STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

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, 2004

Prepared by:
State Retirement Agency of Maryland
120 East Baltimore Street
Baltimore, Maryland 21202

INTRODUCTORY SECTION:

FINANCIAL SECTION:

INVESTMENT SECTION:

ACTUARIAL SECTION:

STATISTICAL SECTION:

PLAN SUMMARY SECTION:

STATE RETIREMENT
and PENSION SYSTEM
of MARYLAND

STATE RETIREMENT AGENCY
120 East Baltimore Street
Baltimore, MD 21202
Tel: 410-625-5555
1-800-492-5909
www.sra.state.md.us

Thomas K. Lee
Executive Director
secretary To The Board
Board Of Trustees

LETTER OF TRANSMITTAL

December 15, 2004

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, 2004. We believe this report fairly reflects the results achieved during 2004.

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 maintaining an acceptable level of risk. 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-seven 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 more than 94,000 retirees and beneficiaries, and is an essential element of the future financial security for over 185,000 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 90.

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

In addition to this Letter of Transmittal, additional narrative, overview and analysis can be found in Management's Discussion and Analysis found on pages 15 through 20 of this annual report.

Economic Environment

In contrast to fiscal years 2001 and 2002, the fund continued the strong investment gains experienced in the latter part of fiscal year 2003 with an exceptional return of 16.2% during fiscal year 2004. This investment return more than doubled the System's actuarially determined target investment return of 7.75%. The actuarially determined target investment return of 7.75% is a long-term target and, as such, significant deviations from this target can be expected, both positive and negative, from year to year. Because returns are smoothed over a 5 year period for actuarial valuation purposes, the fund still experienced a decrease in its funded ratio from 93.30% to 92.18%. Despite this temporary downturn, the System remains financially strong and ahead of schedule with regard to its long-term funding goals.

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 maintaining an acceptable level of 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

This past year has been one of assessment, evaluation and implementation for the Agency, focusing on the key areas of governance, infrastructure, and investment administration. Over the next decade, the Agency will be faced with meeting the needs of an increasing number of participants as the "baby boomer" generation reaches retirement age.

During the past year, the Board's focus has been on governance. As a part of this focus, an extensive fiduciary audit was conducted, which resulted in the adoption of an enhanced governance policy articulating strong standards and guidelines for accountability. The changes being implemented represent best practices in governance reengineering strategies. In addition, the Board's structure now reflects recent legislation that strengthened and broadened the Board of Trustees by requiring that four trustees have substantial experience overseeing similar pension systems, large foundations, or other similar large organizations with fiduciary responsibilities relating to different classes of participants.

The Agency has contracted for, and is currently undergoing, a business process review covering the administration of benefits and related financial components. The review is a comprehensive analysis of the "as is" process, actively seeking areas to assist the Agency in more effectively meeting its goals. The results of the evaluation will be the foundation for the development of the information system scheduled to replace the current legacy system.

For the past year, the Agency has been working to structure the most appropriate and fiscally sound investment program for the current and future retirees of Maryland and the associated systems. Our asset classes and respective allocations to stocks, bonds, and real estate have been restructured to achieve the highest return based on prudent investment principles. In accordance with our responsibility for due diligence and the increasing complexities in investment markets, we are in the process of building a strong monitoring and risk management process to ensure more effective oversight of investment managers, and to protect and grow plan surplus.

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 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 2004, investment earnings were $4.2 billion, while revenues from employer and member contributions were $627 million and $204 million, respectively. For fiscal year 2004, member contribution rates remained unchanged, while employer rates varied depending on the System.

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 2004, totaling $1,582.5 million. Of this amount, the System disbursed

$1,570.6 million as retirement allowances to members and beneficiaries. The remaining $11.9 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 $86 million disbursed during fiscal year 2004 to manage the investment portfolio and to administer the System, $69 million was paid for investment management, portfolio custody and securities lending services while $17 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 that existed at June 30, 2000 will continue to be amortized over the remaining 16-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, 2004, the System's actuarial accrued liability was $36.3 billion. With the actuarial value of assets accumulated to pay the liability at $33.5 billion, the System now stands at 92.18 percent funded.

Investments

We are pleased the System delivered above-median returns for fiscal year 2004 for plan participants and beneficiaries. Going forward for fiscal year 2005, the Agency will continue to search for the optimal tradeoff that will provide an attractive return expectation while maintaining acceptable levels of risk. Furthermore, the Agency maintains that the integrity of the capital markets directly affects the System and all of its participants and stakeholders. Through the newly established Corporate Governance Subcommittee, the Agency's focus will be on stewardship and the concomitant responsibility of holding the companies with which we invest accountable for actions that impact those assets.

Professional Services

The System contracts for the services of various independent consulting, investment advisory and financial professionals to assist the Board of Trustees 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, 2003. This was the fifteenth consecutive year (1989 through 2003) 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 2004 a success.

Thomas K. Lee
Executive Director & Secretary to the Board

Margo M. Wheet, CPA
Chief Financial Officer

STATE RETIREMENT
and PENSION SYSTEM
of MARYLAND

STATE RETIREMENT AGENCY
120 East Baltimore Street
Baltimore, MD 21202
Tel: 410-625-5555
1-800-492-5909
www.sra.state.md.us

Thomas K. Lee
Executive Director
secretary To The Board
Board Of Trustees

December 15, 2004

Dear Members and Beneficiaries::

A positive investment environment continued in the financial markets for fiscal year ending June 30, 2004. Total investment return of the Maryland Retirement and Pension System (SRPS) was 16.2% compared with 3.2% for fiscal 2003. Total fund assets increased from $26.7 billion in 2003 to $30.1 billion at the close of fiscal 2004, for a gain of $3.4 billion.

We are pleased also to report that for the period the SRPS portfolio ranking, as determined by the Trust Universal Comparison Report (TUCS), improved from the 75th percentile to 46th percentile reflecting the Agency's strong performance relative to its peers across the county.

The Board has worked diligently to achieve investment performance through the implementation of a structured, yet flexible strategic policy. This will continue to be a team effort with the Board, professional staff and consultants all having key roles in the process.

The Agency's annual allocation study, currently underway, will redefine the proportion of stocks, bonds, private equity and real estate to be held in the portfolio for the purpose of better managing risk and volatility. Long term analysis shows that 90 percent of the investment return results from having the proper asset allocation mix in place.

During the fiscal year, we welcomed the addition to the Board of Trustees of John W. Douglass and Sheila Hill elected by state employees, and gubernatorial appointments, F. Patrick Hughes and James M. Harkins. Art Caple, who served as a Trustee with loyalty and professionalism for 20 years, passed away on May 22, 2004. He will be greatly missed.

Your support and participation are greatly appreciated.

Sincerely,

William Donald Schaefer

WILLIAM DONALD SCHAEFER
Chairman

Nancy K. Kopp

NANCY K. KOPP
Vice Chairman

BOARD OF TRUSTEES

BOARD OF TRUSTEES

MAJOR MORRIS L. KROME
August 1, 1998 – July 31, 2006
Vice Chairman, Administrative Committee
Member, Audit Committee
Member, Investment Committee

CARL D. LANCASTER
August 1, 1987 – July 31, 2007
Chairman, Investment Committee
Member, Corporate Governance Subcommittee
Member, Real Estate Subcommittee

A. MELISSA MOYE, PH.D.
July 1, 2003 - June 30, 2007
Chairman, Corporate Governance Subcommittee
Member, Investment Committee
Member, Real Estate Subcommittee

SHEILA HILL
October 19, 2004 – July 31, 2005
Member, Administrative Committee
Member, Investment Committee

PATRICK A. O'SHEA
July1, 2003 - June 30, 2007
Member, Investment Committee
Member, Real Estate Subcommittee

ADVISORS TO THE INVESTMENT COMMITTEE

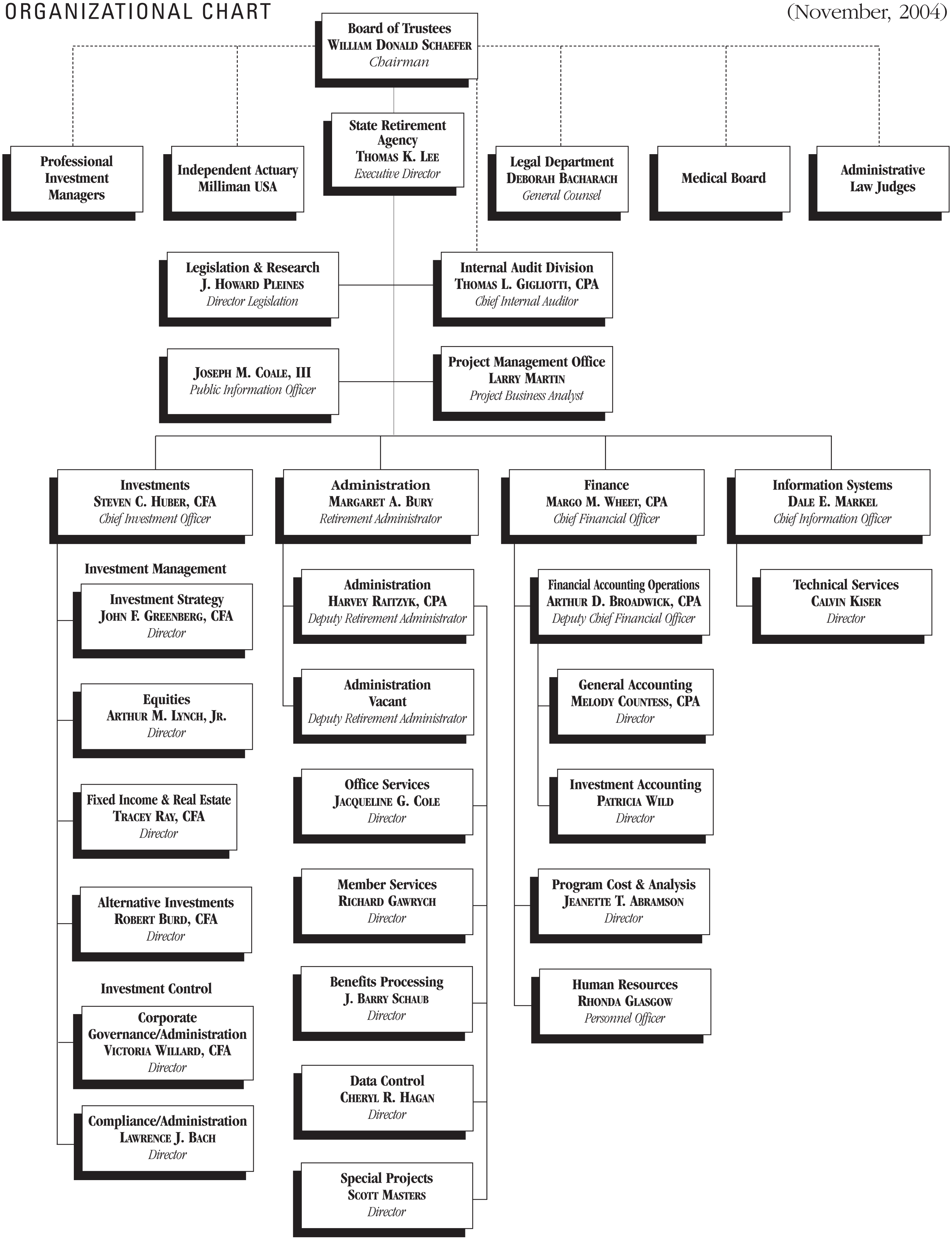
ROBERT W. SCHAEFER

WAYNE H. SHANER

BRIAN B. TOPPING

ORGANIZATIONAL CHART

(November, 2004)



PROFESSIONAL SERVICES

ASSET & INCOME VERIFICATION SERVICES

Financial Control Systems, Inc.
Chadds Ford, Pennsylvania

EQUITY INVESTMENT MANAGERS

Abbott Capital Management, LLC
Boston, Massachusetts

Adams Street Partners, LLC
Chicago, Illinois

Advent Capital Management
New York, New York

Ariel Capital Management, Inc.
Chicago, Illinois

Artisan Partners Limited Partnership
San Francisco, California

Bank of Ireland Asset Management Limited
Dublin, Ireland

Brown Capital Management, Inc.
Baltimore, Maryland

Brown Investment Advisory &
Trust Company
Baltimore, Maryland

Capital Guardian Trust Company
Washington, D.C.

Dimensional Fund Advisors, Inc.
Santa Monica, California

The Edgar Lomax Company
Springfield, Virginia

HarbourVest Partners, LLC
Boston, Massachusetts

Legg Mason Capital Management, Inc.
Baltimore, Maryland

Maryland Venture Capital Trust
Baltimore, Maryland

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 (TCW)
Los Angeles, California

Wellington Management Co. LLP
Boston, Massachusetts

FIXED INCOME INVESTMENT MANAGERS

Bridgewater Associates, Inc.
Westport, Connecticut

Fountain Capital Management, LLC
Overland Park, Kansas

Pacific Investment Management Company
Newport Beach, California

Payden & Rygel
Los Angeles, California

State Street Global Advisors
Boston, Massachusetts

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

Western Asset Management
Pasadena, California

GLOBAL CUSTODIAL BANK & SECURITY LENDING

State Street Bank and Trust Company
Boston, Massachusetts

HEARING OFFICERS

Office of Administrative Hearings
Baltimore, Maryland

INDEPENDENT ACTUARY

Milliman USA
Baltimore, Maryland

INDEPENDENT AUDITOR

Office of Legislative Audits
Baltimore, Maryland

INDEPENDENT INVESTMENT CONSULTANT

Ennis Knupp & Associates
Chicago, Illinois

MEDICAL BOARD

John J. Fahey, M.D.
Norman Freeman, Jr. M.D.
Arthur Hildreth, M.D.
Bruce Z. Kohrn, M.D.
William B. Russell, M.D.
Alfred Wiedmann, M.D.

OPERATIONAL BANKING SERVICES

M & T Bank
Baltimore, Maryland

The Harbor Bank of Maryland
Baltimore, Maryland

PRIVATE EQUITY CONSULTANT

Altius Associates Limited
Richmond, Virginia

REAL ESTATE INVESTMENT MANAGERS

Chesapeake Maryland Limited Partnership
Baltimore, Maryland

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

LaSalle Investment Management, Inc.
Baltimore, Maryland

LaSalle Investment Management
Securities, LP
Baltimore, Maryland

Lubert-Adler Management, Inc.
Philadelphia, Pennsylvania

Prudential Investment/CIGNA
Parsippany, New Jersey

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, 2003

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.

Government Finance Officers Association of the United States and Canada Corporation Seal Chicago

Edward Harrington

President

Jeffrey L. Esser

Executive Director

STATE RETIREMENT *and* PENSION SYSTEM *of* MARYLAND

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 95,000 participants. The combined systems provide survivor, disability and retirement benefits to plan members.

INDEPENDENT AUDITOR'S REPORT

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

BOARD OF TRUSTEES
STATE RETIREMENT AND
PENSION SYSTEM OF MARYLAND

We have audited the accompanying basic financial statements of the State Retirement and Pension System of Maryland, which is a pension trust fund of the State of Maryland, as of June 30, 2004 and 2003, as listed in the table of contents. 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 plan net assets of the State Retirement and Pension System of Maryland as of June 30, 2004 and 2003, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 15 through 20 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2004 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

October 27, 2004

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

To help facilitate a better understanding of the State Retirement and Pension System of Maryland's (the "System") financial condition as of June 30, 2004, the results of its operations for the fiscal year then ended and the fiscal policies that govern its significant business operations, management has prepared this narrative analysis. This narrative is intended to supplement the System's audited financial statements and, as such should be read in conjunction with these statements, which are presented beginning on page 22.

Overview of the Financial Statements

As required by Generally Accepted Accounting Principles, the System's basic financial statements comprise the comparative Statements of Plan Net Assets and Statements of Changes in Plan Net Assets, along with the related note disclosures. In addition, the System's financial statements include certain required supplementary information (e.g., schedules of funding progress, and employer contributions) as well as other supplementary schedules considered relevant to the financial statement user (e.g., schedules of fund balances, administrative and investment expenses, plan net assets and related changes by system). To better understand the relevance of the information presented in the System's financial statements and related notes and supplementary information, it is helpful to first consider what purpose each component is intended to serve.

The Statements of Plan Net Assets present a comparative, summary-level snapshot, as of a specific point in time (i.e., June 30th – the last day of the System's fiscal year), of the market value of the net assets available to pay future pension benefits to retirees and beneficiaries. To assist the reader in understanding the composition of the System's accumulated net assets the most significant components (e.g., cash and cash-equivalent securities, investments) are separately disclosed. In this regard, cash and cash equivalents represent that portion of the System's assets that, as of the end of the fiscal year, reside in the form of actual cash or short-term, highly liquid, investment securities. This amount gives an indication of the System's liquidity at fiscal year end. Conversely, the amounts shown as investments represent those funds invested in longer-term securities (e.g., stocks, bonds, real estate) held for the purpose of generating investment income. The sum of these assets, reduced by any liabilities owed by the System at fiscal year-end, represents the net assets held in trust to pay pension benefits.

By contrast, the Statements of Changes in Plan Net Assets are intended to show, on a comparative basis, the major categories of income earned (additions to plan net assets) and expenses incurred (deductions from plan net assets) by the System during the previous fiscal year. As such, the System's net income or loss accounts for the entire change in the net assets held in trust to pay pension benefits during the fiscal year as a result of System operations. As with the System's assets and liabilities, significant categories of income and expense, as reported on the Statements of Changes in Plan Net Assets, are separately disclosed to help clarify the major sources and uses of System resources.

Finally, the note disclosures are provided as an integral component of the financial statements to help explain in narrative form some of the more complex or less obvious elements of the statements. Further, the notes to the financial statements provide additional information (e.g., significant accounting policies, categorization of custodial credit risk) that is essential for a comprehensive understanding of the System's financial condition and the results of its operations.

Beyond the basic financial statements, the System provides certain required schedules and related note disclosures that collectively demonstrate the System's annual progress toward funding its actuarial accrued liability (i.e., Schedule of Funding Progress) and discloses a ten-year history of required employer contributions (i.e., Schedule of Contributions from Employers and Other Contributing Entity). The importance of these schedules is best explained by reference to the previously discussed basic financial statements.

The Schedule of Funding Progress, while similar in scope to the Statements of Plan Net Assets in that it is primarily focused on reporting on the accumulation of assets, differs from such statements both in its method for valuing such assets and in its approach to explaining their relevance to the liability they are being accumulated to satisfy. In this regard, the Schedule of Funding Progress first takes a long-term, actuarial view toward valuing the System's investment portfolio, as opposed to the market value approach reflected on the Statements of Plan Net Assets. Specifically, the System's assets are valued (for funding purposes) using a methodology that distributes investment gains and losses over a five-year period in order to minimize the effects of annual market volatility on employer contribution rates. The schedule then discloses the total actuarial accrued liability as projected to reflect the estimated effects of actuarial assumptions about future membership, service credit and covered payroll. Thus computed, the actuarial value of assets and the actuarial accrued liability are compared to disclose both the changes in the amount of unfunded actuarial liability, over a ten-year period, and the System's progress toward accumulating the necessary assets. This final piece, progress toward funding the actuarial accrued liability, is measured on the schedule in two significant ways. First is the funded ratio, which measures the System's ability to pay all projected benefits as they become due. Second is the unfunded liability, as a percentage of covered payroll, which measures the participating employers' capacity to pay all contributions required to fund the actuarial liability.

