Comprehensive Annual Financial Report

State Retirement and Pension System of Maryland

A Pension Trust Fund of the State of Maryland

For the Year Ended June 30, 2005

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

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, 2005

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, 2005. We believe this report fairly reflects the results achieved during 2005.

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-eight 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 100,000 retirees and beneficiaries, and is an essential element of the future financial security for over 188,000 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 93.

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 19 of this annual report.

ECONOMIC ENVIRONMENT

The System continued to experience strong investment gains during the fiscal year. In contrast to the exceptional return of 16.2% during fiscal year 2004, fund investments returned a notable gain of 9.5% during fiscal year 2005 which was above 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, 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 System experienced a decrease in its funding ratio from

92.18% to 88.21%. 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 domestically as well as through expanding global markets in an effort to maintain an appropriate portfolio balance.

MAJOR ISSUES AND INITIATIVES

During the fiscal year, the Board's focus has been on reviewing and making a recommendation to change the methodology used to calculate annual contributions to the trust fund. The Board and staff spent a considerable amount of time thoroughly reviewing the current methodology, known as the Corridor Method, and the impact that this methodology is having on the System. Under the corridor method, contribution rates for the two largest systems, the employees' and teachers' systems, are fixed from year to year as long as the funded status for these systems remains in a "corridor" of 90 to 110 percent. The Board's review concluded that this methodology should be replaced immediately with the actuarial contribution rate.

In the investment area, the System continued its focus on building a compliance framework to oversee external asset managers and implementing asset allocation changes. The Board of Trustees approved investment mandates in global equities, enhanced index equities, real return, and small cap international.

In the benefits administration area, the System continued working with the legislature to simplify existing pension law and document internal procedures and calculations. These initiatives facilitate implementation of information technology enhancements undertaken by the State Retirement Agency. In addition, the System participated in the Internal Revenue Service letter forwarding program. This program uses the Internal Revenue Services' database to locate former participants entitled to benefits.

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 2005, investment earnings were $2.8 billion, while revenues from employer and member contributions were $666 million and $209 million, respectively. For fiscal year 2005, 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 2005, totaling $1,716.6 million. Of this amount, the System disbursed $1,697.4 million as retirement allowances to members and beneficiaries. The remaining $19.2 million was paid to members and withdrawing employers as a result of employment terminations, system transfers or withdrawals. Administrative and investment expenses are entirely funded through investment income. Of the $125 million disbursed during fiscal year 2005 to manage the investment portfolio and to administer the System, $103 million was paid for investment management, portfolio custody, and securities lending services while $22 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 15-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, 2005, the System's actuarial accrued liability was $39.1 billion. With the actuarial value of assets accumulated to pay the liability at $34.5 billion, the System now stands at 88.21 percent funded.

INVESTMENTS

We are pleased the System delivered above-median returns during fiscal year 2005 for plan participants and beneficiaries. Looking forward to fiscal year 2006, the Agency will continue to search for the optimal investment tradeoffs that will provide an attractive return expectation while maintaining acceptable levels of investment risk. Furthermore, the Agency maintains that the integrity of capital markets directly affects the System and its stakeholders. Through the Corporate Governance Subcommittee, Agency focus will be on stewardship and the concomitant responsibility of holding the companies through which we invest accountable for actions that impact System 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 Abrams, Foster, Nole & Williams, PA. 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, 2004. This was the sixteenth consecutive year (1989 through 2004) 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 2005 a success.

Thomas K. Lee
Executive Director &
Secretary to the Board

Vincent J. Marsiglia, CPA
Chief Financial Officer

STATE RETIREMENT
and PENSION SYSTEM
of MARYLAND

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secretary To The Board
Board Of Trustees

December 15, 2005

Dear Members and Beneficiaries:

During fiscal year 2005, the investment environment was once again positive, and the State Retirement and Pension System (SRPS) generated a return of 9.5%. Total fund assets increased from $30.2 billion at fiscal year-end 2004 to $32.1 billion at the end of fiscal year 2005. These results are encouraging, especially when combined with the 16.2% return from the prior fiscal year.

The Board of Trustees is working diligently to ensure that the System's portfolio reflects market opportunities, while maintaining an appropriate level of risk. In this regard, an asset allocation review was undertaken during the fiscal year, and changes will be implemented during fiscal year 2006.

There was one addition to the Board of Trustees during the fiscal year. We welcomed Cecilia Januszkiewicz, Secretary of Budget and Management, to the Board of Trustees.

Your support and participation are greatly appreciated.

Sincerely,

William Donald Schaefer

WILLIAM DONALD SCHAEFER
Chairman

Nancy K. Kopp

NANCY K. KOPP
Vice Chairman

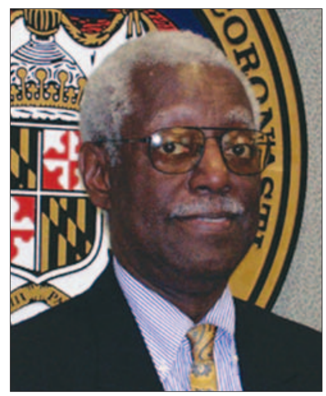
BOARD OF TRUSTEES

WILLIAM DONALD SCHAEFER, *Chairman*
State Comptroller
Ex Officio since January 25, 1999
Member, Investment Committee

NANCY K. KOPP, *Vice Chairman*
State Treasurer
Ex Officio since February 14, 2002
Vice Chairman, Investment Committee
Member, Administrative Committee
Member, Audit Committee
Member, Corporate Governance Subcommittee
Member, Real Estate Subcommittee

WILLIAM D. BROWN
August 1, 1997 – July 31, 2009
Chairman, Administrative Committee
Member, Investment Committee

CECILIA JANUSZKIEWICZ
Ex Officio since June 17, 2005
Member, Investment Committee



JOHN W. DOUGLASS
May 18, 2004 – July 31, 2007
Member, Administrative Committee
Member, Audit Committee
Member, Corporate Governance Subcommittee

DAVID B. HAMILTON
July 1, 2003 - June 30, 2007
Member, Audit Committee
Member, Administrative Committee

