Forms of Payment

Generally, LEOPS retirement allowances are paid as a 50% joint and survivor annuity to the retirees' spouse, or if there is no spouse, to any child under age 18. If the retirees have neither a living spouse nor children under 18 at retirement, the retirees may select any one of the following seven payment options.

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 7: Any benefit (monthly allowance) which is actuarially equivalent to the retirement allowance and is approved by the Board of Trustees.

Workers' Compensation Benefits Reduction

Disability retirement allowances are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are payable. The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retirees' monthly health insurance premiums.

Deferred Retirement Option Program

LEOPS members are eligible to participate in a Deferred Retirement Option Program (DROP). To participate, the LEOPS member must have at least 25 years of creditable serv-

ice, but less than 30 years. The maximum period of participation is 5 years. During the DROP period, the LEOPS member is deemed retired and the retirement allowance is placed in an account earning 6% interest. At the end of the DROP period, the lump sum held in the DROP account is paid to the LEOPS retiree. The LEOPS member must end employment and fully retire at the end of the DROP period.

Pension Change

Legislation enacted during the 2001 legislative session alters the benefits payable to members of the Law Enforcement Officers' Pension System - retirement plan. The retirement benefit for the first 30 years will be based on 2.3% of AFS. Membership is extended to include the Martin State Airport Firefighters.

Local Fire and Police System

The Local Fire and Police System (LFPS) was established on July 1, 1989 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership in the LFPS is open to all law enforcement officers and fire fighters employed by participating governmental units on the date participation begins. Membership is mandatory for all officers and fire fighters hired after a unit's date of election to participate.

The LFPS consists of two separate components – a retirement plan and a pension plan. Retirement plan provisions are applicable to those officers and fire fighters that, on the date they elected to participate in the LFPS, were members of ERS. Pension plan provisions are applicable to all other LFPS members.

Member Contributions

Members subject to retirement plan provisions contribute 7% of annual earnable compensation. Members subject to pension plan provisions contribute 5% of earnable compensation in excess of the social security wage base.

Service Retirement Allowances

Eligibility – All LFPS members are eligible for full service retirement or pension allowances upon accumulating 25 years of eligibility service, regardless of age. Also, regardless of the length of service, LFPS retirement plan members are eligible for full service retirement allowances upon attaining age 60; and LFPS pension plan members are eligible for full service pension allowances upon attaining age 62.

Allowances – For members subject to retirement plan provisions, full service retirement allowances equal 1/50 (2.0%) of AFS for the first 30 years of creditable service, plus 1/100 (1.0%) of AFS for each additional year.

A Composite Picture

	2001	2000
Total Membership		
Active Vested	91	129
Active Non-vested	49	55
Terminated Vested	30	20
Retired Members	21	19
Active Members		
Number	140	184
Average Age	35.1	35.5
Average Years of Service	10.3	10.9
Average Annual Salary	\$ 40,995	\$ 38,636
Retirees & Beneficiaries		
Number	21	19
Average Age	49.5	49.7
Average Monthly Benefit	\$ 1,681	\$ 1,650

For members subject to pension plan provisions, full service pension allowances equal 1.0% of AFS up to the SSIL, plus 1.5% of AFS in excess of the SSIL, multiplied by the number of years of accumulated creditable service. Additionally, LFPS pension plan members whose employers do not contribute to social security receive the difference between the aforementioned pension allowance and 1.5% of their entire AFS as a supplemental pension allowance.

Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to the date of retirement.

Early Retirement Allowances

Eligibility – LFPS members are not eligible for early service retirement allowances.

Ordinary Disability Retirement Allowances

Eligibility – LFPS members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service with Medical Board certification as to their permanent incapacity to perform their necessary job functions.

Allowances – Ordinary disability retirement allowances for LFPS members subject to retirement plan provisions equal the greater of the normal service retirement allowance or 25% of AFS.

Ordinary disability retirement allowances for LFPS members subject to pension plan provisions equal the full service pension allowance if the member is at least age 62 on the date of retirement. Otherwise, the allowances equal full service pension allowances computed as though the member had continued to work until age 62 without any change in the rate of earnable compensation.

Accidental Disability Retirement Allowances

Eligibility – LFPS members are eligible for accidental disability benefits if the Medical Board certifies that, in the course of job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances – Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFS. Allowances may not exceed the members' AFS.

Ordinary Death Benefits

Eligibility – To be eligible for death benefits, LFPS members must have accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits – The benefit provided upon death for LFPS members equals the members' annual earnable compensation at the time of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named sole primary beneficiaries may elect to receive either the aforementioned lump sum payment or a monthly allowance calculated under Option 2 (100% survivor option).

Vested Pension Allowances

Eligibility – LFPS members are eligible for vested pension allowances after separation from service and upon attaining age 62, provided that they accumulated at least five years of eligibility service prior to separation. LFPS members subject to pension plan provisions may be eligible for reduced vested pension allowances upon attaining age 55 with at least 15 years of eligibility service. Vested allowances are reduced by 0.5% for each month by which the allowance commencement date precedes the date on which the members attain age 62.

Allowances – Vested allowances equal the normal service retirement or pension allowances computed on the basis of the members' accumulated creditable service and AFS at the date of separation.

LFPS retirement plan members may elect to withdraw their accumulated contributions within two years of separation in lieu of receiving the accrued vested retirement allowances. If members do not withdraw their contributions, and die before attaining age 60, their accumulated contributions are returned to the designated beneficiary.

LFPS pension plan members, who elect to withdraw their accumulated contributions, if any, remain eligible to receive the employer-provided vested benefit.

Cost-of-Living Adjustments

Retirement and pension allowances are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and are applied to all allowances payable for the year. For all LFPS members who are not former members of the ERS, annual COLAs are limited to 3% of the initial allowance annually.

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 7: Any benefit (monthly allowance) which is actuarially equivalent to the retirement allowance and is approved by the Board of Trustees.

Workers' Compensation Benefits Reduction

Disability retirement allowances are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are payable. The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.