The Schedule of Contributions from Employers and Other Contributing Entity, much like the Schedule of Funding Progress, shares common characteristics with data disclosed in the basic financial statements. In this regard, both the Statements of Changes in Plan Net Assets and the Schedule of Contributions from Employers and Other Contributing Entity disclose the amount of contributions received from participating employers. However, the Schedule of Contributions from Employers and Other Contributing Entity differs from the Statements of Changes in Plan Net Assets in that the schedule's only focus is to disclose the contributions required to be made in accordance with the System's funding policy and the percentage of the required contributions actually made during the fiscal years presented.

The notes to the required supplementary information provide background information and explanatory detail to aid in understanding the required supplementary schedules. Finally, the other supplementary schedules, presented immediately after the required supplementary information, summarize the changes in fund balances, disclose major categories of operating and investment expenses, discuss the development of the System's statutory transfer refund rate and provide combining, plan-level detail related to asset, liability, income and expense amounts summarized in the basic financial statements.

Analysis of Financial Position and Results of Operations

The System's overall funding objective is to accumulate sufficient assets over time to meet its long-term benefit obligations as they become due. Accordingly, collecting employer and member contributions as well as earning an adequate long-term rate of return on its investments are essential components of the System's plan for accumulating the funds needed to finance future retirement benefits. In this regard, fiscal year 2004 showed significant improvement over the prior 3 fiscal years for both the financial markets and the economy as a whole.

Fiscal Year 2004 compared to 2003

Cash and cash equivalents and investments, at fair value, comprised 98.6% and 98.7% of the total assets of the Plan at June 30, 2004 and 2003 respectively.

The schedule below indicates a significant increase (13.2%) in the managed assets of the System. Cash and cash equivalents decreased by 31.9% primarily due to the completion of the portfolio restructuring that began during fiscal year 2003. The decrease in U.S. Government Obligations was primarily due to the elimination of a portfolio comprised entirely of such instruments which was subsequently reinvested into Domestic Corporate Obligations. The equity markets' strong performance during fiscal year 2004 drove the increase in Domestic and International Stocks.

A schedule of the System's net assets and changes (by type) from fiscal year 2003 to 2004 is as follows *(expressed in millions)*:

	June 30, 2004	June 30, 2003	Change Amount	Change %
Cash & cash equivalents	$ 1,660.2	$ 2,436.7	$ (776.5)	-31.9%
U.S. Government obligations	843.1	2,439.9	(1,596.8)	-65.4%
Domestic corporate obligations	5,915.1	3,955.3	1,959.8	49.5%
International obligations	186.0	66.1	119.9	181.4%
Domestic stocks	15,534.4	12,017.2	3,517.2	29.3%
International stocks	4,574.1	3,981.9	592.2	14.9%
Mortgages & mortgage related securities	1,255.1	1,522.3	(267.2)	-17.6%
Real estate	780.2	771.5	8.7	1.1%
Alternative investments	174.3	134.0	40.3	30.1%
Total managed investments	30,922.5	27,324.9	3,597.6	13.2%
Collateral for loaned securities	1,575.6	2,291.8	(716.2)	-31.3%
Total investments and cash & cash equivalents	32,498.1	29,616.7	2,881.4	9.7%
Receivables	477.7	405.1	72.6	17.9%
Total assets	32,975.8	30,021.8	2,954.0	9.8%
Liabilities	2,809.1	3,294.0	(484.9)	-14.7%
Total net assets	$30,166.7	$26,727.8	$ 3,438.9	12.9%

As depicted in the schedule below, contributions collected by the System increased modestly during fiscal year 2004. Additionally, a strong recovery in the financial markets provided significant improvement in net investment income (a $3.4 billion increase). The system experienced an investment return of 16.2% after experiencing negative returns in 2 of the last 3 preceding years. The fund, as expected, continues to pay out more in benefits than it collects in contributions and that, coupled with an increase of almost $100 million in benefits paid to retirees, negated a small amount of the large investment gain enjoyed by the System in fiscal year 2004.

A schedule of the System's additions to and deductions from plan net assets and related changes (by major category) from fiscal year 2003 to 2004 is as follows *(expressed in millions)*:

	June 30, 2004	June 30, 2003	Change Amount	Change %
Employer contributions	$ 221.0	$ 226.3	$ (5.3)	-2.3%
Member contributions	204.2	207.6	(3.4)	-1.6%
Other & contribution interest	411.0	380.6	30.4	8.0%
Net investment income	4,202.6	756.7	3,445.9	455.4%
Total additions	5,038.8	1,571.2	3,467.6	220.7%
Benefit payments	1,570.6	1,474.3	96.3	6.5%
Refunds	11.9	16.3	(4.4)	-27.0%
Administrative expenses	17.4	21.3	(3.9)	-18.3%
Total deductions	1,599.9	1,511.9	88.0	5.8%
Net increase in plan net assets	$3,438.9	$ 59.3	$3,379.6	5699.2%

Fiscal Year 2003 compared to 2002

Cash and cash equivalents were more than double the amount on hand at the end of fiscal year 2002. This was primarily due to a restructuring of the System's investment portfolio that was in progress at the 2003 fiscal year end. The restructuring, consisting of a reallocation of $1.3 billion out of internally managed U.S. Treasuries into a Lehman Brothers Aggregate bond index fund and a corresponding reallocation of invested funds from international stocks into U.S. Treasuries, explains the decreases in international stocks and U.S. government obligations and the increase in domestic corporate obligations. Mortgage and mortgage related securities also saw a significant decrease as part of the above referenced reallocation of assets. The decrease in domestic stocks was primarily due to a decline in the U.S. equity markets during the fiscal year ended June 30, 2003.

A schedule of the System's investments and changes (by type) from fiscal year 2002 to 2003 is as follows (*expressed in millions*):

	June 30,		Change	
	2003	**2002**	**Amount**	**%**
Cash & cash equivalents	$ 2,436.7	$ 1,141.6	$ 1,295.1	113.4%
U.S. Government obligations	2,439.9	2,892.3	(452.4)	-15.6%
Domestic corporate obligations	3,955.3	2,743.2	1,212.1	44.2%
International obligations	66.1	77.1	(11.0)	-14.3%
Domestic stocks	12,017.2	12,641.7	(624.5)	-4.9%
International stocks	3,981.9	4,715.1	(733.2)	-15.6%
Mortgages & mortgage related securities	1,522.3	2,005.2	(482.9)	-24.1%
Real estate	771.5	733.3	38.2	5.2%
Alternative investments	134.0	82.1	51.9	63.2%
Total managed investments	27,324.9	27,031.6	293.3	1.1%
Collateral for loaned securities	2,291.8	2,304.9	(13.1)	-0.6%
Total investments and cash & cash equivalents	$29,616.7	$29,336.5	$ 280.2	1.0%

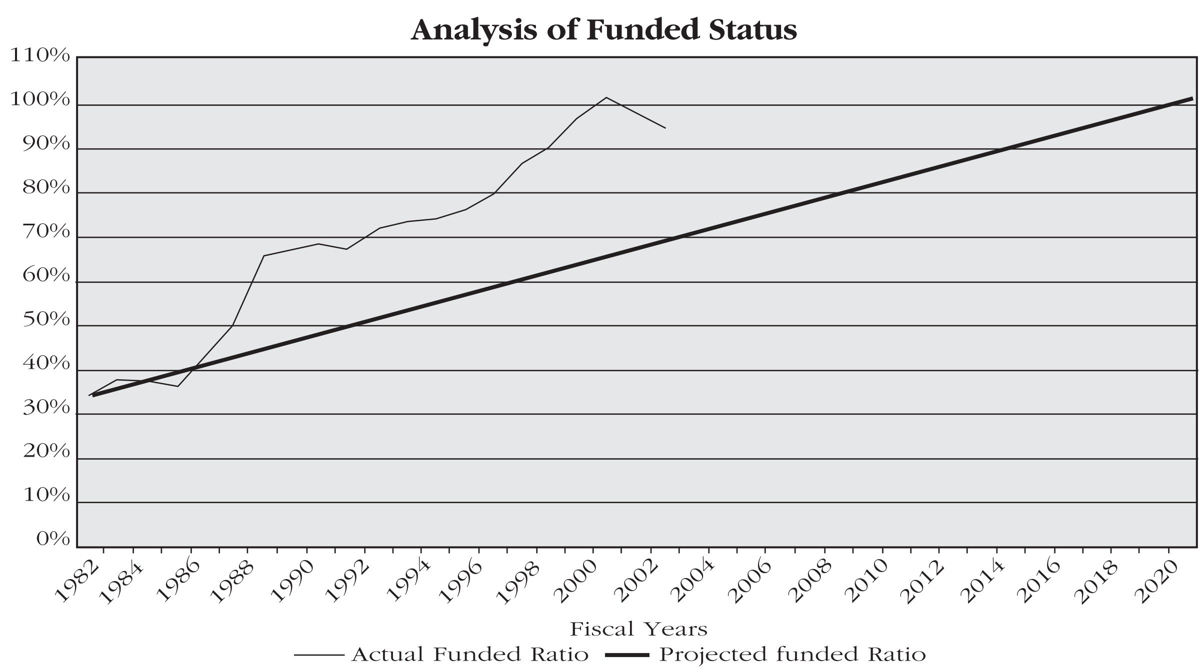
Contributions collected by the System increased during fiscal year 2003 as compared to the prior fiscal year. Additionally, a recovery in the financial markets, especially during the second half of fiscal year 2003, provided significant improvement in net investment income. The system experienced positive investment returns after 2 consecutive years of negative returns. However, because the fund paid out more in benefits than it collected in contributions, much of the investment gain was negated leading to a small net increase in plan net assets of $59 million.

A schedule of the System's additions to and deductions from plan net assets and related changes (by major category) from fiscal year 2002 to 2003 is as follows *(expressed in millions)*:

	June 30,		Change	
	2003	2002	Amount	%
Employer contributions	$ 226.3	$ 226.9	$ (0.6)	-0.3%
Member contributions	207.6	199.3	8.3	4.2%
Other & contribution interest	380.6	352.8	27.8	7.9%
Net investment income	756.7	(2,265.3)	3,022.0	133.4%
Total additions	1,571.2	(1,486.3)	3,057.5	205.7%
Benefit payments	1,474.3	1,372.3	102.0	7.4%
Refunds	16.3	17.5	(1.2)	-6.9%
Administrative expenses	21.3	20.1	1.2	6.0%
Total deductions	1,511.9	1,409.9	102.0	7.2%
Net increase (decrease) in plan net assets	$ 59.3	$(2,896.2)	$ 2,955.5	102.0%

Analysis of Funded Status

The System remains financially sound as of June 30, 2004 and significantly ahead of its original actuarial funding schedule, which projected the Unfunded Actuarial Accrued Liability (UAAL) that existed as of June 30, 2000 and which is being amortized over a 40-year period (as provided by law) from July 1, 1980 to be fully funded by the year 2020. As provided by law, any new unfunded liabilities arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be funded over a 25-year period. The following graph illustrates this point.



In analyzing the System's overall funded status, it is important to remember that a retirement system's funding plan is based on a long time horizon, where temporary ups and downs in the market are expected. The more critical factor is that the System be able to meet the current expected earnings yield of, on average, a 7.75 percent annual return on investments.

Requests for Information

Members of the System's Board of Trustees and senior management are fiduciaries of the pension trust fund and, as such, are charged with the responsibility of ensuring that the System's assets are used exclusively for the benefit of plan participants and their beneficiaries. This financial report is designed to provide an overview of the System's finances and to demonstrate accountability for the resources entrusted to the System for the benefit of all of the System's stakeholders. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

State Retirement and Pension System of Maryland
Attn: Mr. Arthur Broadwick
120 E. Baltimore Street, Suite 1660
Baltimore, Maryland 21202-1600

This page intentionally left blank

STATEMENTS OF PLAN NET ASSETS
as of June 30, 2004 and 2003
(Expressed in Thousands)

	2004	2003
Assets:		
Cash & cash equivalents (note 3)	$ 1,660,242	$ 2,436,697
Receivables:		
Contributions:		
Employers	3,532	10,639
Employers – long term (note 5)	77,549	79,713
Members	1,164	3,753
Accrued investment income	60,561	84,595
Investment sales proceeds	334,878	226,391
Total receivables	477,684	405,091
Investments, at fair value (notes 2 & 3):		
U.S. Government obligations	843,134	2,439,957
Domestic corporate obligations	5,915,050	3,955,314
International obligations	185,974	66,099
Domestic stocks	15,534,356	12,017,175
International stocks	4,574,130	3,981,883
Mortgages & mortgage related securities	1,255,142	1,522,255
Real estate	780,166	771,507
Alternative investments	174,258	134,042
Collateral for loaned securities	1,575,643	2,291,759
Total investments	30,837,853	27,179,991
Total assets	32,975,779	30,021,779
Liabilities:		
Accounts payable & accrued expenses (note 7)	48,607	43,739
Investment commitments payable	1,183,453	957,197
Obligation for collateral for loaned securities	1,575,643	2,291,759
Other liabilities	1,352	1,262
Total liabilities	2,809,055	3,293,957
Net assets held in trust for pension benefits	$30,166,724	$26,727,822

(A schedule of funding progress is presented on page 32)

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, 2004 and 2003
(Expressed in Thousands)

	2004	2003
Additions:		
Contributions (note 4):		
Employers	$ 221,023	$ 226,344
Members	204,158	207,584
Other	405,605	374,986
Contribution interest (note 5)	5,424	5,570
Total contributions	836,210	814,484
Investment income:		
Net appreciation in fair value of investments	3,813,701	107,467
Interest	216,802	406,860
Dividends	190,984	245,493
Real estate operating net income	29,515	31,016
Income before securities lending activity	4,251,002	790,836
Gross income from securities lending activity	20,709	38,712
Securities lending borrower rebates	(13,619)	(29,037)
Securities lending agent fees	(1,418)	(1,933)
Net income from securities lending activity	5,672	7,742
Total investment income	4,256,674	798,578
Less investment expenses (note 2f)	(54,042)	(41,831)
Net investment income	4,202,632	756,747
Total additions	5,038,842	1,571,231
Deductions:		
Benefit payments	1,570,622	1,474,257
Refunds (note 6)	11,942	16,310
Administrative expenses (note 2f)	17,376	21,352
Total deductions	1,599,940	1,511,919
Net increase in plan assets	3,438,902	59,312
Net assets held in trust for pension benefits:		
Beginning of the fiscal year	26,727,822	26,668,510
End of the fiscal year	$30,166,724	$26,727,822

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 contributions on earnings up to the social security wage base being refunded (see note 6). On or after January 1, 2005, an individual who is a member of the Teachers' Retirement System may not transfer membership to the Teachers' Pension System.

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 6). On or after January 1, 2005, an individual who is a member of the Employees' Retirement System may not transfer membership to the Employees' Pension System. Currently, 135 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, 2004, with comparative 2003 totals:

	Inactive &	Retirees &	Active Plan Participants		
	Deferred Vested	Beneficiaries	Vested	Non-vested	Total
Teachers' Retirement & Pension Systems	19,805	45,691	64,697	31,265	95,962
Employees' Retirement & Pension Systems	26,937	46,472	59,596	26,848	86,444
Judges' Retirement System	14	309	283	-	283
State Police Retirement System	44	1,790	1,121	324	1,445
Local Fire and Police System	30	37	28	24	52
Law Enforcement Officers' Pension System	81	581	1,178	497	1,675
Totals as of June 30, 2004	46,911	94,880	126,903	58,958	185,861
Totals as of June 30, 2003	45,573	90,803	124,811	65,210	190,021

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 subsequent 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% of the member's AFS.

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 retirement 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 requirements, 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 total assets of the System (valued at cost). The System did not exceed either of these investment limits.

c. Portfolio Valuation Method

The System's 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 2004, 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) or other securities 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, 2004, 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 one of the lending agent's short-term investment pools, which at June 30, 2004 had a weighted average maturity of fifty-two days and an average expected maturity of one hundred eighteen 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, 2004, the fair value of loaned securities and the related collateral were as follows (*expressed in thousands*):

	Fair Value	Collateral	Percent Collateralized
International equity securities	$ 550,741	$ 577,990	104.9%
Fixed and domestic equity securities	1,009,063	1,025,402	101.6%
Totals	$1,559,804	$1,603,392	

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, swaps, 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 enters into forward foreign currency exchange contracts for hedging purposes to minimize the short-term impact of foreign currency fluctuations on the asset positions of foreign investments. These foreign currency exchange contracts are reported at fair value based on published market prices and quotations from major investment firms. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The System seeks to minimize risk from counterparties by establishing minimum credit quality standards.

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 page 36 for detailed schedules of administrative and investment expenses, respectively.

g. Federal Income Tax Status

During the fiscal years ended June 30, 2004 and 2003, 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 $1,660,242,000 and $2,436,697,000 as of June 30, 2004 and 2003, respectively. Included as cash equivalents for financial statement presentation purposes were certain short-term investments (e.g., commercial paper) which are categorized in note 3b for custodial credit risk purposes as investments. These cash equivalent investments totaled $1,551,447,000 and $2,334,885,000 as of June 30, 2004 and 2003, 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, 2004, the carrying amount of both the System's uninsured and uncollateralized deposits and bank balance was $108,795,000 and comprises the System's Category 3 assets. Due to significantly higher cash flows at certain times of the year, the System's uninsured and uncollateralized deposits and bank balances increased significantly; as a result, the amounts of uninsured and uncollateralized deposits and bank balances at those times were significantly higher.

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, 2004, with comparative 2003 totals (*expressed in thousands*):

		Carrying Value	
	Category 1	**2004**	**2003**
Investments			
Commercial paper	$ 178,999	$ 178,999	$ 343,007
U.S. Government obligations	314,290	314,290	930,513
Domestic corporate obligations	1,396,670	1,396,670	1,806,219
Mortgage related securities	1,252,679	1,252,679	1,519,523
Domestic stocks	5,399,281	5,399,281	3,446,377
International obligations	37,107	37,107	3,593
International stocks	3,335,316	3,335,316	2,418,362
Total investments to be categorized	$11,914,342	11,914,342	10,467,594
Mutual funds		15,037,465	11,630,456
Real estate		780,166	771,507
Mortgages		2,463	2,732
Alternative investments		174,258	134,042
Global pooled short-term investments		1,372,448	1,991,878
Investments held by borrowers under securities loans with cash collateral:			
U.S. Government obligations		528,844	1,509,444
Domestic corporate obligations		126,526	10,384
Domestic stocks		327,342	152,134
International stocks		549,803	552,946
Collateral for loaned securities		1,575,643	2,291,759
Total vested assets		$32,389,300	$29,514,876

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 fully fund normal costs and amortize the unfunded actuarial accrued liability.

The unfunded actuarial liability is being amortized in distinct layers. The unfunded actuarial accrued liability which existed as of the June 30, 2000 actuarial valuation is being amortized over a 40-year period (as provided by law) from July 1, 1980. Also as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose.

Effective July 1, 2002, the law provides that the contribution rates may be more or less than the actuarially determined rates as described above for the Employees' Retirement and Pension Systems and the Teachers' Retirement and Pension Systems. When the funding ratio for each of the combined Systems is at least 90% but not more than 110%, the contribution rate will be the rate certified by the Board of Trustees for the previous fiscal year, adjusted to reflect legislative changes that result in changes to the normal cost. If the funding ratio is below 90%, the contribution rate will be the sum of the contribution rate for the previous fiscal year and 20% of the difference between the full funding rate for the current fiscal year and the contribution rate for the previous fiscal year. If the funding ratio is above 110%, the contribution rate will be the difference between the contribution rate for the previous fiscal year and 20% of the difference between the contribution rate for the previous fiscal year and the full funding rate for the current fiscal year.

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 135 participating governmental units make all of the employer and other (non-employer) contributions to the System.