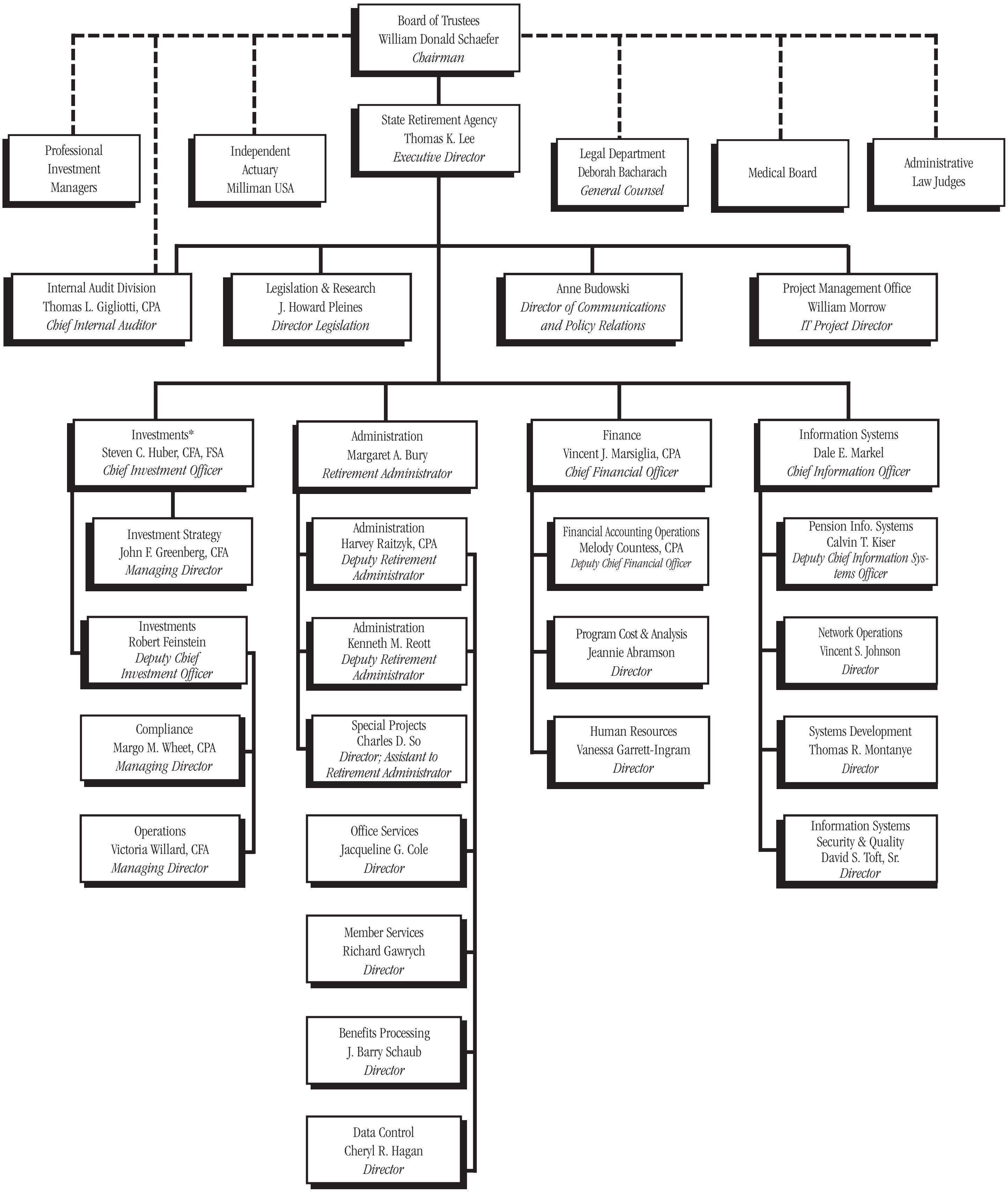
JAMES M. HARKINS
October 1, 2004 - June 30, 2006
Member, Administative Committee

F. PATRICK HUGHES
July 1, 2003 - June 30, 2009
Chairman, Audit Committee
Member, Investment Committee
Member, Real Estate Subcommittee

BOARD OF TRUSTEES

ADVISORS TO THE INVESTMENT COMMITTEE

ORGANIZATIONAL CHART (November, 2005)



*Additional information regarding investment professionals who provide services to the System can be found on pages 11, 51, and 59.

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 International Corp.
Boston, Massachusetts

Alchemy Partners
Channel Islands, United Kingdom

Apax Europe VI
London, England

Ariel Capital Management, Inc.
Chicago, Illinois

Artisan Partners Limited Partnership
San Francisco, California

Audax Private Equity
Boston, Massachusetts

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

Frazier Healthcare
Seattle, Washington

HarbourVest Partners, LLC
Boston, Massachusetts

Legg Mason Capital Management, Inc.
Baltimore, Maryland

Lion Capital Fund 1, L.P.
London, England

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

Wellington Management Co. LLP
Boston, Massachusetts

Fixed Income Investment Managers

Bridgewater Associates, Inc.
Westport, Connecticut

Pacific Investment Management Company
Newport Beach, California

Payden & Rygel
Los Angeles, California

State Street Global Advisors
Boston, Massachusetts

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

Abrams, Foster, Nole & Williams, P.A.
Baltimore, Maryland

Independent Investment Consultants

Altius Associates Limited
Richmond, Virginia

Ennis Knupp & Associates
Chicago, Illinois

Pension Consulting Alliance
Encino, California

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

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, 2004

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

President

Executive Director

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 97,000 participants.
The combined systems provide survivor, disability and retirement benefits to plan members.

Abrams, Foster, Nole & Williams, P.A.
Certified Public Accountants

2 Hamill Road, Suite 272 N. Quadrangle
Baltimore, MD 21210-1815
(410) 433-6830 / Fax (410) 433-6871

Member: American Institute of Certified Public Accountants
and Maryland Association of Certified Public Accountants

INDEPENDENT PUBLIC ACCOUNTANTS' REPORT

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 and for the year ended June 30, 2005, 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 audit. The financial statements as of and for the year ended June 30, 2004 were audited by other auditors whose report dated October 27, 2004 expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State Retirement and Pension System of Maryland as of June 30, 2005, and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) 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 audit was made 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 to provide supplementary information required by accounting standards generally accepted in the United States of America or 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 audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abrams, Foster, Nole & Williams, P.A.

Abrams, Foster, Nole & Williams, P.A.
Certified Public Accountants

October 17, 2005
Baltimore, Maryland

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, 2005, 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 20.

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, varying types of investment 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 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 2005 showed continued positive returns for both the financial markets and the economy as a whole.

Fiscal Year 2005 compared to 2004

Cash and cash equivalents and investments, at fair value, comprised 98.9% and 98.6% of the total assets of the Plan as of June 30, 2005 and 2004 respectively.

The schedule below indicates an increase of 6.8% in the managed assets of the System. Cash and cash equivalents decreased by 43.7% primarily due to the reallocation of available cash along with an allocation policy which targets maintaining a minimal cash balance. The increase in U.S. Government obligations, Mortgage & mortgage related securities and International obligations were primarily due to portfolio restructuring and modest performance increases. The Alternative investments' strong performance along with additional investments during fiscal year 2005 drove the increase in this asset class.

A schedule of the System's investments and changes (by type) from fiscal year 2004 to 2005 is as follows (*expressed in millions*):

	June 30,		Change	
	2005	**2004**	**Amount**	**%**
Cash & cash equivalents	$ 934.0	$ 1,660.2	$ (726.2)	-43.7%
U.S. Government obligations	1,761.4	843.1	918.3	108.9%
Domestic corporate obligations	5,989.6	5,915.1	74.5	1.3%
International obligations	310.9	186.0	124.9	67.2%
Domestic stocks	16,303.3	15,534.4	768.9	4.9%
International stocks	4,982.9	4,574.1	408.8	8.9%
Mortgages & mortgage related securities	1,746.8	1,255.1	491.7	39.2%
Real estate	751.7	780.2	(28.5)	-3.7%
Alternative investments	242.5	174.3	68.2	39.1%
Total managed investments	33,023.1	30,922.5	2,100.6	6.8%
Collateral for loaned securities	2,485.4	1,575.6	909.8	57.7%
Total investments and cash & cash equivalents	35,508.5	32,498.1	3,010.4	9.3%
Receivables	383.0	477.7	(94.7)	-19.8%
Total assets	35,891.5	32,975.8	2,915.7	8.8%
Liabilities	3,817.8	2,809.1	1,008.7	35.9%
Total net assets	$32,073.7	$30,166.7	$1,907.0	6.3%

As depicted in the schedule below, contributions collected by the System increased modestly during fiscal year 2005. Additionally, the system experienced an investment return of 9.5% after experiencing a strong recovery the prior year. The fund, as expected, continues to pay out more in benefits than it collects in contributions and that, coupled with an increase of almost $127 million in benefits paid to retirees, negated a small amount of the large investment gain enjoyed by the System in fiscal year 2005.

A schedule of the System's additions to and deductions from plan net assets and related changes (by major category) from fiscal year 2004 to 2005 is as follows (*expressed in millions*):

	June 30,		Change	
	2005	**2004**	**Amount**	**%**
Employer contributions	$239.8	$221.0	$18.8	8.5%
Member contributions	209.0	204.2	4.8	2.4%
Other & contribution interest	430.7	411.0	19.7	4.8%
Net investment income	2,766.4	4,202.6	(1,436.2)	-34.2%
Total additions	3,645.9	5,038.8	(1,392.9)	-27.6%
Benefit payments	1,697.4	1,570.6	126.8	8.1%
Refunds	19.1	11.9	7.2	60.5%
Administrative expenses	22.4	17.4	5.0	28.7%
Total deductions	1,738.9	1,599.9	139.0	8.7%
Net increase (decrease) in plan net assets	$1,907.0	$3,438.9	$(1,531.9)	-44.5%

Fiscal Year 2004 compared to 2003

Cash and cash equivalents decreased by 31.9% primarily due to the completion of the portfolio restructuring that began during fiscal year 2003. A decrease in U.S. Government Obligations in fiscal year 2004 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 investments and changes (by type) from fiscal year 2003 to 2004 is as follows (*expressed in millions*):

	June 30,		Change	
	2004	**2003**	**Amount**	**%**
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%

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. The system experienced positive investment returns after experiencing negative returns in 2 of the preceding 3 years. The fund, as expected, continued to pay out more in benefits than it collected 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,		Change	
	2004	**2003**	**Amount**	**%**
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 (decrease) in plan net assets	$3,438.9	$59.3	$3,379.6	5699.2%

ANALYSIS OF FUNDED STATUS

The System remains financially sound as of June 30, 2005 and significantly ahead of its original actuarial funding schedule, which projected the June 30, 2000 Unfunded Actuarial Accrued Liability (UAAL) 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.

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% 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: Melody Countess
120 E. Baltimore Street, Suite 1601
Baltimore, Maryland 21202-1600

STATEMENTS OF PLAN NET ASSETS
As of June 30, 2005 and 2004
(Expressed in Thousands)

	2005	2004
Assets:		
Cash & cash equivalents (note 3)	$ 933,993	$ 1,660,242
Receivables:		
Contributions:		
Employers	4,888	3,532
Employers – long term (note 5)	62,230	77,549
Members	1,134	1,164
Accrued investment income	63,736	60,561
Investment sales proceeds	251,070	334,878
Total receivables	383,058	477,684
Investments, at fair value (notes 2 & 3):		
U.S. Government obligations	1,761,411	843,134
Domestic corporate obligations	5,989,617	5,915,050
International obligations	310,876	185,974
Domestic stocks	16,303,305	15,534,356
International stocks	4,982,880	4,574,130
Mortgages & mortgage related securities	1,746,849	1,255,142
Real estate	751,660	780,166
Alternative investments	242,506	174,258
Collateral for loaned securities	2,485,395	1,575,643
Total investments	34,574,499	30,837,853
Total assets	35,891,550	32,975,779
Liabilities:		
Accounts payable & accrued expenses (note 7)	58,820	48,607
Investment commitments payable	1,272,224	1,183,453
Obligation for collateral for loaned securities	2,485,395	1,575,643
Other liabilities	1,392	1,352
Total liabilities	3,817,831	2,809,055
Net assets held in trust for pension benefits	$32,073,719	$30,166,724

(A schedule of funding progress is presented on page 35)

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, 2005 and 2004
(Expressed in Thousands)

	2005	2004
Additions:		
Contributions (note 4):		
Employers	$ 239,855	$ 221,023
Members	208,997	204,158
Other	426,191	405,605
Contribution interest (note 5)	4,508	5,424,
Total contributions	879,551	836,210
Investment income:		
Net appreciation in fair value of investments	2,351,524	3,813,701
Interest	212,027	216,802
Dividends	221,500	190,984
Real estate operating net income	32,453	29,515
Income before securities lending activity	2,817,504	4,251,002
Gross income from securities lending activity	51,691	20,709
Securities lending borrower rebates	(44,435)	(13,619)
Securities lending agent fees	(1,161)	(1,418)
Net income from securities lending activity	6,095	5,672
Total investment income	2,823,599	4,256,674
Investment expenses (note 2E)	(57,210)	(54,042)
Net investment income	2,766,389	4,202,632
Total additions	3,645,940	5,038,842
Deductions:		
Benefit payments	1,697,397	1,570,622
Refunds (note 6)	19,162	11,942
Administrative expenses (note 2E)	22,386	17,376
Total deductions	1,738,945	1,599,940
Net increase in plan assets	1,906,995	3,438,902
Net assets held in trust for pension benefits:		
Beginning of the fiscal year	30,166,724	26,727,822
End of the fiscal year	$32,073,719	$30,166,724

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 became members of the Teachers' Pension System as a condition of employment. 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 became 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. 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, 139 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. As of January 1, 2005, this system was closed to future participants.

The following table presents a summary of membership by system as of June 30, 2005, with comparative 2004 totals:

	Inactive & Deferred Vested	Retirees & Beneficiaries	Active Plan Participants		
			Vested	Non-vested	Total
Teachers' Retirement & Pension Systems	20,143	48,091	66,198	31,592	97,790
Employees' Retirement & Pension Systems	27,349	49,158	60,202	26,454	86,656
Judges' Retirement System	15	316	282	-	282
State Police Retirement System	47	1,909	1,095	344	1,439
Local Fire and Police System	6	14	32	25	57
Law Enforcement Officers' Pension System	104	708	1,282	544	1,826
Totals as of June 30, 2005	47,664	100,196	129,091	58,959	188,050
Totals as of June 30, 2004	46,911	94,880	126,903	58,958	185,861

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 determines 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% (30 years of credit).

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

Vested Allowances

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

Early Service Retirement

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

Disability and Death Benefits

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFS. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. A member (other than a member of the Maryland General Assembly or a judge, both of which are ineligible for accidental disability benefits) who is permanently and totally disabled as the result of an accident occurring in the line of duty receives 2/3 (66.7%) of the member's AFS plus an annuity based on all member contributions and interest. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

Adjusted Retirement Allowances

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

B. Investment Limitations

The State Personnel and Pensions Article of the Annotated Code of Maryland authorizes the System to invest plan assets in stocks, bonds, notes, certificates of indebtedness, mortgage notes, real estate, debentures or other obligations, subject to the terms, conditions, limitations and restrictions imposed by the Board of Trustees of the State Retirement and Pension System of Maryland. As such, no more than 25% of the assets invested in common stocks may be invested in non-dividend paying common stocks. In addition, no investment in any one organization may constitute more than 5% of the total assets of the System (valued at cost). The System did not exceed either of these investment limits.

C. Portfolio Valuation Method

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

D. 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.

E. 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 39 for detailed Schedules of Administrative and Investment Expenses, respectively.

F. Federal Income Tax Status

During the fiscal years ended June 30, 2005 and 2004, 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, CASH EQUIVALENTS, AND INVESTMENTS

A. Legal Provisions

The Board of Trustees is authorized by Section 21-116(c), Annotated Code of Maryland, to establish and maintain the investment policy manual, which authorizes investing in all major sectors of the capital market in order to diversify and minimize total investment program risk. Such sectors include, but are not limited to the following:

- Common stock, preferred stock, convertible securities, warrants and similar rights of U.S. and non-U.S. companies, wherever organized shares in investment funds and trusts may be purchased.
- Private Equity-Direct/Partnerships/Funds – The System currently has a 2% target and employs a consultant to advise them on selecting partnerships.
- Real Estate Investment Trusts (REITS) – The System employs an investment manager who specializes in this area.
- Commingled Real Estate Funds – May be open or close ended. Earnings may be reinvested in the fund or distributed.
- Directly Owned Real Estate – Affords the System greater control over the portfolio composition; ability to evaluate property prior to acquisition; greater control over managers' compensation levels and fee structures; and greater assurance that the investment objectives of SRPS are the primary guiding force of manager activities rather than investment objectives suitable to multiple investors.
- The System may invest in fixed income obligations of the U.S. government and its states and local subdivisions, non-U.S. governments and their states and local subdivisions, U.S. and non-U.S. companies, wherever organized, and supra-national organizations. Any limits are governed by the System's contract with each manager.
- Commingled funds offered by the Manager, or affiliates thereof, that invest in permissible investments.
- Futures & Options - The System may employ financial futures on fixed income securities to hedge or manage interest rate changes and enhance long term portfolio returns. Individual portfolio managers may not employ financial futures unless prior authorization is granted by the Board of Trustees upon advice of the Investment Committee and recommendation from the Chief Investment Officer.
- Foreign Exchange Forward, Futures & Options – The System may employ foreign exchange forward and future contracts to hedge or manage foreign currency exposure and enhance long term global portfolio returns. Global managers have received Board of Trustees' authorization to use forwards, futures and options to manage currency exposure.