5. Long-Term Contributions Receivable

In addition to actuarially determined contributions, certain withdrawn employers also make annual installment payments, including interest at the actuarially assumed rate of return in effect at the time of withdrawal (7% or 7.5% per year), for liabilities associated with employees that have elected to stay in the System when their employer elected to withdraw. As of June 30, 2004 and 2003, the outstanding balances were $77,549,000 and $79,713,000, respectively. These payments are due over various time periods, based on the date of the employer's withdrawal, and all are scheduled to culminate with their final payment in fiscal year 2020.

6. 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, 2004 and 2003, refunds to members and withdrawing employers were as follows (*expressed in thousands*):

	2004	2003
Member refunds	$ 11,884	$11,198
Employer refunds	58	5,112
Total refunds	$ 11,942	$16,310

7. Accounts Payable and Accrued Expenses

For the fiscal years ended June 30, 2004 and 2003, accounts payable and accrued expenses consisted of the following components (*expressed in thousands*):

	2004	2003
Administrative expenses	$ 7,123	$ 10,783
Investment management fees	25,693	18,107
Tax and other withholdings	15,791	14,849
Total	$ 48,607	$ 43,739

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]
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	5,900,456	43
1999*	27,646,579	28,475,380	828,801	97.09	6,312,417	13
2000	30,649,380	30,279,866	(369,514)	101.22	6,725,870	(5)
2001	31,914,778	32,469,942	555,164	98.29	7,255,036	8
2002	32,323,263	34,131,284	1,808,021	94.70	7,867,794	23
2003	32,631,465	34,974,601	2,343,136	93.30	8,134,419	29
2004	33,484,657	36,325,704	2,841,047	92.18	8,069,481	35

* 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
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
2002	574,019	100
2003	654,578	92
2004	710,632	89

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, 2004 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, 2004, the System's funded ratio decreased from 93.30 percent to 92.18 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, 2004, the System's ratio of the unfunded actuarial accrued liability to its covered payroll went from 29 percent to 35 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 (see note 4).

The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 16-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate annual layers over a 25-year period. Each separate amortized layer has a closed amortization period. The equivalent single amortization period is 30 years.

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.

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, 2004:

- a rate of return on investments of 7.75 percent compounded annually (adopted June 30, 2003);
- projected salary increases of 4 percent compounded annually, attributable to inflation (adopted June 30, 2003);

- additional projected salary increases ranging from 0.00 percent to 11.96 percent per year attributable to seniority and merit (adopted June 30, 2003);

- post-retirement benefit increases ranging from 3 percent to 4 percent per year depending on the system (adopted June 30, 2003);

- rates of mortality, termination of service, disablement and retirement based on actual experience during the period from 1981 through 2002 (adopted June 30, 2003); and

- an increase in the aggregate active member payroll of 4 percent annually (adopted June 30, 2003).

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, 2004 (with Comparative 2003 Totals)

(Expressed in Thousands)

	Annuity Savings Fund	Accumulation Fund	Expense Fund	Totals 2004	Totals 2003
Fund balances, beginning of year	$1,973,370	$24,754,452	$ -	$26,727,822	$26,668,510
Additions:					
Net investment income	-	4,256,674	(54,042)	4,202,632	756,747
Contributions (note 4):					
Employers	-	221,023	-	221,023	226,344
Members	204,158	-	-	204,158	207,584
Other	-	405,605	-	405,605	374,986
Contribution interest	-	5,424	-	5,424	5,570
Deductions:					
Benefit payments	-	(1,570,622)	-	(1,570,622)	(1,474,257)
Refunds (note 6)	(11,884)	(58)	-	(11,942)	(16,310)
Administrative expenses (note 2f)	-	-	(17,376)	(17,376)	(21,352)
Transfers:					
From the Accumulation Fund to the Annuity Savings Fund for interest credited to members' accounts	83,868	(83,868)	-	-	-
To the Accumulation Fund from the Annuity Savings Fund for contributions of retiring members	(185,449)	185,449	-	-	-
From the Accumulation Fund to the Expense Fund for administrative and investment expenses	-	(71,418)	71,418	-	-
Net changes in fund balances	90,693	3,348,209	-	3,438,902	59,312
Fund balances, end of year	$2,064,063	$28,102,661	$ -	$30,166,724	$26,727,822

Schedule of Administrative Expenses

for the Fiscal Years Ended June 30, 2004 and 2003

(Expressed in Thousands)

	2004	2003
Personnel services:		
Staff salaries	$8,779	$ 9,105
Fringe benefits	2,417	2,313
Total personnel services	11,196	11,418
Professional and contractual services:		
Actuarial	137	102
Legal and financial	236	223
Consulting services	145	65
Data processing	1,257	5,193
Other contractual services	490	402
Total professional and contractual services	2,265	5,985
Miscellaneous:		
Communications	1,054	1,290
Rent	1,759	1,618
Equipment and supplies	372	258
Other	730	783
Total miscellaneous	3,915	3,949
	$ 17,376	$21,352

Schedule of Investment Expenses

for the Fiscal Years Ended June 30, 2004 and 2003

(Expressed in Thousands)

	2004	2003
Investment advisors:		
Equity managers	$33,171	$23,467
Fixed managers	9,459	7,285
Real estate managers	9,540	9,188
Total investment advisory fees	52,170	39,940
Other investment service fees:		
Master custody	928	866
Income verification services	284	284
Investment consultant	452	420
Other investment expenses	208	321
Total other investment service fees	1,872	1,891
Total investment expenses	$54,042	$41,831

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 2004 and 2003 were 5.6 and 8.2 percent, respectively. For purposes of computing the 2004 and 2003 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 2003 data	**Fiscal year 2002 data**
Realized investment income	$ 189,725	$ 120,971
Cost basis of investments	25,659,302	26,208,427

Schedule of Plan Net

as of June 30, 2004

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System
Assets:			
Cash & cash equivalents (note 3)	$ 987,090	$ 553,786	$ 12,907
Receivables:			
Contributions:			
Employers	2	2,956	8
Employers - long term (note 5)	-	77,549	-
Members	339	802	-
Accrued investment income	36,567	20,837	449
Investment sales proceeds	202,097	115,276	2,482
Due from other systems	858	-	-
Total receivables	239,863	217,420	2,939
Investments, at fair value (notes 2 & 3):			
U.S. Government obligations	508,582	290,362	6,248
Domestic corporate obligations	3,567,985	2,037,054	43,831
International obligations	112,180	64,046	1,378
Domestic stocks	9,412,169	5,328,159	115,348
International stocks	2,772,292	1,568,509	33,966
Mortgages & mortgage related securities	757,107	432,252	9,301
Real estate	470,681	268,489	5,789
Alternative investments	105,428	59,837	1,294
Collateral for loaned securities	950,435	542,627	11,676
Total investments	18,656,859	10,591,335	228,831
Total assets	19,883,812	11,362,541	244,677
Liabilities:			
Accounts payable & accrued expenses	30,430	15,506	485
Investment commitments payable	713,960	407,503	8,771
Obligation for collateral for loaned securities	950,435	542,627	11,676
Other liabilities	816	465	10
Due to other systems	874	617	-
Total liabilities	1,696,515	966,718	20,942
Net assets held in trust for pension benefits *(A schedule of funding progress is presented on page 32)*	$18,187,297	$10,395,823	$ 223,735

* *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
$ 89,950	$ 639	$ 15,870	$ 1,660,242	-	$ 1,660,242
-	-	566	3,532	-	3,532
-	-	-	77,549	-	77,549
-	-	23	1,164	-	1,164
2,224	8	476	60,561	-	60,561
12,352	44	2,627	334,878	-	334,878
-	-	633	1,491	(1,491)	-
14,576	52	4,325	479,175	(1,491)	477,684
31,230	112	6,600	843,134	-	843,134
219,097	783	46,300	5,915,050	-	5,915,050
6,889	25	1,456	185,974	-	185,974
552,631	2,097	123,952	15,534,356	-	15,534,356
162,199	617	36,547	4,574,130	-	4,574,130
46,491	166	9,825	1,255,142	-	1,255,142
28,991	106	6,110	780,166	-	780,166
6,293	24	1,382	174,258	-	174,258
58,363	209	12,333	1,575,643	-	1,575,643
1,112,184	4,139	244,505	30,837,853	-	30,837,853
1,216,710	4,830	264,700	32,977,270	(1,491)	32,975,779
1,836	11	339	48,607	-	48,607
43,793	157	9,269	1,183,453	-	1,183,453
58,363	209	12,333	1,575,643	-	1,575,643
50	-	11	1,352	-	1,352
-	-	-	1,491	(1,491)	-
104,042	377	21,952	2,810,546	(1,491)	2,809,055
$ 1,112,668	$4,453	$ 242,748	$30,166,724	$ -	$30,166,724

Schedule of changes in

for the Fiscal Year Ended

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System
Additions:			
Contributions (note 4):			
Employers	$ 12,564	$ 162,581	$14,475
Members	113,536	79,864	1,458
Other	405,407	-	198
Contribution interest (note 5)	-	5,424	-
Total contributions	531,507	247,869	16,131
Investment income:			
Net appreciation in fair value of investments	2,304,765	1,311,207	27,655
Interest	119,588	77,063	2,464
Dividends	115,370	65,526	1,406
Real estate operating net income	17,940	10,017	218
Income before securities lending activity	2,557,663	1,463,813	31,743
Gross income from securities lending activity	11,381	7,378	235
Securities lending borrower rebates	(7,484)	(4,851)	(155)
Securities lending agent fees	(779)	(505)	(16)
Net income from securities lending activity	3,118	2,022	64
Total investment income	2,560,781	1,465,835	31,807
Less investment expenses	(32,635)	(18,579)	(398)
Net investment income	2,528,146	1,447,256	31,409
Transfers from other systems	1,594	522	-
Total additions	3,061,247	1,695,647	47,540
Deductions:			
Benefit payments	965,078	514,949	17,453
Refunds (note 6)	5,050	6,244	-
Administrative expenses (note 2f)	10,494	5,978	127
Transfers to other systems	1,695	8,547	-
Total deductions	982,317	535,718	17,580
Net increase (decrease) in plan assets	2,078,930	1,159,929	29,960
Net assets held in trust for pension benefits:			
Beginning of the fiscal year	16,108,367	9,235,894	193,775
End of the fiscal year	$18,187,297	$10,395,823	$ 223,735

** Intersystem transfers have been eliminated in the financial statements.*

Plan Net Assets by System

June 30, 2004

State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Total
$ 5,827	$ 373	$ 25,203	$ 221,023	$ -	$ 221,023
6,312	-	2,988	204,158	-	204,158
-	-	-	405,605	-	405,605
-	-	-	5,424	-	5,424
12,139	373	28,191	836,210	-	836,210
142,334	1,071	26,669	3,813,701	-	3,813,701
16,177	127	1,383	216,802	-	216,802
7,293	54	1,335	190,984	-	190,984
1,123	8	209	29,515	-	29,515
166,927	1,260	29,596	4,251,002	-	4,251,002
1,578	11	126	20,709	-	20,709
(1,038)	(8)	(83)	(13,619)	-	(13,619)
(108)	(1)	(9)	(1,418)	-	(1,418)
432	2	34	5,672	-	5,672
167,359	1,262	29,630	4,256,674	-	4,256,674
(2,013)	(13)	(404)	(54,042)	-	(54,042)
165,346	1,249	29,226	4,202,632	-	4,202,632
53	2	13,409	15,580	(15,580)	-
177,538	1,624	70,826	5,054,422	(15,580)	5,038,842
59,992	671	12,479	1,570,622	-	1,570,622
572	-	76	11,942	-	11,942
646	4	127	17,376	-	17,376
-	5,283	55	15,580	(15,580)	-
61,210	5,958	12,737	1,615,520	(15,580)	1,599,940
116,328	(4,334)	58,089	3,438,902	-	3,438,902
996,340	8,787	184,659	26,727,822	-	26,727,822
$ 1,112,668	$ 4,453	$ 242,748	$30,166,724	$ -	$30,166,724

This page intentionally left blank

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 1,400 officers throughout 23 counties strive to improve the quality of life for the citizens of Maryland by ensuring public safety.

CHIEF INVESTMENT OFFICERS REPORT

OVERVIEW

The State Retirement and Pension System (SRPS) returned 16.2 percent for the fiscal year ended June 30, 2004. This was a strong year not only in terms of absolute returns, but was also favorable versus peers, with the return exceeding the median return of all public funds with assets over $1 billion for the first time since fiscal year 2000.

Domestic and international equity markets rebounded strongly from three poor years, triggered by signs of a recovering economy. For the year, the S&P 500 increased by 19.1 percent while international stocks, as measured by the EAFE index, returned 32.4 percent. Bonds eked out a slight positive return, 0.3 percent for the Lehman Aggregate index, due to the low level of interest rates. This followed three very strong years in the bond market. Real estate continued to have strong performance, with the NCREIF property index (one quarter lagged) gaining 9.7 percent and the Wilshire REIT index 29.3 percent.

We have had a number of important initiatives for the year, one of which I'd like to highlight. In response to concerns about corporate scandals, which have been all too prevalent, the Board authorized formation of a Corporate Governance subcommittee. This subcommittee is focused on our role as steward of $30 billion of assets, and the concomitant responsibility of holding the companies that we invest in accountable for actions that impact those assets. Board and Staff resources have been dedicated to this role, which will include revising proxy voting guidelines consistent with our fiduciary and stewardship responsibilities.

Our focus for fiscal year 2005 is a review of our asset allocation. With the low level of interest rates and valuations in the equity markets not particularly compelling, returns over the intermediate future are expected to be modest compared to returns we saw during the 1990s. Given the difficult investment environment and the fact that risk needs to be taken to increase expected returns, we are searching for the optimal tradeoff that will provide an attractive return expectation, while also maintaining risk at acceptable levels.

We are pleased that SRPS was able to deliver above-median returns for fiscal year 2004 for our plan participants and beneficiaries. While we realize markets are cyclical and returns will not always be at 2004 levels, you can be assured we will continue to strive for competitive returns going forward in a challenging market environment.

Investment Policy and Objectives

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

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 almost exclusively by external investment management firms, who employ both active and passive strategies. Firms retained must have a demonstrated performance record and a clearly defined and consistently applied investment process.

Investment objectives are designed to support fulfillment of the Agency's mission, which is to optimize risk-adjusted returns in order to ensure timely payment of benefits to members and beneficiaries. SRPS is a long-term investor, and consequently, long-term results are emphasized over short-term gains.

The Board has invested SRPS' assets with the goal of achieving an annualized investment return that:

1. **Meets or exceeds the System's static investment policy benchmark.** The static policy benchmark is the weighted average of the benchmarks for each asset class, using the target weightings for each asset class. The static policy benchmark enables a comparison to be made of the System's actual performance to a passively managed proxy, and facilitates measurement of the value added from active management and policy implementation.
2. **Provides at least a 3 percent real rate of return (return in excess of U.S. inflation).** The infla-

tion related objective compares the investment performance against the rate of inflation as measured by the Consumer Price Index (CPI) plus 3.0 percent. The inflation measure provides a link to SRPS' liabilities, as they are indexed to inflation through cost-of-living adjustments.

3. **Equals or exceeds the actuarial investment return assumption of the System adopted by the Board of Trustees.** The actuarial return assumption is reviewed and monitored as a measure of the expected long-term rate of growth of SRPS' assets. The actuarial rate of interest as of June 30, 2004 was 7.75 percent. When adopting the actuarial rate of interest, the Board anticipates, and fully expects, that the investment portfolio will achieve higher returns in some years and lower returns in other years.

The Board also weighs three liability-oriented objectives when making asset allocation determinations. The liability-oriented objectives are:

1. To achieve and maintain a fully funded pension plan.
2. To minimize contribution volatility year to year.
3. To achieve parity of assets and liabilities, and surplus assets.

Asset allocation is a key determinant of a successful investment program, and may be responsible for determining as much as 90 percent of the plan's return in a given year. The Board takes both asset and liability side considerations into account when determining its asset allocation policy.

Asset allocation policy targets are determined recognizing that liabilities (future benefits payments to SRPS' participants and beneficiaries) must be paid in a full and timely manner. To ensure this, there is a dual focus. First of all, there is a focus on long-term return, to ensure an attractive rate of return on plan assets over the period benefits must be paid. Secondly, there is a focus on risk. This entails diversifying assets, with a recognition that individual asset classes can be volatile over shorter time horizons, but diversification will often serve to lower overall portfolio volatility.

As of June 30, 2004, the Board-approved policy targets and ranges were:

ASSET CLASS	TARGET	RANGE
Equity Assets		
Domestic Equities	48%	43 - 53%
International Equities	15%	12 – 18%
Private Equity	2%	0 – 3%
Equity Total	**65%**	**60 - 70%**
Fixed Income	**30%**	**25 - 35%**
Real Estate	**5%**	**3 – 7%**
TOTAL ASSETS	**100%**	

The only change in policy targets from fiscal year 2003 was an increase in the private equity target from 1 percent to 2 percent, with a corresponding reduction in domestic equities. The Board approved the hiring of a private equity consultant to implement this increased exposure to private equity.

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 realized a return of 16.2 percent for fiscal year 2004. Annualized returns for the 3, 5, and 10-year periods ending June 30 were 3.5 percent, 2.3 percent and 8.2 percent, respectively.

The market value of System assets increased from $26.7 billion on June 30, 2003 to $30.1 billion on June 30, 2004. The System's equity investments returned 23.1 percent, with U.S. equities returning 21.6 percent and international equities returning 28.6 percent. The System's fixed income investments returned 1.6 percent, and real estate 20.4 percent.

The System attained its three broad investment objectives this fiscal year – exceeding the return of the static policy benchmark, exceeding a 3 percent real rate of return (after inflation), and exceeding the actuarial assumed rate of 7.75 percent. Outperformance of the plan policy benchmark was driven by manager value-added in U.S. Equities, Fixed Income, and Real Estate. This more than offset the manager impact on International Equity, as returns on this asset class fell short of benchmark despite returning a strong 28.6 percent.

Returns and Exposures were as follows:

	SRPS Performance	FY 2004 Benchmark Performance	SPRS Exposure
Equity Markets	21.6%		48.7%
U.S. Equities			
Russell 3000		20.5%	
S&P 500		19.1%	
Russell 2000		33.4%	
International Equities	28.6%		15.3%
MSCI ACWI ExUS		32.0%	
MSCI EAFE		32.4%	
Private Equity	13.6%		0.3%
S&P 500 + 500		24.1%	
Real Estate	20.4%		6.8%
Russell NCREIF (1 quarter lag)		9.7%	
Dow Wilshire Real Estate Securities		29.3%	
Bond Markets	1.6%		28.9%
Lehman Brothers Universal Bond Index		1.0%	
Lehman Brothers Aggregate Bond Index		0.3%	
Merrill Lynch High Yield Index		10.2%	

ECONOMIC AND CAPITAL MARKET OVERVIEW

The Federal Reserve kept the Federal Funds rate at 1.00 percent until the last day of the fiscal year, June 30, when it raised the benchmark rate to 1.25 percent. This increase was largely expected by the market as growth took hold and several key inflation indicators rose, and the unemployment rate began to decline. The expectation is that this was the first in a series of tightening moves by the Federal Reserve to return monetary policy closer to a neutral stance, but the Fed will be watching economic signs closely for any sign of weakness.

In anticipation of Fed tightening, interest rates increased. The ten-year Treasury yield increased by more than 100 basis points during the year, rising from 3.52 percent to 4.58 percent. The yield return on bonds over this period was largely offset by capital losses due to the increase in interest rates.

Equities reacted to stronger growth with strong returns, mainly in the first seven months of the fiscal year. Beginning in February, equities leveled off due to uncertainty on several fronts – the extent of Federal Reserve interest rate increases, oil prices, the presidential election, the war in Iraq, the direction of the dollar, and inflation.

PUBILC EQUITY

On June 30, 2004, SRPS had $19.3 billion invested in public equities comprised of $14.7 billion in U.S. equities and $4.6 billion in international equities. These assets were placed with sixteen external managers and broadly diversified among the major countries and industrial sectors of the developed and emerging markets. The managers use active and passive strategies, with the goal of active strategies being to outperform their assigned benchmark, net of fees, over three to five years.

U.S. EQUITIES

U.S. equity returns are benchmarked against the Russell 3000 Index. On June 30, slightly more than 68 percent of U.S. equities, or $10 billion, was invested in two passive index strategies. The remaining 32 percent, or $4.7 billion, was allocated among 12 active managers whose styles include micro cap, small cap value, small cap growth, mid cap value, large cap value, large cap growth and large cap core.

U.S. Equity	$Millions	% of Total
Passively Managed		
Barra Growth	724	3.8%
Russell 3000	9,301	48.3%
Total Passive	10,025	52.1%
Actively Managed		
Large cap value	1,775	9.2%
Large cap growth	883	4.6%
Large cap core	470	2.4%
Mid cap value	296	1.5%
Small cap growth	290	1.5%
Small cap value	133	0.7%
Micro cap	507	2.6%
Total Active	4,354	22.6%
Convertible securities	275	1.4%
Total U.S. Equity	**14,654**	**76.1%**

For the fiscal year, returns on the SRPS U.S. equity portfolio of 21.6 percent exceeded the 20.5 percent return of the Russell 3000 as well as the 19.1 percent return of the S&P 500 Index. Over this period, small cap stocks outperformed large cap stocks and value stocks outperformed growth stocks, continuing a trend of the past several years. However, in the final quarter of fiscal 2004, these trends seemed to be reversing as large cap growth stocks outperformed large cap value stocks.

INTERNATIONAL EQUITIES

International equity returns are benchmarked against the Morgan Stanley Capital International All Country World ex U.S. Index. At the end of fiscal year, approximately 15 percent, or $689 million, was invested in a passive index strategy while the remaining 85 percent, or $3.9 billion, was invested with four active managers employing three styles: large cap growth, large cap value, and large cap core.

The international equity portfolio returned 28.6 percent in fiscal 2004. Despite this strong positive performance, the managers' combined returns were under the 32.0 percent return of the Morgan Stanley Capital International All Country World ex U.S. Index. Within the index, emerging market equities exhibited the strongest growth, returning 33.1 percent for the year; however, in the fourth quarter, returns were down 9.6 percent. Our portfolio's underperformance was due to underweighting in emerging markets and smaller cap stocks.

PRVIATE EQUITY

The System has previously committed $250 million to private equity through three fund-of-funds managers. As of June 30, 2004, $133.7 million of this amount had been invested. The portfolio is well-diversified across strategy, region, industry and vintage year.

The Board of Trustees adopted significant changes to the private equity program during the fiscal year ending 2004. The target allocation to private equity was increased from 1 percent of total fund assets to 2 percent, raising the current target to $600 million. In addition, the Board hired Altius Associates Limited as the System's private equity consultant. These changes have put the System in position to take advantage of investment opportunities in private equity and venture capital. We anticipate commitments to be made under this increased allocation beginning in the second quarter of fiscal year 2005.

FIXED INCOME

The SRPS has $8.7 billion invested in fixed income. The objective of the fixed income portfolio is to outperform the Lehman Universal Bond Index. Seven external firms manage our fixed income funds, with $3.7 billion (43 percent) in strategies indexed to the Lehman Aggregate Bond Index. The remainder is actively managed, predominantly in core plus accounts which seek to outperform standard bond indices by investing small allocations in high yield, emerging market, and international bonds. We also have 3 percent of our fixed income portfolio invested on a stand alone basis with high yield managers.

Thirty year Treasury bonds returned -5.5 percent in the fiscal year ended June 30, 2004 as interest rates increased by 75 basis points. Returns were also negative for five and ten year Treasuries due to increasing interest rates. However, our fixed income portfolio was able to capture better performance by diversifying into other bond market sectors through our external managers.

The SRPS fixed income portfolio holdings returned 1.6 percent versus 1.0 percent for its benchmark, the Lehman

Universal Index. This was largely due to strong high yield performance, as well as active management by our managers that resulted in above-benchmark returns.

Returns in some fixed income subsectors which contributed to our outperformance were as follows:

High Yield Bonds: 10.2%
Non-dollar Bonds: 5.7%
Emerging Market Bonds: 4.7%
Treasury Inflation Protected Bonds: 3.9%
Mortgage-Backed Securities: 2.2%

Fixed income markets often provide a more stable, less volatile return than equity markets. The environment going forward will provide challenges, especially if interest rates increase, as these interest rate increases translate into falling bond prices. To best position for this environment, we have given our core plus managers flexibility to seek out the markets with the highest returns.

REAL ESTATE

The SRPS has real estate assets valued at $2.0 billion as of June 30, 2004, invested in a combination of strategies—Direct Ownership, Commingled Real Estate Funds, Real Estate Limited Partnerships, and Real Estate Investment Trusts. The objective is to achieve a total return that exceeds the return of the Property Index as measured by the National Council of Real Estate Investment Fiduciaries. The SRPS engages five real estate managers toward meeting those objectives.

With lower expected returns from traditional asset classes, demand for real estate from institutional investors is continuing due to high recent risk-adjusted returns as well as diversification benefits. This is being driven by attractive yields versus fixed income alternatives, as well as the expectation that improving real estate fundamentals will follow the improvement in economic growth.

Returns on the real estate portfolio placed in the first quartile of real estate performance with total returns of 20.4 percent, 11.6 percent, and 11.9 percent for one, three, and five year periods ended June 30, 2004, respectively, when compared with public pension plans that invest in real estate assets and have total assets greater than $1 billion.

CORPORATE GOVERNANCE

In fiscal year 2004, the Board of Trustees established a formal corporate governance program, and appointed members to a Corporate Governance Subcommittee. The Subcommittee's role is to provide recommendations to the Board of Trustees concerning the development and implementation of the Retirement System's corporate governance program. The program is based on the proposition that the integrity of the capital markets directly affects the Retirement System and all of its participants and stakeholders. Our belief is that responsible governance practices should be followed by all entities in which Retirement System assets are invested. The Board of Trustees will actively work to ensure that such standards are met by these entities.

SRPS considers its proxies to be an asset of the System and has taken responsibility for voting them for a number of years. In order to further encourage good governance, the Subcommittee has been reviewing and revising the System's proxy voting guidelines and establishing new procedures, which include hiring a firm to provide research and advice. During the year that ended June 30, 2004, the System voted 888 proxy ballots for 758 companies. Proxy votes for shares of commingled funds and international investments are typically delegated to the managers of those respective funds.

Respectfully submitted,

Steven C. Huber
Chief Investment Officer

INVESTMENT PORTFOLIOS BY MANAGER

as of June 30, 2004

(Expressed in Thousands)

	Fair Value	Investment Advisory Fee
Equity Managers		
State Street Global Advisors	$10,683,368	$ 1,158
Capital Guardian Trust Company	1,549,906	4,613
Bank of Ireland Asset Management Limited	1,270,760	2,963
Templeton Investment Counsel, Inc.	972,622	2,759
Wellington Management Co. LLP	880,751	2,000
Legg Mason Capital Management, Inc.	783,137	2,157
Artisan Partners Limited Partnership	578,703	1,831
Robert W. Torray & Co., Inc.	514,109	1,782
Dimensional Fund Advisors, Inc.	505,363	1,093
Ariel Capital Management, Inc.	294,789	998
Advent Capital Management	273,956	1,305
Relational Investors, LLC	250,008	4,570
The Edgar Lomax Company	223,664	747
T. Rowe Price Associates, Inc.	132,943	718
Brown Capital Management, Inc.	106,432	1,064
Brown Investment Advisory & Trust Company	94,832	556
Trust Company of the West (TCW)	87,447	597
Adams Street Partners, LLC	41,209	847
HarbourVest Partners, LLC	40,191	1,000
Abbott Capital Management, LLC	25,736	330
Internally Managed	7,476	N/A
Other *	17	83
	$19,317,419	$ 33,171

	Fair Value	Investment Advisory Fee
Fixed Income Managers		
State Street Global Advisors	$3,687,319	$ 426
Western Asset Management	1,732,976	2,089
Pacific Investment Management Company	1,543,165	3,065
Payden & Rygel Investment Management	947,175	1,023
Bridgewater Associates, Inc.	501,779	616
Fountain Capital Management, LLC	123,142	524
W.R. Huff Asset Management Co., LLC	112,724	1,637
Internally Managed	24,661	N/A
Other*	43	79
	$8,672,984	$ 9,459
Real Estate Managers		
LaSalle Investment Management Securities, L.P.	$ 869,594	$ 1,691
LaSalle Investment Management, Inc.	375,421	3,170
Internally Managed	374,244	N/A
J.P. Morgan Investment Management, Inc.	231,690	1,692
Prudential Investment/CIGNA	122,006	1,790
Lubert-Adler Management, Inc.	54,619	895
Chesapeake Maryland Limited Partnership	12,520	302
	$2,040,094	$ 9,540

* Investment managers no longer under contract as of 6/30/04.

INVESTMENT PORTFOLIO SUMMARY

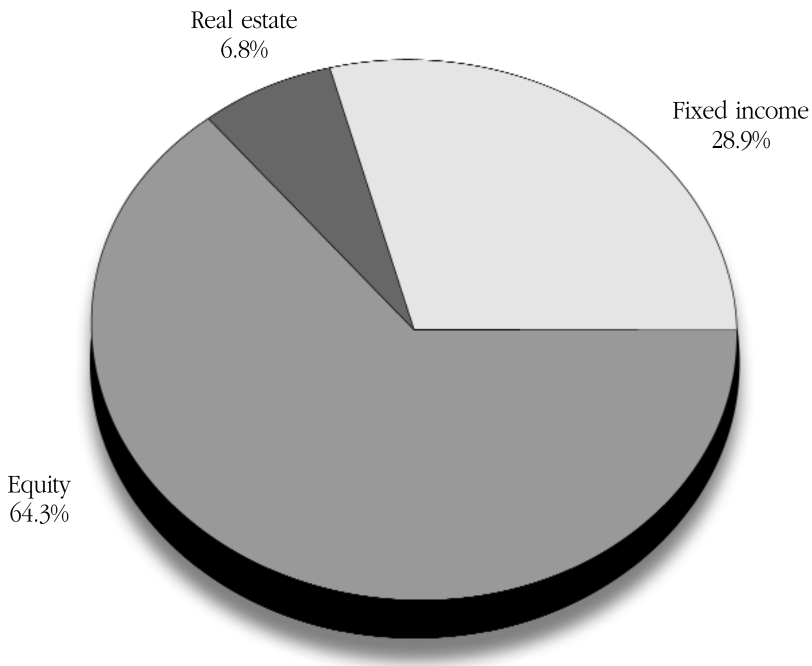
as of June 30, 2004 and 2003

(Expressed in Thousands)

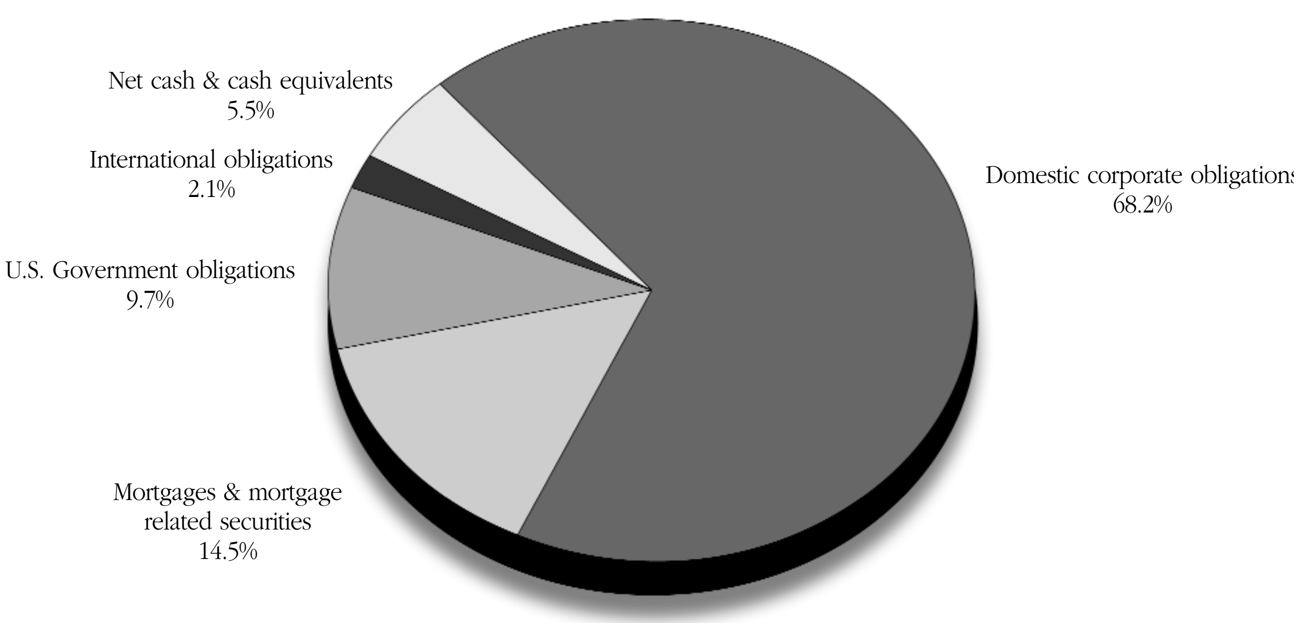
	2004		2003	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value
Fixed Income				
Domestic corporate obligations	$ 5,915,050	19.7%	$ 3,955,314	14.8%
Mortgages & mortgage related securities	1,255,142	4.2	1,522,255	5.7
U.S. Government obligations	843,134	2.8	2,439,957	9.2
International obligations	185,974	0.6	66,099	0.2
Net cash & cash equivalents	473,686	1.6	362,696	1.4
* Total Fixed Income	**8,672,986**	**28.9**	**8,346,321**	**31.3**
Equity				
Domestic stocks	14,486,273	48.2	11,216,650	42.1
International stocks	4,574,130	15.2	3,981,883	15.0
Alternative investments	107,134	0.4	78,940	0.3
Net cash & cash equivalents	149,881	0.5	1,297,220	4.9
Total Equity	**19,317,418**	**64.3**	**16,574,693**	**62.3**
Real Estate				
Real Estate Investment Trusts	1,048,083	3.5	800,525	3.0
Pooled funds	353,620	1.2	385,082	1.4
Directly owned real estate	426,546	1.4	386,425	1.5
Alternative investments	67,124	0.2	55,102	0.2
Net cash & cash equivalents	144,721	0.5	74,248	0.3
Total Real Estate	**2,040,094**	**6.8**	**1,701,382**	**6.4**
Total Potfolio	**$30,030,498**	**100.0%**	**$26,622,396**	**100.0%**

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

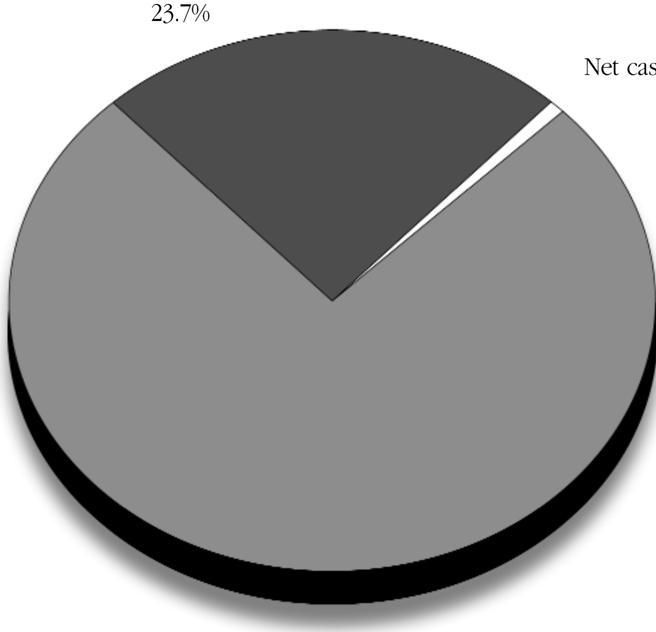
INVESTMENT PORTFOLIO ALLOCATION
as of June 30, 2004



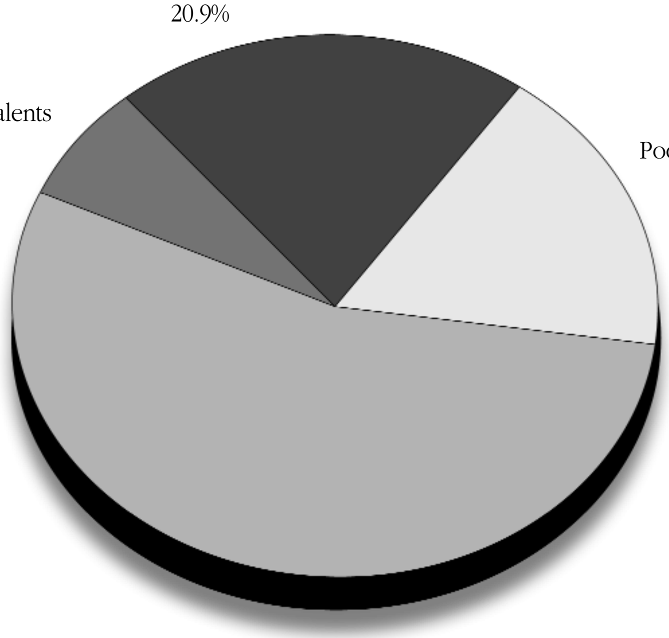
FIXED INCOME DISTRIBUTION BY TYPE
as of June 30, 2004