- Equity Index Futures - The System may employ equity index futures to hedge or manage cash positions and liquidations. External managers of equity Russell 3000 based index funds have been granted authority to employ futures to manage cash contributions, withdrawals and short-term cash positions.
- Equity Options – The System may employ options to hedge or manage asset allocations to equities. External managers of equity indexed funds have been granted authority when hired to employ options to manage cash contributions, withdrawals, and short-term cash positions.

The Systems' policy is to consider all major sectors of the capital market in order to diversify and minimize total investment program risk.

Investment Restrictions

The System may not invest more than 25% of total assets (at market value) committed by the System to common stocks in non-dividend-paying common stocks, since prohibited under State Personnel & Pensions' Article section 21-123 c.ii.

Unless the Board of Trustees grants prior authorization, the System may not:
- Invest more than 5% of the total assets of the System in any one company.
- Invest any funds of the System in any one company in excess of 5% of that company's total capital.
- Borrow money.
- Purchase securities on margin.
- Effect short sales of equities, other than those executed by external managers.
- Pledge or hypothecate securities with the exception of fully collateralized security lending agreements and reverse repurchase agreements.
- Employ derivatives to reduce portfolio duration to less than that of cash equivalents or to increase duration to more than that available from owning long term U.S. Treasury Bonds.

The System is also authorized by its Board of Trustees to operate a securities lending program, and has contracted with its custodian bank to reinvest cash collateral received from the transfer of securities in any investment instrument authorized by the investment policy. The System's Board of Trustees has determined the collateralization percentages necessary for both foreign and domestic demand deposits. The Board of Trustees has established a policy to require collateral equal to 105% for international equity securities and 102% for all other securities, which is marked to market daily.

B. Cash and Cash Equivalents

For cash deposits and cash equivalents, custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it.

The amount of the System's total cash and cash equivalents as of June 30, 2005, was $933,993,510. Cash deposits in bank accounts totaled $95,566,965 which was uninsured and uncollateralized. As of June 30, 2005, the system held $838,426,545 in cash equivalents. Cash equivalents are created through daily sweeps of excess cash by the System's custodial bank into bank sponsored short-term securities backed by the U.S. government and by the System's sweep into commercial paper.

As of June 30, 2005, the System's cash equivalents were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$95,566,965
Uninsured and collateral held by custodial bank not in the System's name	-
Total	$95,566,965

C. Investments

All of the investment assets of the system are invested in short-term, fixed income, equity, and real estate securities. These investments are accounted for as the System and are allocated to Teachers' Retirement and Pension, Employee Retirement and Pension, Judges Retirement, State Police Retirement, Law Enforcement Officers' Pension, and the Local Fire and Police Systems.

All investments are governed by the prudent person rule described in Section 21-203 of the Annotated Code of Maryland. The prudent person rule established a standard for all fiduciaries, to act as a prudent person would be expected to act, with discretion and intelligence, while investing for income and preservation of principal.

The following table presents the fair value of cash & cash equivalents and investments by type as of June 30, 2005 (*in thousands*):

Investment Type	Fair Value
Alternative investments	$ 242,506
Asset backed securities	299,151
Cash	95,567
Collateralized mortgage obligations	393,308
Commercial paper	752,662
Convertibles	1,473
Domestic corporate obligations	747,401
Domestic equities	5,274,781
International obligations	85,079
International equities	3,770,562
Money market fund	85,764
Mortgage pass-throughs	1,353,541
Municipal	27,093
Mutual funds	17,176,326
Options	583
Private placement	1,701
Real estate	751,660
Security lending short-term collateral investment pool	2,485,395
U.S. government agency	122,336
U.S. treasury bonds	222,363
U.S. treasury notes	1,401,593
U.S. treasury strips	15,119
Yankee	202,528
Total	$35,508,492

D. Interest Rate Risk

As of June 30, 2005, the System had the following investments listed by specific identifier with the exception of the Mutual Funds, which are based on their average maturity:

Investment Type:	Fair Value (in thousands)	Investment Maturities (in years) Less than 1	1 thru 5	5+ thru 10	More than 10
Asset backed securities	$ 299,151	$ 7,010	$ 34,076	$ 4,241	$ 253,824
Bond mutual funds	4,925,489	797,457		3,901,333	226,699
Collateralized mortgage obligations	393,308			50	393,258
Domestic corporate obligations	747,401	59,940	174,287	381,980	131,194
International obligations	85,079	3,454	29,585	5,260	46,780
Mortgage pass-throughs	1,353,541	7	3,005	9,346	1,341,183
Municipals	27,093			11,814	15,279
Private placement	1,701	1,655	3,262	-174	-3,042
Short term	838,427	838,427			
U.S. government agency	122,336		50,015	50,290	22,031
U.S. treasury bonds	222,363				222,363
U.S. treasury notes	1,401,591	38,459	740,417	622,715	
U.S. treasury strips	15,119				15,119
Yankee bonds	202,528		21,491	93,473	87,564
Totals	$10,635,127	$ 1,746,409	$ 1,056,138	$ 5,080,328	$ 2,752,252

The portfolio is restricted to maintaining an effective duration of plus or minus one year of the benchmark.

Market or interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. Derivative securities, variable rate investments with coupon multipliers greater than one, and securities with long terms to maturity are examples of investments whose fair values may be highly sensitive to interest rate changes. These securities are reported at fair value in the statement of plan net assets.

Futures, options, swaps and forward contracts are allowed to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities. Unleveraged derivatives are permitted for the purpose of hedging investment risk, to replicate an investment that would otherwise be made directly in the cash market or to modify asset exposure in tactical portfolio shifts. Use of derivatives should not materially alter the characteristics, including the investment risk, of the Account. The Manager must at all times have, in place and use, procedures that subject derivative based strategies to rigorous scenario and volatility analysis. No single derivative based strategy should subject the account to greater variance than would be typical of the manager's physical portfolio strategy under a worst-case scenario.

Mortgage-backed securities that the Manager, with the Agency's approval, classifies as exhibiting unusually high interest rate sensitivity relative to U.S. Government agency mortgage pass-through issues shall not exceed 5% of the total account. Examples of securities that would qualify as "highly interest rate sensitive" include Interest Only Securities, Principal Only Securities and inverse floaters, of which the System held less than $1 million as of June 30, 2005.

As of June 30, 2005, the System had $1.4 billion invested in mortgage pass-through securities issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. These investments are moderately sensitive to changes in interest rates because they are backed by mortgage loans in which the borrowers have the option of prepaying.