EQUITY DISTRIBUTION BY TYPE
as of June 30, 2004

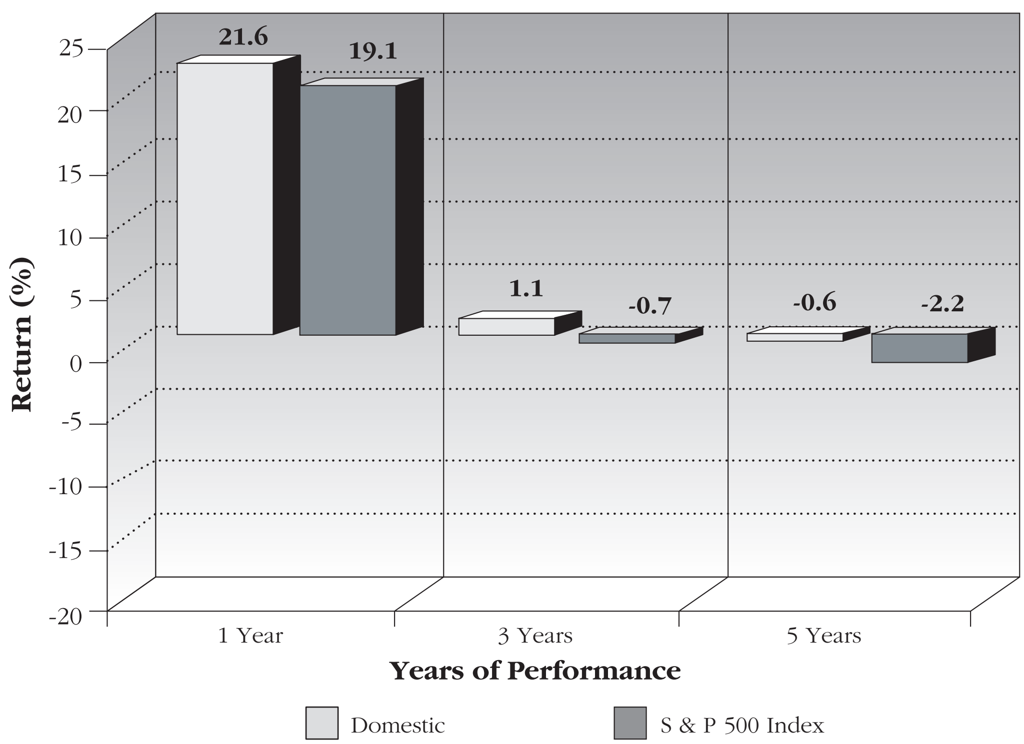


REAL ESTATE DISTRIBUTION BY TYPE
as of June 30, 2004

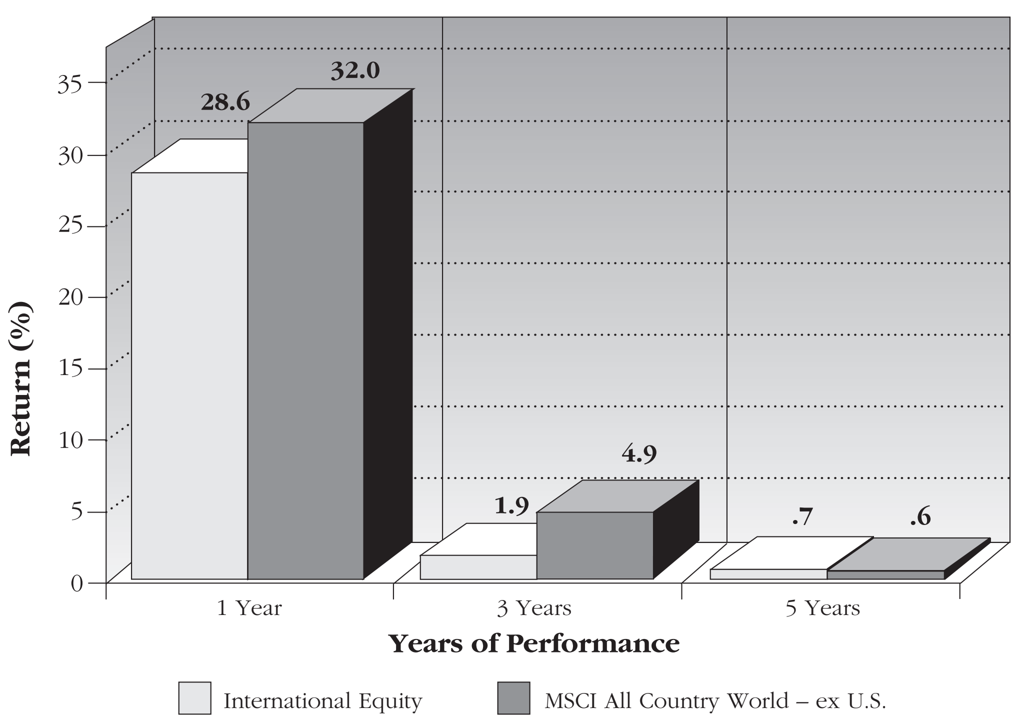


Comparative Investment Returns Ending June 30, 2004

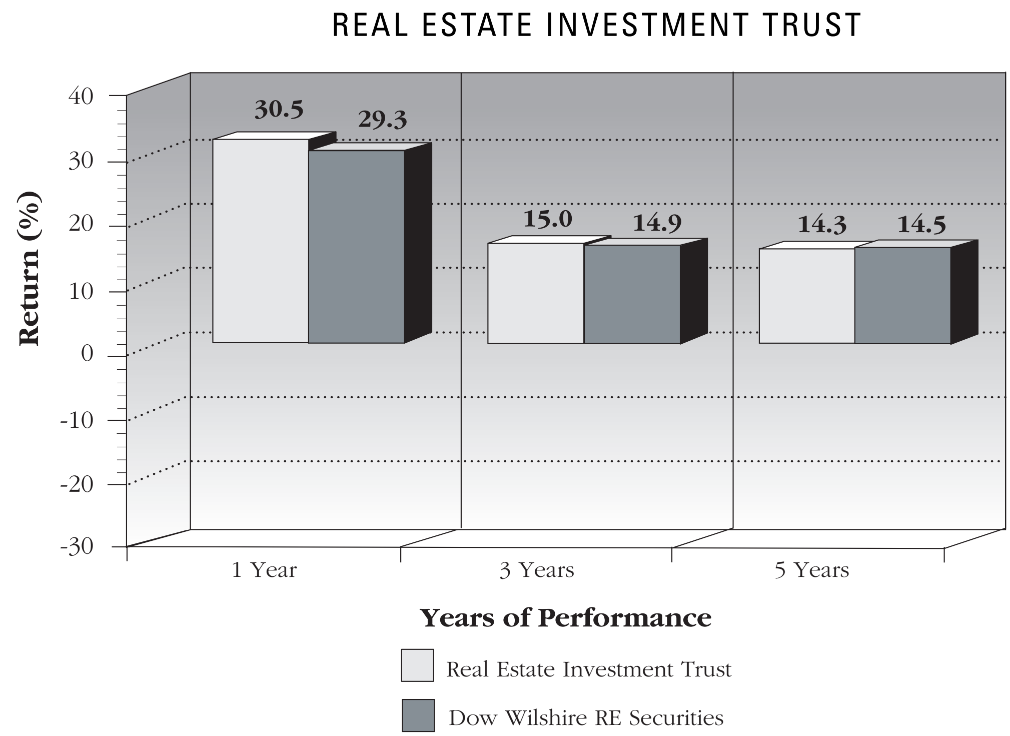
DOMESTIC EQUITY

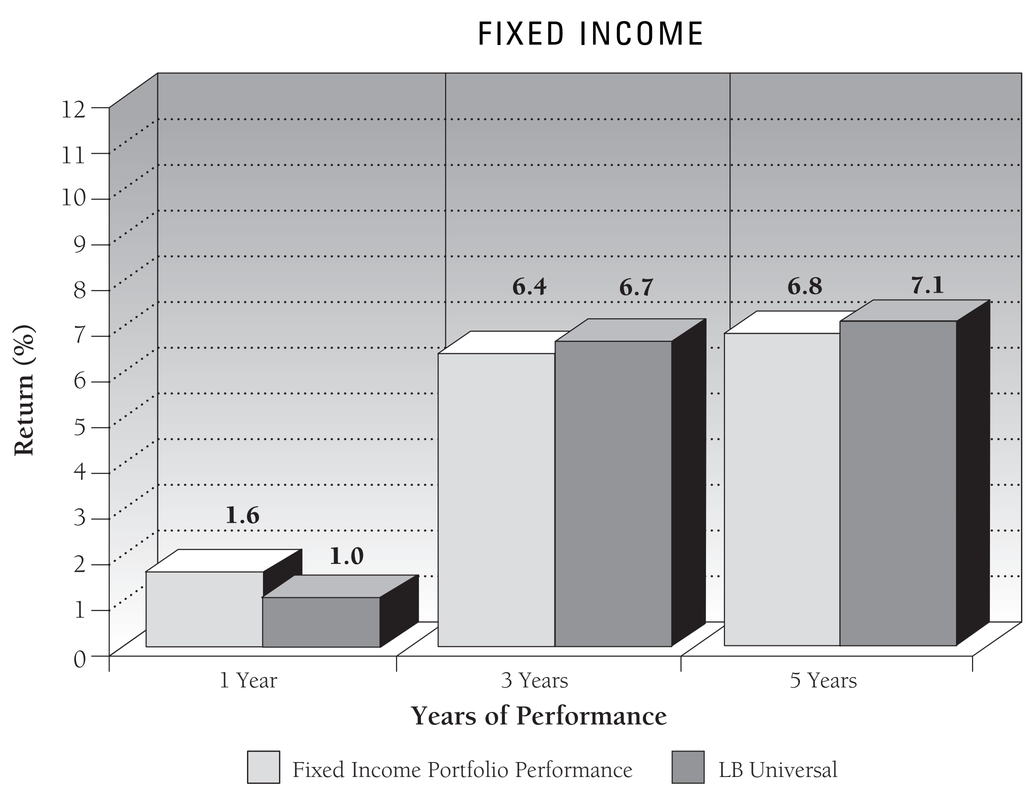


INTERNATIONAL EQUITY

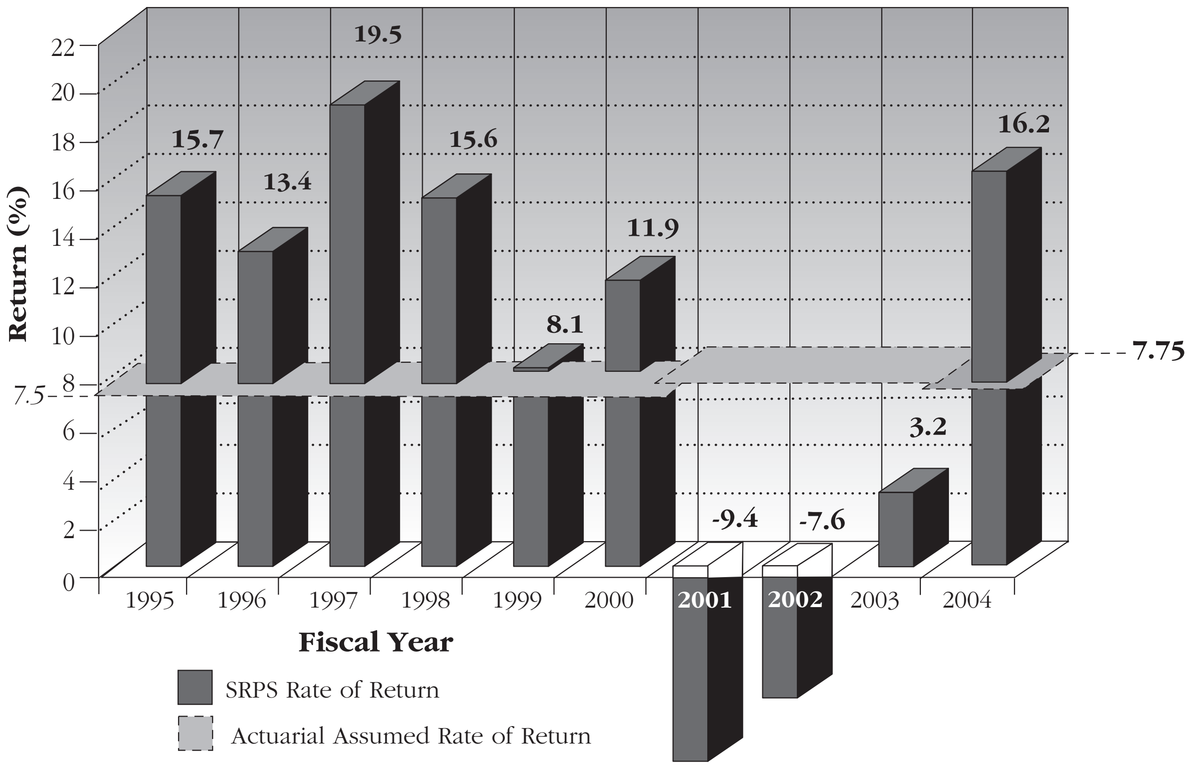


COMPARATIVE INVESTMENT RETURNS ENDING JUNE 30, 2004

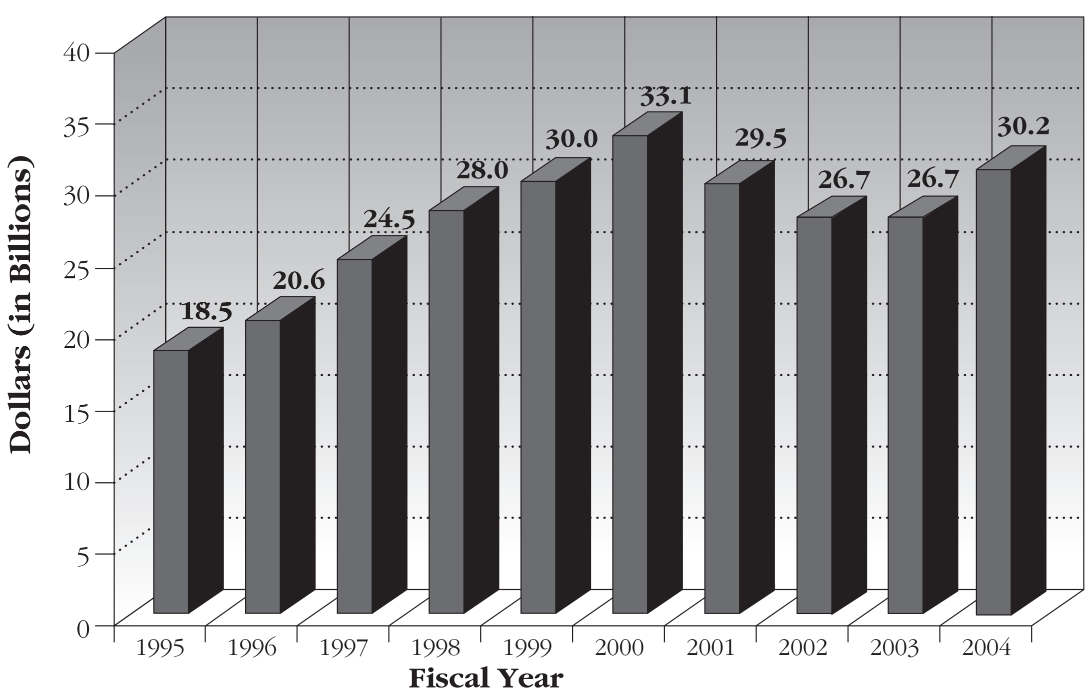




TEN-YEAR HISTORY OF TIME-WEIGHTED ANNUAL RETURNS



TEN-YEAR GROWTH OF INVESTMENT PORTFOLIO



LARGEST 25 HOLDINGS
as of June 30, 2004

EQUITY INCOME SECURITIES:	No. of Shares	Fair Value
Nestle SA	338,570	$ 90,292,542
Ebay, Inc.	926,810	85,220,180
General Electric Company	2,510,310	81,334,044
Microsoft Corporation	2,686,643	76,730,524
UBS AG	998,501	70,359,081
Vodafone Group	30,548,278	66,894,646
Nextel Communications, Inc.	2,419,117	64,493,659
Amazon.Com, Inc.	1,177,000	64,028,800
First Data Corporation	1,402,576	62,442,684
Total SA	320,395	61,083,009
Waste Management, Inc.	1,980,605	60,705,543
Tyco International Ltd.	1,770,000	58,657,800
Yahoo, Inc.	1,590,546	57,784,536
ENI	2,656,203	52,740,849
Cisco Systems, Inc.	2,205,870	52,279,119
Novartis AG	1,181,430	52,119,137
Countrywide Financial Corporation	738,694	51,893,254
Eli Lilly & Co.	732,572	51,214,109
Research In Motion LTD	743,300	50,871,452
E On AG	689,473	49,743,650
Apollo Group, Inc.	557,072	49,183,887
Nippon Tel & Tel	9,179	49,043,275
Astrazeneca PLC	1,064,240	48,571,914
Swiss Reinsurance Company	730,336	47,439,184
ING Groep NV	1,981,910	46,779,045
TOTAL		$1,501,905,923

FIXED INCOME SECURITIES	Par	Fair Value
United States Treasury Notes, 4% due June 15, 2009	$104,500,000	105,406,012
Federal National Mortgage Assn. TBA, 5.5% due Dec. 1, 2099	89,110,000	88,650,531
Federal National Mortgage Assn. TBA, 6.0% due Dec. 1, 2099	81,200,000	84,536,817
United States Treasury Notes, 1.875% due July 15, 2013	84,981,205	83,972,478
United States Treasury Notes, 2.5% due May 31, 2006	74,590,000	74,332,664
Government National Mortgage Assn. TBA, 5.5% due Dec. 1, 2099	70,030,000	69,898,694
United States Treasury Bonds, 3.875% due Apr. 15, 2029	53,606,342	68,397,404
Federal National Mortgage Assn. TBA, 6.5% due Dec. 1, 2099	61,610,000	64,136,971
United States Treasury Notes, 3.875% due Jan. 15, 2009	56,187,704	62,640,300
Federal National Mortgage Assn. TBA, 4.5% due Dec. 1, 2099	60,900,000	59,491,688
Federal Home Loan Mortgage Corp, 5.0% due Dec. 1, 2099	61,200,000	59,077,125
United States Treasury Notes, 3.125% due May 15, 2007	53,950,000	53,954,314
Federal National Mortgage Assn. TBA, 5.0% due Dec. 1, 2099	51,590,000	51,461,025
Federal National Mortgage Assn. TBA, 6.0% due Dec. 1, 2099	47,430,000	48,208,146
Government National Mortgage Assn. TBA, 5.0% due Dec. 1, 2099	49,400,000	47,875,546
Federal National Mortgage Assn. TBA, 6.0% due Dec. 1, 2099	43,600,000	44,485,625
Federal National Mortgage Assn. TBA, 5.0% due Dec. 1, 2099	45,500,000	43,946,603
Federal National Mortgage Assn. TBA, 7.0% due Dec. 1, 2099	31,450,000	33,179,750
Government National Mortgage Assn. Pool 781636, 5.5% due July 15,2033	30,656,062	30,710,158
Kingdom of Sweden, 8.0% due Aug. 15, 2007	197,000,000	29,512,276
United States Treasury Bonds, 6.25% due Aug. 15, 2023	25,900,000	28,683,474
Federal Home Loan Mortgage Corp TBA, 5.5% due Dec. 1, 2099	26,900,000	27,475,827
Federal Home Loan Mortgage Corp TBA, 4.5% due Dec. 1, 2099	27,420,000	26,768,775
United States Treasury Notes, 1.625% due Feb. 28, 2006	27,100,000	26,702,986
Chevy Chase FDG LLC, 1% due July 25, 2034	26,688,605	26,688,605
TOTAL		$1,340,193,794

A complete list of portfolio holdings is available upon request.

DOMESTIC AND INTERNATIONAL EQUITY COMMISSIONS TO BROKERS

for the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

Brokers *	**Total Shares**	**Total Commission**
Merrill Lynch & Co., Inc.	34,404	$ 684
Goldman Sachs & Co.	27,687	554
Morgan Stanley & Co.	23,502	486
Credit Suisse First Boston	30,881	466
Citigroup Global Markets	30,077	443
UBS	23,038	467
Jefferies Company, Inc.	8,219	405
Deutsche Bank	25,510	389
Lehman Brothers, Inc.	9,002	308
Bear Stearns	12,978	275
State Street Brokerage	24,359	247
Warburg Dillon Read	33,086	237
Credit Lyonnais Securities	32,315	225
Pershing Securities	4,673	224
Legg Mason Wood Walker, Inc.	4,422	204
JP Morgan Securities, Inc.	12,826	196
Banc of America	4,001	189
ABN Amro	10,449	142
Thomas Weisel Partners	2,514	121
Wachovia	2,450	118
BHF Securities Corporation	32,671	112
Ferris Baker Watts, Inc.	2,097	104
Sanford Bernstein	3,199	102
Green Street Advisors	2,026	101
Other Broker Fees	81,192	2,033
Total broker commissions	477,578	$8,832

** 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 174 other brokers each receiving less than $95,000 in total commissions.*

For the fiscal year ended June 30, 2004, total domestic equity commissions averaged 3.86 cents per share, and total international equity commissions averaged 14.75 basis points per share.

STATE RETIREMENT *and* PENSION SYSTEM *of* MARYLAND

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 fiscal year 2004 exceeded 86,000 participants. Membership includes all regular employees of the State of Maryland. In addition, 135 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.