E. Credit Risk

The System's exposure to credit risk as of June 30, 2005 is as follows:

Investment Type	Quality Rating	% of Portfolio
Agency	AAA	0.258%
Agency	AA	0.016%
Agency	BB	0.092%
Agency	NA	0.016%
Asset Backed Securities	AAA	0.625%
Asset Backed Securities	AA	0.000%
Asset Backed Securities	A	0.059%
Asset Backed Securities	B	0.002%
Asset Backed Securities	BBB	0.249%
Short term	AAA	0.634%
Short term	A	1.424%
Short term	NR	0.564%
Collateralized Mortgage Obligation	AAA	1.190%
Collateralized Mortgage Obligation	A	0.007%
Collateralized Mortgage Obligation	NR	0.033%
Convertible Bonds	B	0.002%
Convertible Bonds	BB	0.003%
Corporate Bonds	AAA	0.091%
Corporate Bonds	AA	0.055%
Corporate Bonds	A	0.643%
Corporate Bonds	BAA	0.027%
Corporate Bonds	B	0.256%
Corporate Bonds	BB	0.497%
Corporate Bonds	BBB	0.686%
Corporate Bonds	CAA	0.072%
Corporate Bonds	CA	0.008%
Corporate Bonds	CCC	0.000%
International Obligation	AAA	0.064%
International Obligation	AA	0.022%
International Obligation	B	0.015%
International Obligation	BB	0.019%
International Obligation	BBB	0.016%
International Obligation	NR	0.129%
Mortgage Pass Through	AAA	4.188%
Mortgage Pass Through	NR	0.044%
Municipal Bonds	AAA	0.054%
Municipal Bonds	AA	0.019%
Municipal Bonds	BBB	0.001%
Municipal Bonds	NR	0.010%
Mutual Funds	NR	15.402%
Private Placement	NR	0.005%
Yankee Bonds	AAA	0.060%
Yankee Bonds	AA	0.035%
Yankee Bonds	A	0.045%
Yankee Bonds	BAA	0.014%
Yankee Bonds	B	0.006%
Yankee Bonds	BB	0.194%
Yankee Bonds	BBB	0.278%

The current policy regarding credit risk requires each fixed income investment manager to maintain a minimum average credit quality of "A" for their total account. The above-listed ratings are based on the most conservative rating when multiple ratings were offered.

F. Foreign Currency Risk

The System's exposure to foreign currency risk as of June 30, 2005 is as follows:

Investment Type	Currency	Maturity	Fair Value (in thousands)
Cash	Australian dollar		$ 2,901
Common stock	Australian dollar		114,615
Cash	Canadian dollar		337
Common stock	Canadian dollar		66,249
Corporate bond (RCN)	Canadian dollar	06/01/06	3,454
Cash	Danish krone		16,972
Common stock	Danish krone		39,970
Cash	Euro currency		9,228
Common stock	Euro currency		1,123,831
Private Equity	Euro currency		7,370
Kingdom of Spain	Euro currency	07/30/32	5,078
Republic of France	Euro currency	04/25/35	21,446
Federal Republic of Germany	Euro currency	01/04/31	12,615
Cash	Hong kong dollar		617
Common stock	Hong kong dollar		111,572
Cash	Indonesian Rupiah		52
Common stock	Indonesian Rupiah		12,002
Cash	Japanese yen		9,119
Common stock	Japanese yen		682,948
Euro Inv. Bank	Japanese yen	09/20/06	2,788
Republic of Italy	Japanese yen	03/27/08	3,135
Republic of Italy	Japanese yen	10/10/06	3,992
Common stock	Malaysian ringgit		5,736
Cash	Mexican peso		230
Common stock	Mexican peso		16,083
United Mexican States	Mexican peso	12/19/13	5,260
Cash	New Taiwan dollar		6,212
Common stock	New Taiwan dollar		15,473
Common stock	New Turkish lira		1,309
Cash	New Zealand dollar		2,075
Common stock	New Zealand dollar		4,559
Cash	Norwegian krone		328
Common stock	Norwegian krone		26,506
Cash	Pound sterling		8,424
Common stock	Pound sterling		657,700
Private Equity	Pound sterling		705
State of Israel	Pound sterling	05/31/10	19,670
Cash	Singapore dollar		162
Common stock	Singapore dollar		43,722
Common stock	South African rand		31,505
Cash	South Korean won		124
Common stock	South Korean won		63,810
Cash	Swedish krona		576
Common stock	Swedish krona		101,297
Cash	Swiss franc		371
Common stock	Swiss franc		279,098
Common stock	Thailand baht		744
Mutual funds	Not applicable		1,454,268
Total			$4,996,238

The majority of foreign currency-denominated investments are in non-U.S. stocks, for which the System's current assets allocation policy has a target of 13%.

Note: This schedule does not agree with the total International obligations and International equities as listed on the Statement of Plan Net Assets due to ADR's and International obligations valued in U.S. dollars but classified as International. Also, the alternative investment category on the Investment Type Schedule has both domestic and international funds.

G. Security Lending Transactions

The System accounts for securities lending transactions in accordance with (GASB) Statement No. 28 *"Accounting and Financial Reporting for Securities Lending Transactions,"* which established standards of accounting and financial reporting for securities lending transactions.

The following table details the net income from securities lending for the year ending June 30, 2005 *(in thousands)*:

Gross income from securities lending activity	$51,691
Less:	
Securities lending borrower rebates	44,435
Securities lending agent fees	1,161
Expenses from securities lending activity	45,596
Net income from securities lending activity	$ 6,095

The Board of Trustees has authorized the System to lend its securities to broker-dealers with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodian, pursuant to a written agreement, is permitted to lend all long-term securities to authorized broker-dealers subject to the receipt of acceptable collateral. There have been no significant violations of the provisions of the agreement during the period of these financial statements. The System lends securities for collateral in the form of either cash or other securities. The types of securities on loan at June 30, 2005 are long-term U.S. government and agency obligations, domestic and international equities as well as domestic and international obligations. At the initiation of a loan, borrowers are required to provide collateral amounts of 102% (domestic equities and bonds) and 105% (international equities) of the fair value of the securities lent. In the event the collateral fair value falls below the respective collateral percentages, the borrower is required to provide additional collateral by the end of the next business day. The contractual agreement with the System's custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the System income distributions by the securities' issuers while the securities are on loan.

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 as of June 30, 2005 had a weighted average maturity of twenty-five days and an average expected maturity of one hundred seventy-four days. At year-end, the System had no credit risk exposure to borrowers because the amount the System owed the borrowers exceeded the amount the borrowers owed the System.

The following table presents the fair values of the underlying securities, and the value of the collateral pledged as of June 30, 2005 (*in thousands*):

Securities Lent	Fair Value Loaned Securities	Collateral Fair Value	Percent Collateralized
U.S. government and agency	$1,160,415	$1,173,736	101.1%
Domestic fixed income	120,399	122,607	101.8%
International fixed income	13,051	13,429	102.9%
Domestic equity	568,366	584,181	102.8%
International equity	616,699	648,409	105.1%
Total securities lent	$2,478,930	$2,542,362	

The securities collateral value is based on the System's pro rata share of the value of the securities collateral maintained in a pool at State Street Bank for all lending clients participating in the lending program. Collateral value listed above includes all collateral for securities on loan; whereas, collateral for loaned securities disclosed on the Statements of Plan Net Assets includes only cash collateral, per GASB Statement No. 28.

H. Commission Recapture Program

The Board of Trustees has authorized the System to enter into a commission recapture program. This program allows the System to recapture a portion of the commissions paid to broker/dealers with which the System has entered into an agreement. Earnings credited to commission recapture income for the fiscal years ended June 30, 2005 and June 30, 2004 were $207,781 and $551,362, respectively.

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 "nonemployer" 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 139 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, 2005 and 2004, the outstanding balances were $62,230,000 and $77,549,000, 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 elected to transfer to the corresponding pension system by December 31, 2004, received refunds of all or part (if earnings had 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, 2005 and 2004, refunds to members and withdrawing employers were as follows (*expressed in thousands*):

	2005	2004
Member refunds	$13,424	$11,884
Employer refunds	5,738	58
Total refunds	$19,162	$11,942

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

For the fiscal years ended June 30, 2005 and 2004, accounts payable and accrued expenses consisted of the following components (*expressed in thousands*):

	2005	2004
Administrative expenses	$11,748	$ 7,123
Investment management fees	24,340	25,693
Tax and other withholdings	22,732	15,791
Total	$58,820	$48,607

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]
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
2005	34,519,500	39,133,450	4,613,950	88.21	8,603,761	54

* 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
1996	$721,695	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
2005	805,564	83

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, 2005 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%. During the year ended June 30, 2005, the System's funded ratio decreased from 92.18% to 88.21%.

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, 2005, the System's ratio of the unfunded actuarial accrued liability to its covered payroll went from 35% to 54%.

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 15-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, 2005:

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

- additional projected salary increases ranging from 0.00% to 11.96% per year attributable to seniority and merit (adopted June 30, 2003);
- post-retirement benefit increases ranging from 3% to 4% 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% 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, 2005 (with Comparative 2004 Totals)

(Expressed in Thousands)

	Annuity Savings Fund	Accumulation Fund	Expense Fund	Totals 2005	Totals 2004
Fund Balances, Beginning of Year	$2,064,063	$28,102,661	$ -	$30,166,724	$26,727,822
Additions					
Net investment income	-	2,823,599	(57,210)	2,766,389	4,202,632
Contributions (note 4):					
Employers	-	239,855	-	239,855	221,023
Members	208,997	-	-	208,997	204,158
Other	-	426,191	-	426,191	405,605
Contribution interest	-	4,508	-	4,508	5,424
Deductions					
Benefit payments	-	(1,697,397)	-	(1,697,397)	(1,570,622)
Refunds (note 6)	(13,424)	(5,738)	-	(19,162)	(11,942)
Administrative expenses (note 2E)	-	-	(22,386)	(22,386)	(17,376)
Transfers					
From the Accumulation Fund to the Annuity Savings Fund for interest credited to members' accounts	88,027	(88,027)	-	-	-
To the Accumulation Fund from the Annuity Savings Fund for contributions of retiring members	(199,600)	199,600	-	-	-
From the Accumulation Fund to the Expense Fund for administrative and investment expenses	-	(79,596)	79,596	-	-
Net changes in fund balances	84,000	1,822,995	-	1,906,995	3,438,902
Fund Balances, End of Year	$2,148,063	$29,925,656	$ -	$32,073,719	$30,166,724

SCHEDULE OF ADMINISTRATIVE EXPENSES
for the Fiscal Years Ended June 30, 2005 and 2004
(Expressed in Thousands)

	2005	2004
Personnel services:		
Staff salaries	$ 9,231	$ 8,779
Fringe benefits	2,617	2,417
Total personnel services	11,848	11,196
Professional and contractual services:		
Actuarial	126	137
Legal and financial	476	236
Consulting services	57	145
Data processing	1,621	1,257
Other contractual services	448	490
Total professional and contractual services	2,728	2,265
Miscellaneous:		
Communications	935	1,054
Rent	5,563	1,759
Equipment and supplies	615	372
Other	697	730
Total miscellaneous	7,810	3,915
Total Administrative Expenses	$22,386	$17,376

SCHEDULE OF INVESTMENT EXPENSES
for the Fiscal Years Ended June 30, 2005 and 2004
(Expressed in Thousands)

	2005	2004
Investment advisors:		
Equity managers	$36,625	$33,171
Fixed managers	9,090	9,459
Real estate managers	9,505	9,540
Total investment advisory fees	55,220	52,170
Other investment service fees:		
Master custody	964	928
Income verification services	295	284
Investment consultant	460	452
Other investment expenses	271	208
Total other investment service fees	1,990	1,872
Total Investment Expenses	$57,210	$54,042

SCHEDULE OF PLAN NET

as of June 30, 2005

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System
Assets:			
Cash and cash equivalents (note 3)	$ 547,617	$ 317,372	$ 11,404
Receivables:			
Contributions:			
Employers	1	4,027	10
Employers - Long Term (note 5)	-	62,230	-
Members	318	771	-
Accrued investment income	38,560	21,861	471
Investment sales proceeds	151,839	86,160	1,856
Due from other systems	-	64	-
Total receivables	190,718	175,113	2,337
Investments, at fair value (notes 2 & 3):			
U.S. Government obligations	1,065,120	604,542	13,033
Domestic corporate obligations	3,621,905	2,055,724	44,317
International obligations	187,986	106,697	2,300
Domestic stocks	9,870,652	5,587,137	119,745
International stocks	3,016,135	1,708,250	36,572
Mortgages & mortgage related securities	1,056,315	599,544	12,925
Real estate	456,987	255,896	5,592
Alternative investments	147,003	82,945	1,788
Collateral for loaned securities	1,502,912	853,024	18,389
Total investments	20,925,015	11,853,759	254,661
Total assets	21,663,350	12,346,244	268,402
Liabilities:			
Accounts payable & accrued expenses	32,168	24,058	455
Investment commitments payable	769,507	436,484	9,413
Obligation for collateral loaned securities	1,502,912	853,024	18,389
Other liabilities	842	478	10
Due to other systems	49	158	-
Total liabilities	2,305,478	1,314,202	28,267
Net assets held in trust for pension benefits			
(A schedule of funding progress is presented on page 35)	$19,357,872	$11,032,042	$240,135

** Intersystem transfers 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*	Combined Total
$ 44,764	$ 612	$ 12,224	$ 933,993	$ -	$ 933,993
160	-	690	4,888	-	4,888
-	-	-	62,230	-	62,230
-	5	40	1,134	-	1,134
2,281	14	549	63,736	-	63,736
9,002	56	2,157	251,070	-	251,070
3	-	142	209	(209)	-
11,446	75	3,578	383,267	(209)	383,058
63,202	395	15,119	1,761,411	-	1,761,411
214,915	1,345	51,411	5,989,617	-	5,989,617
11,155	70	2,668	310,876	-	310,876
580,804	3,679	141,288	16,303,305	-	16,303,305
177,673	1,124	43,126	4,982,880	-	4,982,880
62,679	392	14,994	1,746,849	-	1,746,849
26,343	170	6,672	751,660	-	751,660
8,598	55	2,117	242,506	-	242,506
89,179	558	21,333	2,485,395	-	2,485,395
1,234,548	7,788	298,728	34,574,499	-	34,574,499
1,290,758	8,475	314,530	35,891,759	(209)	35,891,550
1,621	14	504	58,820	-	58,820
45,596	286	10,938	1,272,224	-	1,272,224
89,179	558	21,333	2,485,395	-	2,485,395
50	-	12	1,392	-	1,392
-	2	-	209	(209)	-
136,446	860	32,787	3,818,040	(209)	3,817,831
$1,154,312	$ 7,615	$ 281,743	$ 32,073,719	$ -	$32,073,719

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	$ 12,428	$ 185,939	$ 12,318
Members	116,432	81,482	1,457
Other	426,025	-	166
Contribution interest (note 5)	-	4,508	-
Total contributions	554,885	271,929	13,941
Investment income:			
Net appreciation in fair value of investments	1,420,484	807,700	17,188
Interest	127,499	72,903	1,684
Dividends	133,818	76,058	1,615
Real estate operating net income	19,620	11,139	241
Income before securities leading activity	1,701,421	967,800	20,728
Gross income from securities lending activity	31,209	17,776	381
Securities lending borrower rebates	(26,828)	(15,281)	(328)
Securities lending agent fees	(701)	(400)	(8)
Net income from securities lending activity	3,680	2,095	45
Total investment income	1,705,101	969,895	20,773
Less investment expenses	(34,414)	(19,894)	(407)
Net investment income	1,670,687	950,001	20,366
Transfers from other systems	359	928	-
Total additions	2,225,931	1,222,858	34,307
Deductions:			
Benefit payments	1,037,602	559,119	17,879
Refunds (Note 6)	5,693	13,104	2
Administrative expenses (Note 2E)	11,416	10,601	26
Transfers to other systems	645	3,814	-
Total deductions	1,055,356	586,638	17,907
Net increase (decrease) in plan assets	1,170,575	636,220	16,400
Net assets held in trust for pension benefits:			
Beginning of the fiscal year	18,187,297	10,395,822	223,735
End of the fiscal year	$19,357,872	$11,032,042	$ 240,135