A MILLIMAN GLOBAL FIRM

Milliman USA
Consultants and Actuaries

8000 Towers Crescent Drive, Suite 1000
Vienna, VA 22182-2700
Tel +1 703 917.0143
Fax +1 703 827.9266

CORRSPONDENCE ADDRESS
323 W. Camden St., Ste. 400
Baltimore, MD 21201-2435
Tel +1 410 468.0420
Fax +1 410 468.0423
www.milliman.com

November 18, 2004

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

Dear Members of the Board:

At your request, we have conducted our annual actuarial valuation of the State Retirement and Pension System of Maryland as of June 30, 2004.

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 generally been determined which will provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus (or less) a level percent of payroll amortization of the pre-2001 unfunded liability (or surplus) to the year 2020, and of each subsequent layer of unfunded liability (or surplus) over a 25 year period from the year it first arises. Maryland law now contains provisions (i.e. a corridor approach) to prevent large fluctuations in the contribution rate, while adequately funding the liabilities. As a result, the contribution rate for ERS is lower than the current cost.

Assumptions
The actuarial assumptions were recommended by the actuary and adopted by the Board of Trustees based on a review of the System's experience completed during Fiscal Year 2003.

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

The results and conclusions of this report are only valid for the July 1, 2004 plan year and should not be interpreted as applying in future years. Differences between our projections and actual amounts depend on the extent to which future experience conforms exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Data Reliance
In performing this analysis we relied on data and other information provided by Agency staff. We performed a limited review of the data for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

Supporting Schedules
Certain information presented in the System's June 30, 2004 CAFR was derived from our June 30, 2004 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 2004 CAFR.

Certification
I, Robert Dezube, am a consulting actuary for Milliman. I am also a member of the American Academy of Actuaries and meet the 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

Robert Dezube

Robert S. Dezube, F.S.A.
Principal

BOARD SUMMARY

This report presents the results of the June 30, 2004 actuarial valuation of the State Retirement and Pension System of Maryland (SRPS). The primary purposes of performing the annual actuarial valuation are to:

1) **determine the contributions** to be paid by the State in Fiscal Year 2006;
2) **measure and disclose**, as of the valuation date, the financial condition of the fund;
3) **indicate trends** in the financial progress of the fund;
4) **provide specific information** and documentation required by the Government Accounting Standards Board (GASB).

In this section of the report, we will present a summary of the above information in the form of:

- the actuary's comments;
- the prior year's experience of the Fund's assets, liabilities, contributions, and membership;
- a series of graphs highlighting key trends experienced by the Fund; and
- a tabular summary, intended for quick reference purposes, of all the principal results from this year's valuation, compared to the prior year's.

ACTUARY'S COMMENTS

The System's assets earned 16.5% (a non-weighted actuarial rate of return) for the year, which is 8.75% above the 7.75% assumption. This marks the first period of favorable market return (i.e. greater than the 7.75% assumption) since the year ending June 30, 2000. Even though the market return exceeded the 7.75% assumption, because of the unfavorable returns of the last few years, the actuarial, or smoothed, rate of return measured from this past year was only 5.2%, or approximately 2.6% less than our assumption.

For the System to earn at least 7.75% on an actuarial value basis, the market value of assets will have to earn returns in the future that are higher than the actuarial investment return assumption by enough to offset the unrecognized market losses that have been deferred under the "5-year averaging" method used to determine the actuarial value of assets. If future investment results are only sufficient to earn 7.75% on a market basis, then the deferred market investment losses will gradually be reflected in actuarial assets which will put upward pressure on the contribution rate.

The System's unfunded actuarial liability was $2,841 million as of June 30, 2004. This compares to a $2,343 million unfunded liability measured as of the June 30, 2003 valuation. In relative terms, the overall System funding ratio of assets to liabilities fell from 93.3% in 2003, to 92.2% this year. This funded status is still substantially better than would have been expected when the State first established the goal to extinguish unfunded liabilities by the year 2020.

The investment loss increased the unfunded actuarial liability by $830 million. This was partially offset by a liability gain of $525 million, which indicates that actual experience during the year ending June 30, 2004 was more favorable than the non-investment actuarial assumptions. Thus the total System experienced a net actuarial loss of $305 million.

In the 2001 legislative session, the Legislature changed the method used to fund the two largest Systems of the SRPS, the Teachers Combined System and the State portion of the Employees Combined System to a corridor method. Under this funding approach, the State appropriation is fixed at the June 30, 2000 valuation rate as long as the actuarial funded status of these Systems remains in a corridor of 90% funded to 110% funded. Once the ratio falls outside of this corridor, the appropriated rate will be adjusted towards the underlying actuarially calculated rate. This year, for the first time, the State portion of the Employees Combined System (ECS) fell out of the corridor necessitating an increase in the ECS contribution rate. The Teachers' Combined System (TCS) is likely to fall out of the corridor next year absent very favorable investment returns.

The results of this valuation report disclose the actuarially calculated rate which will be used for purposes of disclosing the Annual Required Contribution rate under Government Accounting Standards Board Statement No. 25. The analysis in this report will focus on the actuarially determined rate but will strive to footnote the appropriated or budgeted rate where applicable.

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. Annual fluctuations are to be expected and should not by themselves be cause for concern.

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, essentially reflects only 20% of the difference between (a) the asset value if they had earned the assumed rate of 7.75%, and (b) the actual market value. In periods of high returns, this method significantly defers the amount of asset gains above the assumed return of 7.75%. Conversely, in periods of returns below assumed, recognition of the losses is deferred. The primary advantage of this smoothing technique is contribution stability. The System does not feel the full impact of lower (or higher) costs when asset values fluctuate dramatically.

For the plan year ending June 30, 2004, the Fund earned a positive 16.5% on a market value basis and a positive 5.2% on a smoothed basis. While on a market basis, the Fund experienced an investment gain of $2,299 million, the actuarial or smoothed basis grew by less than 7.75% which produced a loss of $830 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, 2003 value	$26,648	$32,631
June 30, 2003 Municipal Withdrawals	(0)	(0)
Employer Contributions	632	632
Member Contributions	204	204
Benefit Payments	(1,651)	(1,651)
Expected Investment Earnings (7.75%)	2,035	2,499
Expected Value June 30, 2004	$27,868	$34,315
INVESTMENT GAIN (LOSS)	2,299	(830)
June 30, 2004 value	$30,167	$33,485

LIABILITIES

Three different measures of liabilities are calculated for this fund: a total value of future obligations (PVB), an actuarial liability (EAN), and an accrued benefit liability (PVAB). Section III of this report describes the development of each. 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 2004, the actuarial liabilities experienced an overall gain of $525 million, which is 1.45% of the total actuarial liability being measured. The primary cause for liability experience being better than anticipated this past year was annual salary increases being less than anticipated.

LIABILITIES (In Millions)	**Total Value (PVB)**	**Actuarial (EAN)**	**Accounting (PVAB)**
June 30, 2003	$42,549	$34,975	$29,010
June 30, 2004	$43,716	$36,326	$30,400

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, 2003 and June 30, 2004, as well as the corresponding funding ratios for each (assets divided by liabilities).

Item (In Millions)	**Actuarial**	**PVAB**
6/30/2003 Net Surplus (Unfunded)	$2,343	$2,362
Funding Ratio	93.3%	91.9%
6/30/2004 Net Surplus (Unfunded)	$2,841	$233
Funding Ratio	92.2%	99.2%

CONTRIBUTIONS

In this summary, we present overall the State contribution rate, and compare it to the rate developed in the June 30, 2003 actuarial valuation. In summary, due to the net impact of investment losses and liability gains, the overall System contribution requirement, payable in FY 2006 on the GASB disclosure basis, has increased by 0.45% of payroll. It is important to note that this is not the contribution rate upon which the State will base its budget in either FY 2005 or FY 2006. This analysis compares the underlying cost calculations which will be used to disclose the State's pension expense for GASB reporting purposes. The actual appropriations are calculated on a Corridor Funding Method for the two largest plans. This approach produced payroll-weighted averages of 7.97% at June 30, 2003, increasing to 8.46% as of June 30, 2004.

Rate as Percent of Covered Payroll – GASB Disclosure	
June 30, 2003 State Annual Required Contribution Rate	9.97%
Increase due to Assumption Changes	0%
Increase due to Investment Loss	0.89%
Decrease due to Liability Gain	(0.44%)
June 30, 2004 State Annual Required Contribution Rate	10.42%

Rate as Percent of Covered Payroll – Budget (Corridor Method)	
June 30, 2003 State Appropriation Rate	7.97%
Increase due to Shift in Payroll	0.01%
Increase in Systems not within the Corridor	0.12%
Increase due to ECS falling out of Corridor	0.36%
June 30, 2004 State Appropriation Rate	8.46%

In terms of dollar amounts under the budget (corridor method), the estimated State contribution increases were as follows:

- $28.1 million because the Employees' System funding ratio dropped below 90%, causing the contribution rate to increase from 4.73% to 5.76% of payroll pursuant to the corridor method
- $7.7 million to reflect the value of automatic 50% surviving spouse annuities for retired members that was not reflected in prior years' costs for the State Police, Judges, and LEOPS Systems
- $2.1 million due to payroll growth
- $2.2 million due to the recognition of market losses from prior years under the actuarial value of assets methodology for the State Police, Judges, and LEOPS Systems.

The estimated State contribution decreased by approximately $1.2 million due to other factors.

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, 2003 and 2004.

As shown below, there was an overall increase in participation during the year of 0.4%.

	June 30, 2004	June 30, 2003	Change
Active Participants	185,861	190,021	(0.1%)
Terminated Vested Participants	36,523	35,302	14.9%
Inactive Participants	10,388	10,271	(24.6%)
Participants In Pay Status	94,880	90,803	3.9%
Total Participants	**327,652**	**326,937**	**1.4%**

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 2004, on the System's assets and liabilities, annual cash flows in and out of the fund, and the State contribution rate. Our comments on each follow.

Chart A:
Assets/Liabilities

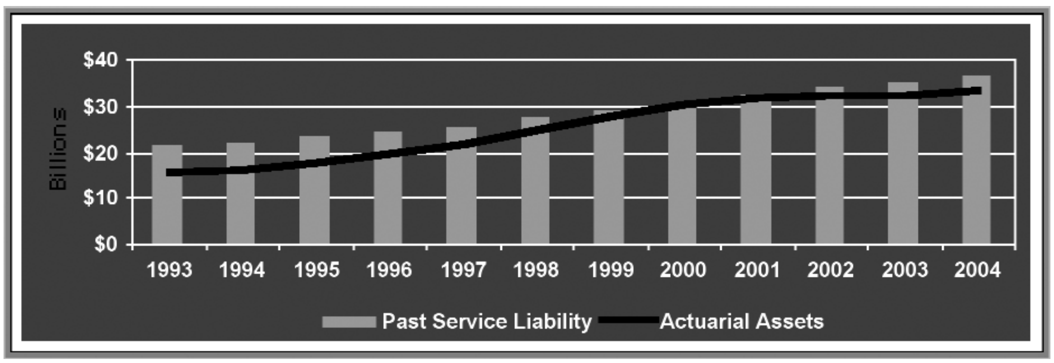


Chart B:
Cash Flows

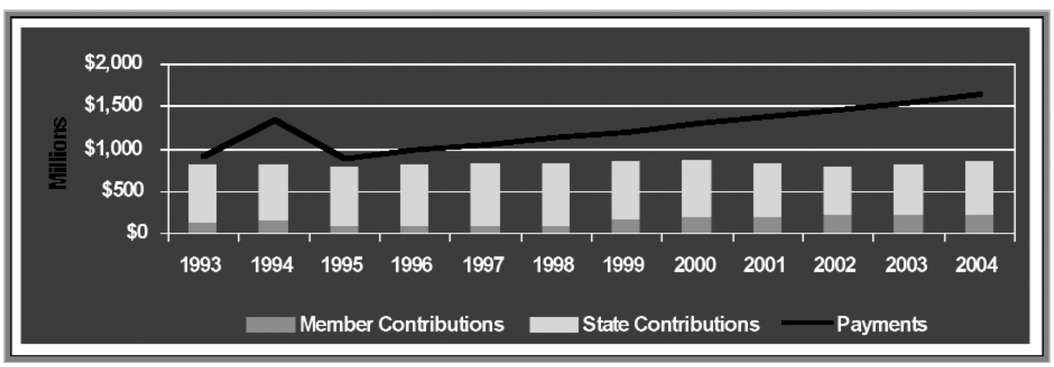
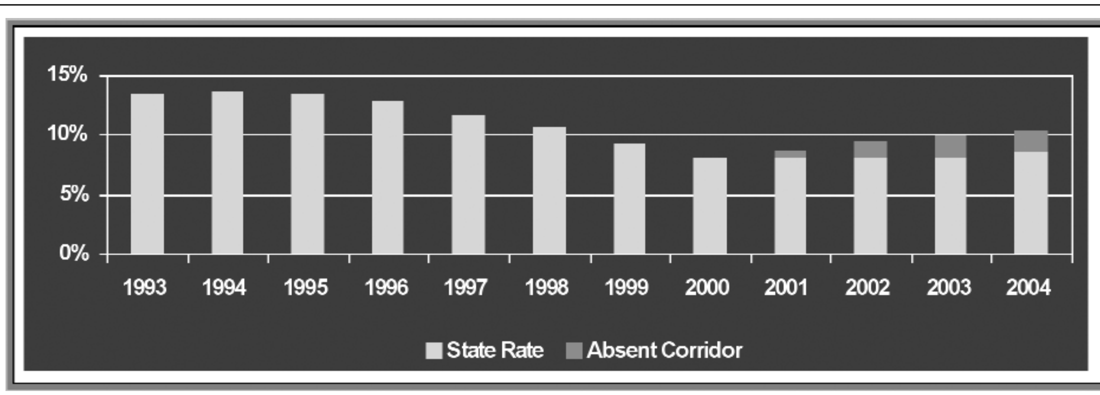


Chart C:
State Contribution Rate



Comments

Chart A places into perspective the aforementioned investment and liability performance losses of this past year. The ratio of actuarial assets to liabilities (i.e., funding ratio) has grown since the early 1980's. The unfavorable investment experience from 2000 through 2003 has eroded the funded ratio from its peak in 2000.

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, is stable or declining. The ECS contribution rate will start increasing in FY 2006 and it is likely that the TCS contribution rate will also start to increase in FY 2007 under the corridor method.

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 2000. Effective with the 2001 valuation, the State appropriations are performed under a corridor funding method for the two largest plans. The appropriation remained essentially level for a few years before increasing this year. In the absence of favorable investment and/or demographic experience, the contribution rates can be expected to increase to the level indicated if the corridor method had not been adopted. Without the corridor method, the State contribution in FY 2006 would be 1.96% of payroll higher than the amount to be budgeted under the corridor method.

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 16-year period to June 30, 2020. Each new layer of UAAL arising subsequent to June 30, 2000 is being amortized over a 25 year period. The equivalent single amortization period is 30 years.

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.

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, 2004:

- a rate of return on investments of 7.75 percent compounded annually (adopted June 30, 2003);
- projected salary increases of 4 percent compounded annually, attributable to inflation (adopted June 30, 2003);
- additional projected salary increases ranging from 0.00 percent to 11.96 percent per year attributable to seniority and merit (adopted June 30, 2003);
- post-retirement benefit increases ranging from 3 percent to 4 percent per year depending on the system (adopted June 30, 2003);
- rates of mortality, termination of service, disablement and retirement based on actual experience during the period from 1981 through 2002 (adopted June 30, 2003); and
- an increase in the aggregate active member payroll of 4 percent annually (adopted June 30, 2003).

ACCOUNTING STATEMENT INFORMATION

THE TOTAL SYSTEMS OF THE STATE OF MARYLAND

	2004	2003
A. FASB #35 basis		
1. Present value of benefits accrued to date:		
a. Members currently receiving payments	$18,347,530,077	$16,851,546,911
b. Former vested members	694,371,447	721,570,911
c. Active members	11,357,661,070	11,436,792,752
2. Total present value of accrued benefits (1 (a) + 1 (b) + 1 (c))	30,399,562,594	29,009,910,574
3. Assets at market value	30,166,724,000	26,727,822,000
4. Unfunded value of accrued benefits (2-3)	$ 232,838,594	$ 2,232,088,574
5. Ratio of assets to value of benefits (3/2)	99.23%	92.13%
B. GASB #25 basis		
1. Actuarial accrued liabilities for retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$19,041,901,524	$17,573,117,822
2. Actuarial accrued liabilities for current employees	17,283,802,541	17,401,483,044
3. Total actuarial accrued liability (1+2)	36,325,704,065	34,974,600,866
4. Net actuarial assets available for benefits	33,484,656,570	32,631,464,884
5. Unfunded actuarial accrued liability (3-4)	$ 2,841,047,495	$ 2,343,135,982

Summary of Unfunded Actuarial

Valuation Date June 30,	Actuarial Liabilities For: Active Member Contributions	Retirees, Term Vested and Inactives	Active Members Employer Fin. Portion	Total Liabilities	Actuarial Value of Assets
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
2002	1,858,783,727	16,783,959,580	15,488,540,705	34,131,284,012	32,323,263,153
2003	1,973,371,055	17,573,117,822	15,428,111,989	34,974,600,866	32,631,464,884
2004	2,064,065,193	19,041,901,524	15,219,737,348	36,325,704,065	33,484,656,570

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		
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	15,708
2002	5,925	107,545,768	2,743	36,803,883	87,367	1,393,043,522	5.35	15,945
2003	6,216	123,497,444	2,780	38,449,020	90,803	1,478,091,946	6.11	16,278
2004	6,822	152,664,871	2,745	38,223,588	94,880	1,592,533,229	7.74	16,785

Liabilities / Solvency Test

Ratio of Assets to Actuarial Liabilities						
Active Member Contributions	**Retirees Term Vested and Inactives**	**Active Members Employer Fin. Portion**	**Funded Ratio (Assets/Liab. Coverage)**	**Unfunded Actuarial Accrued Liability (UAAL)**	**Covered Payroll**	**UAAL as % of Covered Payroll**
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	5,900,456,000	43
100	100	93.77	97.09	828,801,049	6,312,417,000	13
100	100	102.64	101.22	(369,513,715)	6,725,870,000	(5)
100	100	96.24	98.29	555,163,368	7,255,036,000	8
100	100	88.33	94.70	1,808,020,859	7,867,794,200	23
100	100	84.81	93.30	2,343,135,982	8,134,419,291	29
100	100	81.33	92.18	2,841,047,495	8,069,480,852	35

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, 2003	$29,010
Increase (decrease) during year attributable to:	
Passage of Time	2,186
Benefits Paid – FY 2004	(1,651)
Benefits Accrued, Other Gains/Losses	855
Plan Amendment & Changes in Actuarial Assumptions	0
Net Increase	1,390
Actuarial present value of accrued benefits at June 30, 2004	$30,400

Report of the Actuary on the Valuation of the State Retirement and Pension System of Maryland
as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	185,861	190,021	(2.2)%
Retired Members and Beneficiaries	94,880	90,803	4.5
Vested Deferred Members	36,523	35,302	3.5
Inactive Status Members	10,388	10,271	1.1
Total Participants	327,652	326,397	0.4
Covered Annual Salaries of Active Members*	$ 8,069,480,852	$ 8,134,419,291	(0.8)
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 1,592,533,229	$ 1,478,091,946	7.7
2. Assets and Liabilities			
Total Actuarial Liability	$36,325,704,065	$34,974,600,866	3.9
Assets for Valuation Purposes	33,484,656,570	32,631,464,884	2.6
Unfunded Actuarial Liability (Surplus)	$2,841,047,495	$ 2,343,135,982	21.2
FASB Accrued Liability	$30,399,562,594	$29,009,910,574	4.8
Market Value of Assets	30,166,724,000	26,727,822,000	12.9
Unfunded FASB Accrued Liability (Surplus)	$ 232,838,594	$ 2,282,088,574	(89.8)