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

PLAN NET ASSETS BY SYSTEM

June 30, 2005

State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Combined Total
$ 158	$ 479	$ 28,533	$ 239,855	$ -	$ 239,855
6,342	-	3,284	208,997	-	208,997
-	-	-	426,191	-	426,191
-	-	-	4,508	-	4,508
6,500	479	31,817	879,551	-	879,551
86,365	555	19,232	2,351,524	-	2,351,524
8,017	54	1,870	212,027	-	212,027
8,144	55	1,810	221,500	-	221,500
1,175	6	272	32,453	-	32,453
103,701	670	23,184	2,817,504	-	2,817,504
1,891	10	424	51,691	-	51,691
(1,626)	(8)	(364)	(44,435)	-	(44,435)
(42)	-	(10)	(1,161)	-	(1,161)
223	2	50	6,095	-	6,095
103,924	672	23,234	2,823,599	-	2,823,599
(2,001)	(13)	(481)	(57,210)		(57,210)
101,923	659	22,753	2,766,389		2,766,389
47	-	458	1,792	(1,792)	-
108,470	1,138	55,028	3,647,732	(1,792)	3,645,940
66,396	683	15,718	1,697,397	-	1,697,397
291	-	72	19,162	-	19,162
138	9	196	22,386	-	22,386
1	(2,715)	47	1,792	(1,792)	-
66,826	(2,023)	16,033	1,740,737	(1,792)	1,738,945
41,644	3,161	38,995	1,906,995	-	1,906,995
1,112,668	4,454	242,748	30,166,724	-	30,166,724
$ 1,154,312	$ 7,615	$ 281,743	$32,073,719	$ -	$ 32,073,719

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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 9.5 percent for the fiscal year ended June 30, 2005. This was the second straight year of strong returns as traditional asset classes – domestic equities and fixed income – had respectable high single digit returns, while other asset classes – international equities, real estate, and private equity – all had double digit returns.

Domestic equity markets held up surprisingly well despite economic uncertainty and rising short-term interest rates. For the fiscal year, the Wilshire 5000 stock index returned 8.2%. However, domestic equities underperformed international equities due to concerns regarding the domestic economy and relative valuation levels. For the fiscal year, international equities returned 16.5% as measured by the MSCI ACWI ex US index.

Bonds, as measured by the Lehman Universal index, returned 7.4%. Much of this was the result of declining long-term interest rates despite Federal Reserve tightening which caused short-term rates to increase. In general, yields on Treasury bonds under five years in maturity increased, while those on Treasuries longer than five years declined, causing a dramatic flattening of the yield curve. The yield differential between two year and thirty year Treasuries ended the fiscal year at 56 basis points, more than 200 basis points less than at the beginning of the fiscal year.

Real estate was our top performing asset class, especially the Real Estate Investment Trust sector with the Dow Wilshire Real Estate Securities index returning 34.3%. This has been a surprisingly resilient asset class in the face of concerns about valuations and rising interest rates. Private equity also had a stellar year, with our private equity portfolio returning 20.9%. We continue to build our private equity program, and are moving toward the 2% strategic target approved by the Board of Trustees in FY2004.

During fiscal year 2005, the Board of Trustees authorized changes to the strategic asset allocation through the addition of global equity, small cap international equity, enhanced index equity, and real return fixed income strategies. These changes will be implemented during fiscal year 2006.

Despite achieving returns of 9.5% and 16.2% over the past two years, we are cautious about returns going forward. Current valuation levels, rising short-term interest rates, and economic uncertainties all provide headwinds that the market will need to overcome, and navigating through these uncertainties will most likely result in short-term volatility as well as periods of low returns. In this environment, we will continue to strive for competitive long-term returns.

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 of Trustees is required to exercise its fiduciary duties solely in the interest of the participants, with the care, skill and diligence that a prudent person would exercise under similar circumstances. This standard of care not only permits but also encourages diversifying investments across various asset classes.

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, with recognition that short-term results may be volatile.

Investment objectives are implemented according to investment policies developed by the Board of Trustees. The "prudent person standard" allows the Board of Trustees to establish investment policies based on investment criteria that it defines, and it provides for the delegation of investment authority to investment professionals. System assets are managed 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.

The Board of Trustees has managed the SRPS' assets with the goal of achieving an annualized investment return that over a longer term timeframe:

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 inflation 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, 2005 was 7.75 percent. When adopting the actuarial rate of return, the Board of Trustees anticipates, and fully expects, that the investment portfolio will achieve higher returns in some years and lower returns in other years.

The Board of Trustees 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 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 of Trustees considers both the assets and liabilities when determining its asset allocation policy.

Asset allocation policy targets are determined by recognizing that liabilities (future benefit payments to SRPS' participants and beneficiaries) must be paid in full and on time . 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 can be earned over the period that benefits must be paid. Secondly, there is a focus on risk. This involves diversifying assets with a recognition that while individual asset classes can be volatile over short time horizons, diversification will often serve to lower overall portfolio volatility.

As of June 30, 2005, the Board-approved policy targets and ranges were:

ASSET CLASS		TARGET	RANGE
Equity Assets			
	Domestic Equities	40%	35 - 45%
	International Equities	13%	10 - 16%
	Global Equities	10%	8 – 12%
	Private Equity	2%	0 – 3%
Equity Total		**65%**	**60 - 70%**
Fixed Income Assets			
	Passive and Core	28%	23-33%
	Real Return	2%	1 – 3%
Fixed Income Total		**30%**	**25-35%**
Real Estate Assets		**5%**	**3 – 7%**
TOTAL ASSETS		**100%**	

The changes in policy targets from fiscal year 2004 include the addition of a 10% allocation to global equities, a corresponding reduction in the allocation to domestic and international equities, and the addition of a 2% allocation to real return fixed income strategies. The Board of Trustees also approved the hiring of a consultant to assist in the management of the real estate assets.

INVESTMENT PERFORMANCE

Investment performance is calculated using time-weighted rates of return in compliance with the Association for Investment Management and Research (AIMR) standards. Total return includes interest and dividends, as well as capital appreciation.

The investment program realized a return of 9.5 percent for fiscal year 2005. Annualized returns for the 3, 5, and 10-year periods ending June 30 were 9.5 percent, 1.9 percent and 7.6 percent, respectively.

The market value of System assets increased from $30.2 billion on June 30, 2004 to $32.1 billion on June 30, 2005. The System's equity investments returned 8.8 percent, with U.S. equities returning 6.9 percent and international equities returning 14.0 percent. The System's fixed income investments returned 7.8 percent, and real estate 27.5 percent.

The System attained two of the three broad investment objectives this fiscal year – exceeding a 3 percent real rate of return (after inflation), and exceeding the actuarial assumed rate of 7.75 percent. The System's return did not exceed the return of the static policy benchmark. Underperformance of the plan policy benchmark was largely the result of below benchmark performance by many of the active equity managers.

Returns and Exposures were as follows:

	SRPS Performance	FY 2005 Benchmark Performance	SRPS Exposure June 30, 2005
Equity Markets	8.8%		65.3%
U.S. Equities	6.9%		48.8%
Wilshire 5000		8.2%	
S&P 500		6.3%	
Russell 3000		8.1%	
International Equities	14.0%		15.9%
MSCI ACWI ExUS		16.5%	
MSCI EAFE		13.7%	
Private Equity	20.9%		0.5%
Russell 3000 + 400 bp		12.1%	
Real Estate	27.5%		5.1%
NCREIF Property (1 quarter lag)		15.6%	
Dow Wilshire Real Estate Securities		34.3%	
Bond Markets	7.8%		29.7%
Lehman Brothers Universal Bond Index		7.4%	
Lehman Brothers Aggregate Bond Index		6.8%	

ECONOMIC AND CAPITAL MARKET OVERVIEW

The U.S. economy delivered a solid performance for fiscal year 2005 with GDP growing in excess of 3% annualized each quarter and the unemployment rate trending downward toward 5%. However, many economic uncertainties are present, including the federal budget deficit, the trade deficit, and the price of oil.