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

Report of the Actuary on the Twenty-fifth Annual Valuation of the Teachers' Combined System of the State of Maryland
as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	95,962	97,298	(1.4)%
Retired Members and Beneficiaries	45,691	43,675	4.6
Vested Deferred Members	14,379	13,642	5.4
Inactive Status Members	5,426	5,219	4.0
Total Participants	161,458	159,834	1.0
Covered Annual Salaries of Active Members	$ 4,543,443,669	$ 4,522,202,402	0.5
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 973,734,838	$ 907,422,987	7.3
2. Assets and Liabilities			
Total Actuarial Liability	$21,724,178,194	$21,152,062,565	2.7
Assets for Valuation Purposes	20,155,414,671	19,626,676,057	2.7
Unfunded Actuarial Liability (Surplus)	$ 1,568,763,523	$ 1,525,386,508	2.8
FASB Accrued Liability	$18,286,822,230	$17,671,561,409	3.5
Market Value of Assets	18,187,297,200	16,108,367,651	12.9
Unfunded FASB Accrued Liability (Surplus)	$ 99,525,030	$ 1,563,193,758	(93.6)

Report of the Actuary on the Twenty-fifth Annual Valuation of the Employees' Combined System of the State of Maryland
as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	86,444	89,286	(3.2)%
Retired Members and Beneficiaries	46,472	44,591	4.2
Vested Deferred Members	22,065	21,593	2.2
Inactive Status Members	4,872	4,968	(1.9)
Total Participants	159,853	160,438	0.4
Covered Annual Salaries of Active Members	$ 3,337,542,706	$ 3,424,054,274	(2.5)
Annual Retirement Allowances for Retired Members and Beneficiaries	$523,078,287	$ 483,702,850	8.1
2. Assets and Liabilities			
Total Actuarial Liability	$12,621,578,337	$12,083,197,248	4.5
Assets for Valuation Purposes	11,514,654,915	11,244,007,832	2.4
Unfunded Actuarial Liability (Surplus)	$ 1,106,923,422	$ 839,189,416	31.9
FASB Accrued Liability	$10,266,563,919	$ 9,728,910,255	5.5
Market Value of Assets	10,395,821,867	9,156,181,278	13.5
Unfunded FASB Accrued Liability (Surplus)	$ (129,257,948)	$ 572,728,977	(122.6)

Report of the Actuary on the Fifty-fifth Annual Valuation of the State Police Retirement System of the State of Maryland
as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	1,445	1,542	(6.3)%
Retired Members and Beneficiaries	1,790	1,695	5.6
Vested Deferred Members	29	28	3.6
Inactive Status Members	15	13	15.4
Total Participants	3,279	3,278	0.0
Covered Annual Salaries of Active Members*	$ 76,444,973	$ 80,838,519	(5.4)
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 62,331,011	$ 56,691,315	10.0
2. Assets and Liabilities			
Total Actuarial Liability	$1,200,604,840	$1,062,383,238	13.0
Assets for Valuation Purposes	1,287,981,246	1,285,200,743	0.2
Unfunded Actuarial Liability (Surplus)	$ (87,376,406)	$ (222,817,505)	60.8
FASB Accrued Liability	$1,128,130,884	$ 986,821,179	14.3
Market Value of Assets	1,112,668,245	996,338,671	11.7
Unfunded FASB Accrued Liability (Surplus)	$ 15,462,639	$ (9,517,492)	262.5

** Does not include members who elected DROP.*

Report of the Actuary on the Twenty-fifth Annual Valuation of the Pension Plan of Judges and Their Surviving Spouses
as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	283	287	(1.4)%
Retired Members and Beneficiaries	309	306	1.0
Vested Deferred Members	10	10	0.0
Inactive Status Members	4	3	33.3
Total Participants	606	606	0.0
Covered Annual Salaries of Active Members	$ 32,937,016	$ 33,168,859	(0.7)
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 17,539,241	$ 17,171,254	2.1
2. Assets and Liabilities			
Total Actuarial Liability	$312,285,089	$279,008,117	11.9
Assets for Valuation Purposes	250,272,253	240,207,561	4.2
Unfunded Actuarial Liability (Surplus)	$ 62,012,836	$ 38,800,556	59.8
FASB Accrued Liability	$297,860,265	$265,105,527	12.4
Market Value of Assets	223,735,442	193,773,533	15.5
Unfunded FASB Accrued Liability (Surplus)	$ 74,124,823	$ 71,331,994	3.9

Report of the Actuary on the Fourteenth Annual Valuation of the Law Enforcement Officers' Pension System of the State of Maryland as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	1,675	1,481	13.1%
Retired Members and Beneficiaries	581	503	15.5
Vested Deferred Members	25	18	38.9
Inactive Status Members	56	44	27.3
Total Participants	2,337	2,046	14.2
Covered Annual Salaries of Active Members*	$ 77,369,072	$ 69,469,540	11.4
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 15,155,236	$ 12,479,011	21.5
2. Assets and Liabilities			
Total Actuarial Liability	$454,814,985	$382,287,032	19.0
Assets for Valuation Purposes	271,586,578	225,111,179	20.6
Unfunded Actuarial Liability (Surplus)	$183,228,407	$157,175,853	16.6
FASB Accrued Liability	$408,003,847	$342,486,608	19.1
Market Value of Assets	242,747,153	184,658,278	31.5
Unfunded FASB Accrued Liability (Surplus)	$165,256,694	$157,828,330	4.7

** Does not include members who elected DROP.*

Report of the Actuary on the Thirteeneth Annual Valuation of the Local Fire and Police System of the State of Maryland
as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	52	127	(59.1)%
Retired Members and Beneficiaries	37	33	12.1
Vested Deferred Members	15	11	36.4
Inactive Status Members	15	24	(37.5)
Total Participants	119	195	(39.0)
Covered Annual Salaries of Active Members	$ 1,743,416	$ 4,685,697	(62.8)
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 694,616	$ 624,529	11.2
2. Assets and Liabilities			
Total Actuarial Liability	$ 12,242,620	$ 15,662,666	(21.8)
Assets for Valuation Purposes	4,746,907	10,261,512	(53.7)
Unfunded Actuarial Liability (Surplus)	$ 7,495,713	$ 5,401,154	38.8
FASB Accrued Liability	$ 12,181,449	$ 15,025,596	(18.9)
Market Value of Assets	4,453,548	8,787,437	(49.3)
Unfunded FASB Accrued Liability (Surplus)	$ 7,727,901	$ 6,238,159	23.9

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
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	719,046,552	55,129	4.05
2000	11,634	671,990,806	57,761	4.77
2001	10,396	638,864,807	61,453	6.39
2002	9,270	604,172,528	65,175	6.06
2003	8,199	555,522,563	67,755	3.96
2004	7,197	502,487,678	69,819	3.05

Teachers' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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	2,831,567,375	37,465	4.58
2000	79,297	3,057,854,648	38,562	2.93
2001	82,901	3,355,335,942	40,474	4.96
2002	87,086	3,718,881,395	42,704	5.51
2003	89,099	3,966,679,839	44,520	4.25
2004	88,765	4,113,119,415	46,337	4.08

Employees' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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	436,772,178	34,508	3.35
2000	12,213	444,062,220	36,360	5.37
2001	11,962	457,899,607	38,280	5.28
2002	11,722	470,462,717	40,135	4.85
2003	11,347	462,088,968	40,723	1.47
2004	10,489	438,455,277	41,801	2.65

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
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	2,009,173,639	29,164	1.79
1999	70,426	2,176,887,154	30,910	5.99
2000	73,212	2,385,187,733	32,579	5.40
2001	76,024	2,626,959,051	34,554	6.06
2002	78,584	2,886,208,074	36,728	6.29
2003	77,939	2,961,965,306	38,004	3.47
2004	75,955	2,964,093,317	39,024	2.68

Judges' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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	29,576,854	104,512	11.66
2000	283	30,146,837	106,526	1.93
2001	281	30,554,439	108,735	2.07
2002	281	31,824,096	113,253	4.16
2003	287	33,168,859	115,571	2.05
2004	283	33,149,832	117,137	1.36

State Police Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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	75,601,750	45,903	6.21
2000	1,636	79,388,246	48,526	5.71
2001	1,578	79,382,508	50,306	3.67
2002	1,589	81,141,520	52,323	4.01
2003	1,542	80,838,519	52,424	0.19
2004	1,445	77,531,613	53,655	2.35

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
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	36,435,243	42,268	4.59
2000	1,130	50,301,859	44,515	5.32
2001	1,318	60,438,291	45,856	3.01
2002	1,410	65,915,519	46,748	1.95
2003	1,481	69,469,540	46,907	0.34
2004	1,675	78,628,672	46,942	0.07

Local Fire and Police

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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	6,529,920	36,685	3.27
2000	184	6,937,750	37,705	2.78
2001	140	5,600,965	40,007	6.11
2002	181	7,188,351	39,715	(0.73)
2003	127	4,685,697	36,895	(7.10)
2004	52	1,782,520	34,279	(7.09)

This page intentionally left blank

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 283 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, 2004

Amount of Monthly Benefit	Number of Retirees	Type of Retirement 1	2	3	4	5	6	7
$ 1 - 300	14,041	10,445	1,325	948	30	49	904	340
301 - 600	14,161	8,700	2,024	1,060	89	70	1,868	350
601 - 900	11,589	7,203	1,519	798	97	115	1,634	223
901 - 1,200	10,148	6,539	1,262	613	109	293	1,209	123
1,201 - 1,500	8,534	5,509	1,215	450	92	348	853	67
1,501 - 1,800	7,515	5,008	1,196	323	77	321	545	45
1,801 - 2,100	6,696	4,698	950	247	82	310	392	17
2,101 - 2,400	5,789	4,249	797	160	69	233	267	14
2,401 - 2,700	5,057	4,102	482	117	42	157	149	8
2,701 - 3,000	4,035	3,450	270	85	31	126	67	6
Over 3000	7,315	6,228	318	234	51	395	79	10
	94,880	66,131	11,358	5,035	769	2,417	7,967	1,203

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 Retirees	Age & Service Benefits Survivors	Death In Service Pre-Retirement Benefits	Disability Benefits Retirees Accidental	Disability Benefits Retirees Ordinary	Disability Benefits Survivors	Death After Retirement Post-Retirement Benefits	Total
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
2002	1,116,884	72,211	7,908	32,642	113,107	16,836	12,738	1,372,326
2003	1,197,037	78,064	7,443	36,113	122,967	18,355	14,278	1,474,257
2004	1,275,254	82,862	8,515	39,777	131,115	19,798	13,301	1,570,622

OF RETIREMENT AND OPTION SELECTED

#Option Selected							
Max.	**Opt. 1**	**Opt. 2**	**Opt. 3**	**Opt. 4**	**Opt. 5**	**Opt. 6**	**Opt. 7**
5,724	3,337	1,839	1,171	1,146	381	432	11
4,806	3,022	1,732	1,797	1,806	319	665	14
3,690	2,043	1,454	1,624	1,931	222	616	9
2,949	1,612	1,539	1,528	1,669	282	562	7
2,250	1,385	1,470	1,247	1,400	268	506	8
2,002	1,181	1,285	1,153	1,207	235	446	6
2,023	917	1,072	950	1,188	155	382	9
1,817	741	935	839	1,022	151	276	8
1,511	608	738	791	969	136	297	7
1,428	493	444	605	806	48	199	12
2,888	625	924	1,225	1,275	90	268	20
31,088	15,964	13,432	12,930	14,419	2,287	4,649	111

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 7/1/99 to 6/30/00				
Active Members	179,586	11,634	79,294	12,213
Average Annual Salary	$37,452	$57,761	$38,564	$36,360
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	$39,301	$61,453	$40,474	$38,280
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
From 7/1/01 to 6/30/02				
Active Members	190,123	9,270	87,086	11,722
Average Annual Salary	$41,383	$65,175	$42,704	$40,135
Retired Members	87,367	29,989	11,931	24,904
Average Annual Retirement Allowances	$15,945	$23,510	$12,788	$13,285
Vested Former Members	44,355	1,643	16,397	1,331
From 7/1/02 to 6/30/03				
Active Members	190,021	8,199	89,099	11,347
Average Annual Salary	$42,808	$67,755	$44,520	$40,723
Retired Members	90,803	30,305	13,370	24,662
Average Annual Retirement Allowances	$16,278	$24,156	$13,128	$13,728
Vested Former Members	45,573	1,577	17,284	1,349
From 7/1/03 to 6/30/04				
Active Members	185,861	7,197	88,765	10,489
Average Annual Salary	$44,169	$69,819	$46,337	$41,801
Retired Members	94,880	30,598	15,093	24,559
Average Annual Retirement Allowances	$16,785	$25,064	$13,704	$14,343
Vested Former Members	46,911	1,478	18,327	1,311

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

DATA BY PLAN

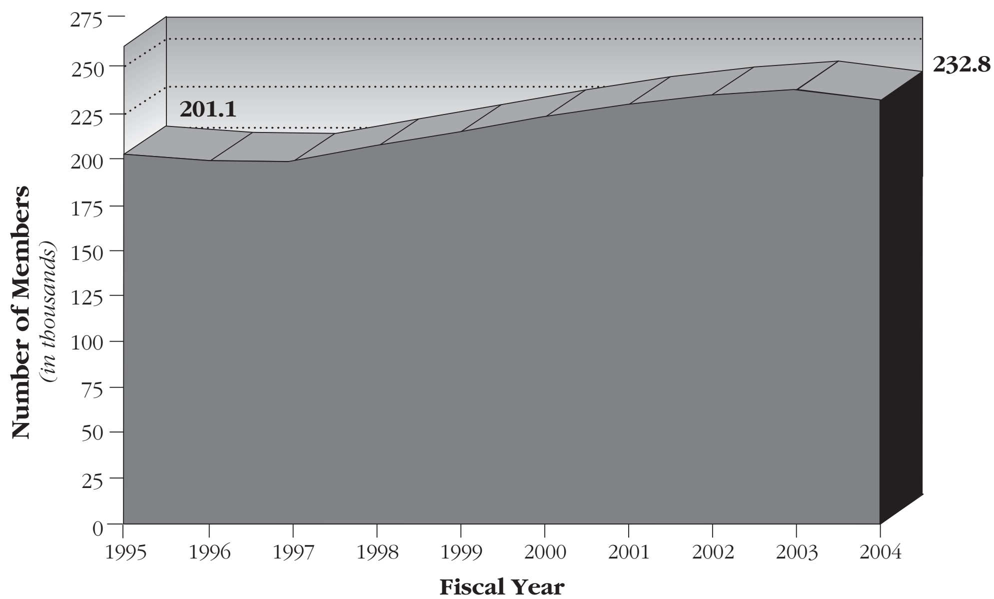
Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Fire and Police
73,212	283	1,636	1,130	184
$32,579	$106,524	$48,526	$44,515	$37,705
15,241	285	1,388	206	19
$5,929	$52,360	$29,701	$21,670	$19,795
24,305	13	22	36	20
76,024	281	1,578	1,318	140
$34,554	$108,735	$50,306	$45,856	$40,007
16,702	297	1,518	309	21
$6,278	$55,046	$31,695	$22,790	$20,170
24,396	13	24	49	30
78,584	281	1,589	1,410	181
$36,728	$113,253	$52,323	$46,749	$39,715
18,205	311	1,598	403	26
$6,894	$55,377	$32,334	$24,028	$19,341
24,845	10	27	66	36
77,939	287	1,542	1,481	127
$38,004	$115,571	$52,424	$46,907	$36,895
19,929	306	1,695	503	33
$7,284	$56,112	$33,444	$24,804	$18,924
25,212	13	41	62	35
75,955	283	1,445	1,675	52
$39,024	$117,137	$53,655	$46,942	$34,279
21,913	309	1,790	581	37
$7,795	$56,761	$34,822	$26,085	$18,773
25,626	14	44	81	30

TEN-YEAR HISTORY OF MEMBERSHIP BY PLAN

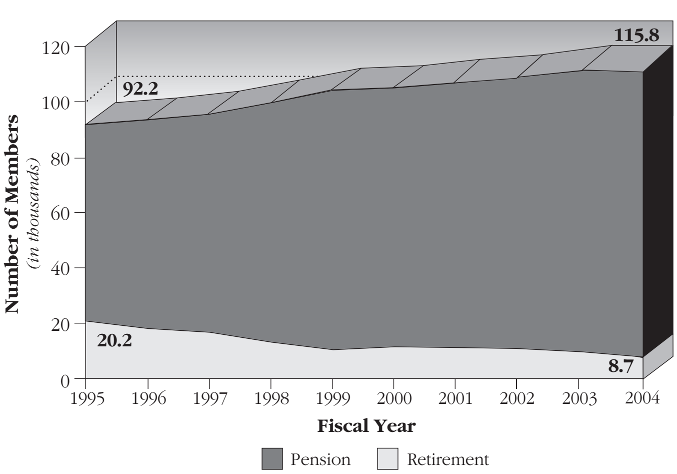
Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Fire and Police
1995	201,058	20,223	71,941	16,842	89,742	273	1,592	307	138
1996	201,832	18,981	74,673	16,326	89,567	277	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
2002	234,478	10,913	103,483	13,053	103,429	291	1,616	1,476	217
2003	235,594	9,776	106,383	12,696	103,151	300	1,583	1,543	162
2004	232,772	8,675	107,092	11,800	101,581	297	1,498	1,756	82

Note: Includes vested former members. *Includes members of the Maryland General Assembly and correctional officers.

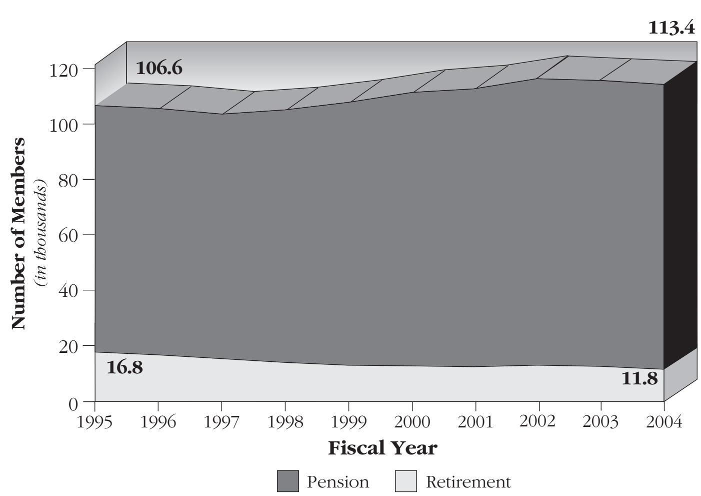
TOTAL SYSTEM MEMBERSHIP



MEMBERSHIP IN TEACHERS' PLANS



MEMBERSHIP IN EMPLOYEES' PLANS

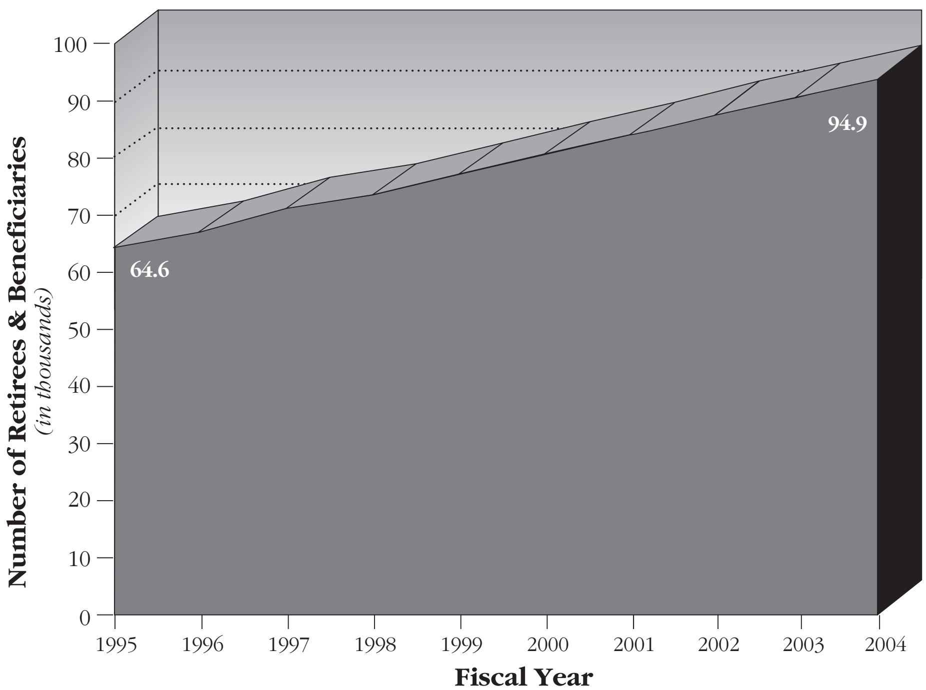


TEN-YEAR HISTORY OF RETIREES AND BENEFICIARIES BY PLAN

Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Fire and Police
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
2002	87,367	29,989	11,931	24,904	18,205	311	1,598	403	26
2003	90,803	30,305	13,370	24,662	19,929	306	1,695	503	33
2004	94,880	30,598	15,093	24,559	21,913	309	1,790	581	37

* 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)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Fund balance, beginning of year	$16,061.1	$18,467.3	$20,755.7	$24,542.8	$28,061.2	$29,985.6	$33,110.7	$29,564.7	$26,668.5	$26,727.8
Contributions	779.2	809.5	824.7	814.4	855.7	864.9	907.4	779.0	814.5	836.2
Net investment income	2,497.8	2,436.0	3,985.3	3,782.2	2,225.4	3,487.7	(3,138.8)	(2,265.3)	756.7	4,202.6
Benefit and expense payments	(870.8)	(957.1)	(1,022.9)	(1,078.2)	(1,156.7)	(1,227.5)	(1,314.6)	(1,409.9)	(1,511.9)	(1,599.9)
Fund balance, end of year	$18,467.3	$20,755.7	$24,542.8	$28,061.2	$29,985.6	$33,110.7	$29,564.7	$26,668.5	$26,727.8	$30,166.7

TEN-YEAR HISTORY OF EMPLOYER CONTRIBUTION RATES BY PLAN

	State						Participating Governmental Units				
Fiscal Year	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	Law Enforcement Officers' Pension	Employees' Retirement	Employees' Pension
1995	13.43%	15.92%	8.70%	52.84%	19.36%	34.07%	7.15%	16.17%	N/A	9.43%	6.69%
1996	13.61	16.22	8.61	52.51	19.13	35.68	7.96	16.31	N/A	11.58	7.35
1997	13.50	16.09	8.54	52.56	17.65	35.15	7.92	16.19	N/A	10.91	7.46
1998	12.90	15.48	8.21	52.49	13.08	26.27	7.04	16.29	N/A	11.96	6.96
1999	11.67	13.99	7.13	52.12	10.91	25.60	6.02	16.42	N/A	10.91	5.91
2000	10.70	12.54	7.15	48.18	1.26	22.96	3.83	14.99	N/A	8.70	3.70
2001	9.31	10.95	5.71	46.75	8.44	23.38	2.95	15.00	N/A	7.81	2.81
2002	7.98	9.35	4.73	42.66	5.83	32.41	1.94	14.85	31.83%	6.75	1.75
2003	8.01	9.35	4.73	43.92	5.78	36.10	1.95	14.78	29.59	6.95	1.95
2004	8.06	9.35	4.73	43.74	7.58	35.13	2.87	14.31	30.21	7.59	2.59

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
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	5,900,456	12.47	3,782,237	4,596,634
1999	162,342	693,353	6,312,417	10.98	2,225,398	3,081,093
2000	182,507	682,422	6,725,870	10.15	3,487,722	4,352,651
2001	189,769	717,576	7,255,036	8.74	(3,138,763)	(2,231,418)
2002	199,304	579,718	7,867,794	7.39	(2,265,315)	(1,486,293)
2003	207,584	606,900	8,134,419	7.46	756,747	1,571,231
2004	204,158	632,052	8,069,481	7.83	4,202,632	5,038,842

EXPENSES

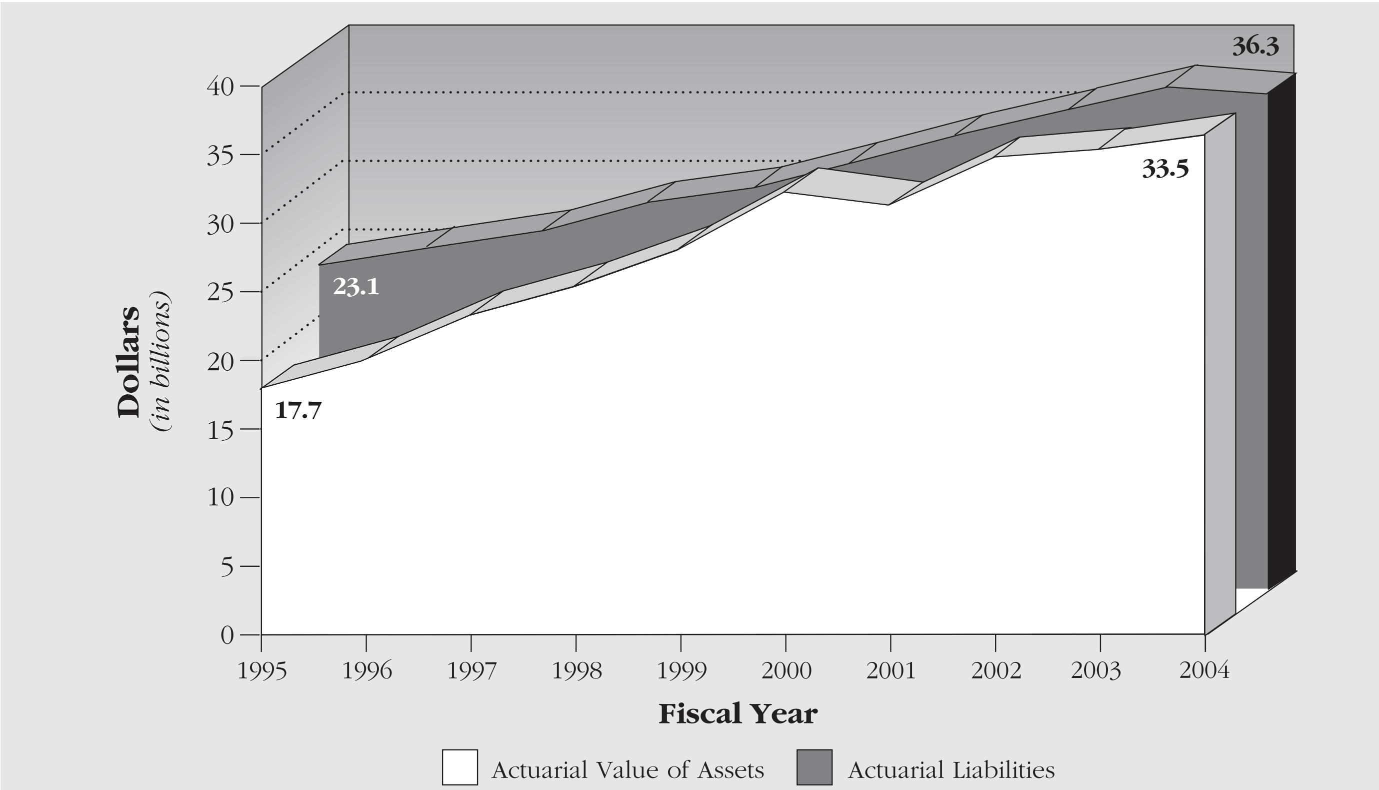
Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
1995	$ 844,156	$ 8,208	$ 18,451	$ 870,815
1996	897,721	8,568	50,871	957,160
1997	973,103	9,717	40,060	1,022,880
1998	1,047,774	10,441	20,007	1,078,222
1999	1,115,086	24,742	16,898	1,156,726
2000	1,190,954	19,751	16,805	1,227,510
2001	1,272,804	24,823	16,977	1,314,604
2002	1,372,325	20,064	17,476	1,409,865
2003	1,474,257	21,352	16,310	1,511,919
2004	1,570,622	17,376	11,942	1,599,940

EMPLOYER CONTRIBUTIONS RECEIVED

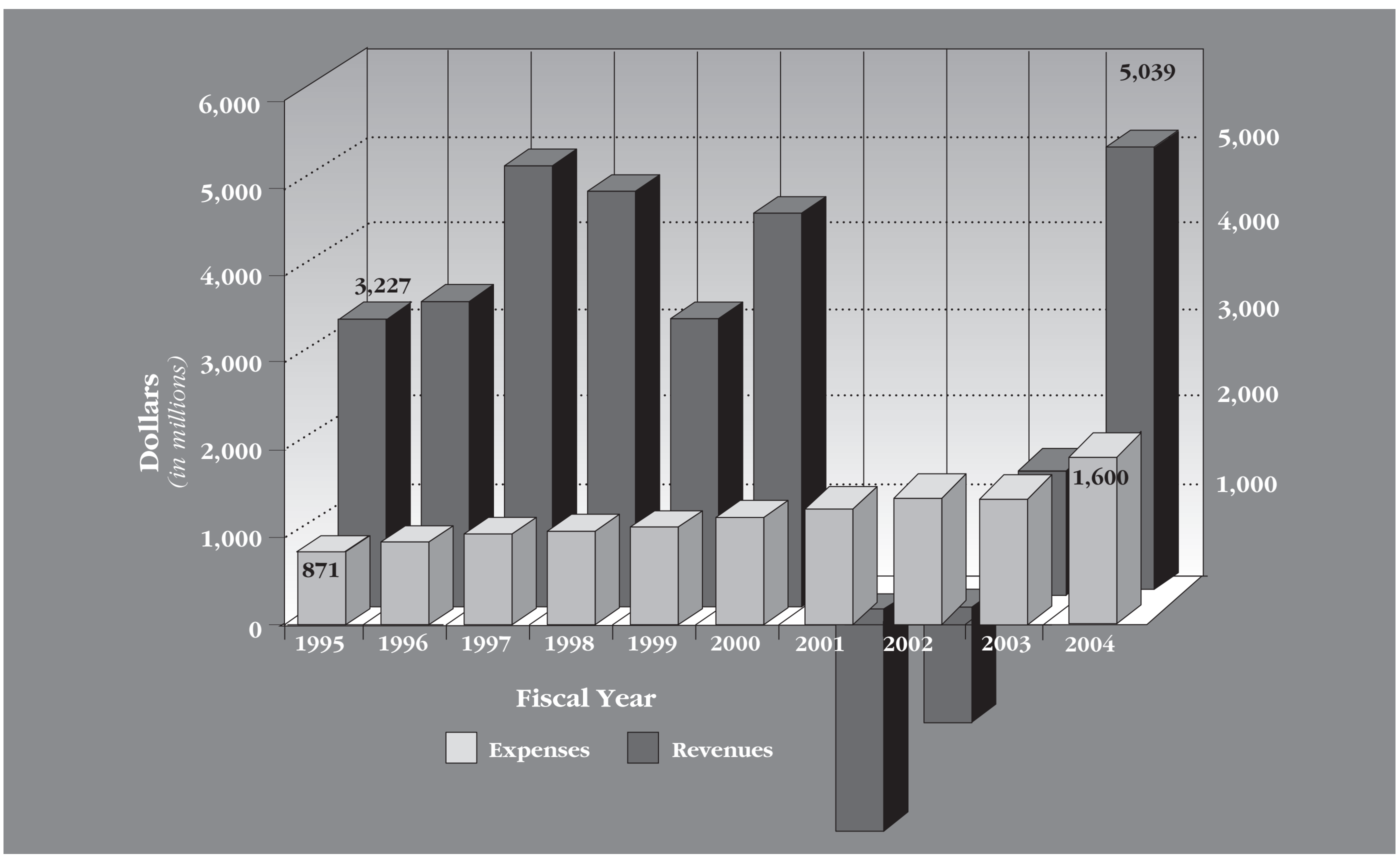
(Expressed in Thousands)

	Teachers' Retirement and Pension System	Employees' Retirement and Pension System	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Totals 2004	Totals 2003
EMPLOYER CONTRIBUTIONS:								
Normal (A)	$ 362,092	$240,719	$12,412	$25,751	$ 291	$16,643	$657,908	$667,742
Unfunded Actuarial Liability*	55,879	(78,138)	2,261	(19,924)	82	8,560	(31,280)	(66,412)
Total Employer Contributions	$ 417,971	$162,581	$14,673	$ 5,827	$ 373	$25,203	$626,628	$601,330
CONTRIBUTION RATES AS A PERCENTAGE OF PAYROLL:								
State:								
Normal	8.10%	6.15%	37.00%	33.50%	–	23.15%	7.96%	7.96%
Unfunded Actuarial Liability	1.25%	- 1.42%	6.74%	- 25.92%	–	11.98%	0.10%	0.05%
Total State	9.35%	4.73%	43.74%	7.58%	0.00%	35.13%	8.06%	8.01%
Participating Governmental Units:								
Normal	–	5.15%	–	–	11.15%	20.25%	5.30%	5.25%
Unfunded Actuarial Liability	–	- 2.56%	–	–	3.16%	9.96%	- 2.43%	- 3.10%
Total Municipal	0.00%	2.59%	0.00%	0.00%	14.31%	30.21%	2.87%	2.15%

TEN-YEAR HISTORY OF FUNDING PROGRESS



TEN-YEAR HISTORY OF REVENUES VS. EXPENSES



Governmental Units Participating in the Systems as of June 30, 2004

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

Withdrawn Governmental Units

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

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.

TEACHERS' RETIREMENT SYSTEM

A COMPOSITE PICTURE

	2004	2003
Total Membership		
Active Vested	7,195	8,198
Active Non-vested	2	1
Terminated Vested	1,478	1,577
Retired Members	30,598	30,305
Active Members		
Number	7,197	8,199
Average Age	56.1	55.6
Average Years of Service	29.3	28.7
Average Annual Salary	$69,819	$67,755
Retirees & Beneficiaries		
Number	30,598	30,305
Average Age	72.5	72.3
Average Monthly Benefit	$2,089	$ 2,013

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 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. 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 in the following column.

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.

Pension Changes

After December 31, 2004, members may not step down to a lesser plan selection or transfer to a pension system.

TEACHERS' PENSION SYSTEM

A COMPOSITE PICTURE

	2004	2003
Total Membership		
Active Vested	57,502	55,132
Active Non-vested	31,263	33,967
Terminated Vested	18,327	17,284
Retired Members	15,093	13,370
Active Members		
Number	88,765	89,099
Average Age	43.6	43.0
Average Years of Service	10.5	10.2
Average Annual Salary	$46,337	$44,520
Retirees & Beneficiaries		
Number	15,093	13,370
Average Age	65.4	65.2
Average Monthly Benefit	$1,142	$ 1,094

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 Social Security Integration Level (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.

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

A COMPOSITE PICTURE

	2004	2003
Total Membership		
Active Vested	8,151	8,669
Active Non-vested	2,338	2,678
Terminated Vested	1,311	1,349
Retired Members	24,559	24,662
Active Members		
Number	10,489	11,347
Average Age	45.3	44.8
Average Years of Service	16.4	16.0
Average Annual Salary	$41,801	$40,723
Retirees & Beneficiaries		
Number	24,559	24,662
Average Age	73.2	73.1
Average Monthly Benefit	$1,195	$ 1,144

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.

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 have a minimum 8 years of service and 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.

Pension Changes

After December 31, 2004, members may not step down to a lesser plan selection or transfer to a pension system.

EMPLOYEES' PENSION SYSTEM

A COMPOSITE PICTURE

	2004	2003
Total Membership		
Active Vested	51,445	50,224
Active Non-vested	24,510	27,715
Terminated Vested	25,626	25,212
Retired Members	21,913	19,929
Active Members		
Number	75,955	77,939
Average Age	46.7	46.0
Average Years of Service	11.9	11.4
Average Annual Salary	$39,024	$38,004
Retirees & Beneficiaries		
Number	21,913	19,929
Average Age	66.0	65.8
Average Monthly Benefit	$650	$ 607

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.

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

A Composite Picture

	2004	2003
Total Membership		
Active Vested	283	287
Active Non-vested	—	—
Terminated Vested	14	13
Retired Members	309	306
Active Members		
Number	283	287
Average Age	56.2	55.7
Average Years of Service	9.8	9.5
Average Annual Salary	$117,137	$115,571
Retirees & Beneficiaries		
Number	309	306
Average Age	77.5	77.2
Average Monthly Benefit	$4,730	$ 4,676

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 is 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.

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.

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.

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 payable to the surviving spouse.

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

A COMPOSITE PICTURE

	2004	2003
Total Membership		
Active Vested	1,121	1,182
Active Non-vested	324	360
Terminated Vested	44	41
Retired Members	1,790	1,695
Active Members		
Number	1,445	1,542
Average Age	35.8	35.7
Average Years of Service	11.7	11.5
Average Annual Salary	$53,655	$52,424
Retirees & Beneficiaries		
Number	1,790	1,695
Average Age	58.8	58.6
Average Monthly Benefit	$2,902	$ 2,787

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 ECPS.

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.

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. The special death benefit for troopers killed in the line of duty is 2/3 (66.7%) of AFS.

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 SRPS 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

A COMPOSITE PICTURE

	2004	2003
Total Membership		
Active Vested	1,178	1,039
Active Non-vested	497	442
Terminated Vested	81	62
Retired Members	581	503
Active Members		
Number	1,675	1,481
Average Age	39.5	39.6
Average Years of Service	11.3	11.5
Average Annual Salary	$46,942	$46,907
Retirees & Beneficiaries		
Number	581	503
Average Age	56.2	56.1
Average Monthly Benefit	$2,174	$ 2,067

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 System 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 Mental 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.

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 2.0% of AFS for the first 30 years of creditable service, plus 1.0% of AFS for each additional year.

For members subject to the modified pension system provisions, full service pension allowances equal 2.0% of AFS up to a maximum benefit of 60% of AFS (30 years of credit). For members subject to the non-modified pension system provisions, full service pension allowances equal 2.3% of AFS for the first 30 years of creditable service, plus 1.0% of AFS for each additional year.

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. The special death benefit for officers killed in the line of duty is 2/3 (66.7%) of AFS.

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 service, 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.

Legislative Update

Effective January 1, 2005, the LEOPS retirement plan is closed to new participants.

LOCAL FIRE AND POLICE SYSTEM

A COMPOSITE PICTURE

	2004	2003
Total Membership		
Active Vested	28	80
Active Non-vested	24	47
Terminated Vested	30	35
Retired Members	37	33
Active Members		
Number	52	127
Average Age	36.4	36.5
Average Years of Service	12.2	11.1
Average Annual Salary	$34,279	$36,895
Retirees & Beneficiaries		
Number	37	33
Average Age	53.5	52.0
Average Monthly Benefit	$1,564	$ 1,577

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.

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. COLA's 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.

Legislative Update

Effective December 31, 2004, the Local Fire and Police Systems will be closed to new participating employees.