The first half of fiscal year 2005 saw renewed confidence, particularly in equities. As uncertainty around the U.S. election lifted, financial markets gained momentum in November and December. The second half of the fiscal year started off on more uneven footing as the equity markets gave up much of the ground they had gained earlier in the year due to concerns over oil as well as the war in Iraq. However, positive earnings news caused equities to rebound toward the end of the fiscal year.

Throughout the 2005 fiscal year, the Federal Reserve maintained its measured pace of increasing the Federal Funds rate. At the beginning of the fiscal year the benchmark rate started at 1.25% and was patiently increased by 25 basis points at each meeting to finish the year at 3.25%. This steady increase was largely expected by the market, and was perceived as necessary to reverse the liquidity infusion made as markets fell during the 2001-2002 timeframe, as well as to choke off any upward movement in inflation. The key driver of inflation over the last fiscal year was oil, which rose from under $37/barrel at the end of last fiscal year to above $58/barrel at the end of the fiscal year.

With the Fed tightening, the yield curve flattened considerably in fiscal year 2005. This flattening, particular the decline in longer term rates, may be a reflection of some uncertainty concerning the robustness of continued U.S. economic growth in the face of deficits and high oil prices.

PUBLIC EQUITY

On June 30, 2005, SRPS had $20.7 billion invested in public equities comprised of $15.6 billion in U.S. equities and $5.1 billion in international equities. These assets were placed with thirteen 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, and are expected to outperform their assigned benchmark, net of fees.

U.S. EQUITIES

U.S. equity returns are benchmarked against the Wilshire 5000 Index. On June 30, 2005, slightly less than 72 percent of U.S. equities, or $11.2 billion, was invested in two passive index strategies. The remaining 28 percent, or $4.4 billion, was allocated among 10 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 Plan
Passively Managed		
Barra Growth	$ 738	2.3%
Russell 3000	10,495	32.7%
Total Passive	11,233	35.0%
Actively Managed		
Large cap value	528	1.7%
Large cap growth	895	2.8%
Large cap core	1,849	5.8%
Mid cap value	326	1.0%
Small cap growth	96	0.3%
Small cap value	149	0.5%
Micro cap	557	1.7%
Total Active	4,400	13.8%
Total U.S. Equity	**$ 15,633**	**48.8%**

For the fiscal year, returns on the SRPS U.S. equity portfolio of 6.9 percent were below the 8.2 percent return of the Wilshire 5000 but above the 6.3 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.

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 2005, approximately 41 percent, or $2.1 billion, was invested in a passive index strategy while the remaining 59 percent, or $3 billion, was invested with three active managers employing three styles: large cap growth, large cap value, and large cap core.

The international equity portfolio returned 14.0 percent in fiscal 2005. Despite this strong positive performance, the managers' combined returns were under the 16.5 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 34.4 percent for the year. Our portfolio's underperformance was due to underweighting in emerging markets and smaller cap stocks by our external managers.

PRIVATE EQUITY

The State Retirement and Pension System, with the assistance of our private equity consultant, began increasing our private equity exposure in the second quarter of fiscal year 2005. This year marked the first time that SRPS has invested directly in private equity partnership funds. In the year ending June 30, 2005, the SRPS made commitments to nine funds totaling approximately $166 million. This is in addition to the $250 million the SRPS previously committed to three private equity fund-of-funds managers. As of June 30, 2005, the total market value of the private equity program was $163 million.

For fiscal year 2006, we expect to continue to increase our exposure to the private equity program toward targeted levels. The target allocation to this asset class is 2% with a range of 0-3%. At June 30, 2005, the actual allocation was 0.5%. Given the cash flow dynamics in private equity, it will take several more years for the target allocation to be reached.

FIXED INCOME

On June 30, 2005 the SRPS had $9.5 billion invested in fixed income securities. The objective of the fixed income portfolio is to outperform the Lehman Universal Bond Index. Of the $9.5 billion, $3.6 billion (38 percent) is in strategies indexed to the Lehman Aggregate Bond Index. The remaining $5.9 billion is actively managed, by four external managers, predominantly in core plus accounts which seek to outperform standard bond indices through active management.

The SRPS fixed income portfolio holdings returned 7.8 percent versus 7.4 percent for the benchmark, the Lehman Universal Index. This was largely due to strong high yield and emerging market performance, as well as active management by our managers that resulted in above-benchmark returns. For the year, high yield returned 10.9% and emerging market bonds 19.7%.

Fixed income markets normally provide more consistent, less volatile returns than equity markets. However, the current and near-term bond environment is challenging due to the low level of yields, and therefore expectations for fixed income returns must be tempered. Additionally, corporate bond spreads over Treasuries are low by historical standards. Our active managers will continue to seek out undervalued bond sectors as well as individual securities to enhance returns.

REAL ESTATE

The SRPS has real estate assets valued at $1.6 billion as of June 30, 2005, 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 a 50-50 blend of the return of the Property Index, as measured by the National Council of Real Estate Investment Fiduciaries, and the Wilshire Real Estate Securities Index. 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 appears to be driven by attractive yields versus fixed income alternatives, as well as the expectation that real estate fundamentals and demand will remain firm.

Returns on the real estate portfolio were 27.5 percent, 17.1 percent, and 15.6 percent for the one, three, and five year periods ended June 30, 2005, respectively.

Respectfully submitted,

Steven C. Huber
Chief Investment Officer

INVESTMENT PORTFOLIOS BY MANAGER
as of June 30, 2005
(Expressed in Thousands)

	Fair Value	Investment Advisory Fee
Equity Managers		
State Street Global Advisors	$13,289,775	$ 1,346
Capital Guardian Trust Company	1,731,103	5,552
Templeton Investment Counsel, Inc.	1,118,927	3,150
Wellington Management Co. LLP	892,390	2,608
Legg Mason Capital Management, Inc.	839,246	2,364
Artisan Partners Limited Partnership	645,520	2,970
Dimensional Fund Advisors, Inc.	555,040	2,371
Robert W. Torray & Co., Inc.	510,593	1,912
Ariel Capital Management, Inc.	324,625	1,094
Relational Investors, LLC	274,165	5,216
The Edgar Lomax Company	252,597	823
T. Rowe Price Associates, Inc.	149,139	868
Brown Investment Advisory & Trust Company	95,370	576
Adams Street Partners, LLC	59,654	844
HarbourVest Partners, LLC	54,820	1,000
Abbott Capital Management, LLC	34,819	330
Internally Managed	26,484	N/A
Lion Capital Fund I, LP	5,538	0
Audax Private Equity	4,245	0
Apax Europe VI	1,507	0
Alchemy Partners	703	45
Frazier Healthcare	395	0
Advent International Corp.	302	0
Other *	17	3,556
	$20,866,974	$ 36,625

	Fair Value	Investment Advisory Fee
Fixed Income Managers		
State Street Global Advisors	$3,622,486	$ 428
Western Asset Management	1,923,524	2,363
Pacific Investment Management Company	1,785,569	3,393
Bridgewater Associates, Inc.	1,135,618	1,398
Payden & Rygel Investment Management	1,002,998	1,179
Internally Managed	4,262	N/A
Other *	0	329
	$9,474,457	$ 9,090
Real Estate Managers		
LaSalle Investment Management Securities, L.P.	$854,413	$ 1,713
LaSalle Investment Management, Inc.	396,279	4,082
J.P. Morgan Investment Management, Inc.	274,177	2,035
Lubert-Adler Management, Inc.	54,500	895
Prudential Investment/CIGNA	30,178	461
Chesapeake Maryland Limited Partnership	26,020	278
Internally Managed	3,005	N/A
Other *	0	41
	$1,638,572	$ 9,505

* Consulting fees and investment managers no longer under contract as of 6/30/05.

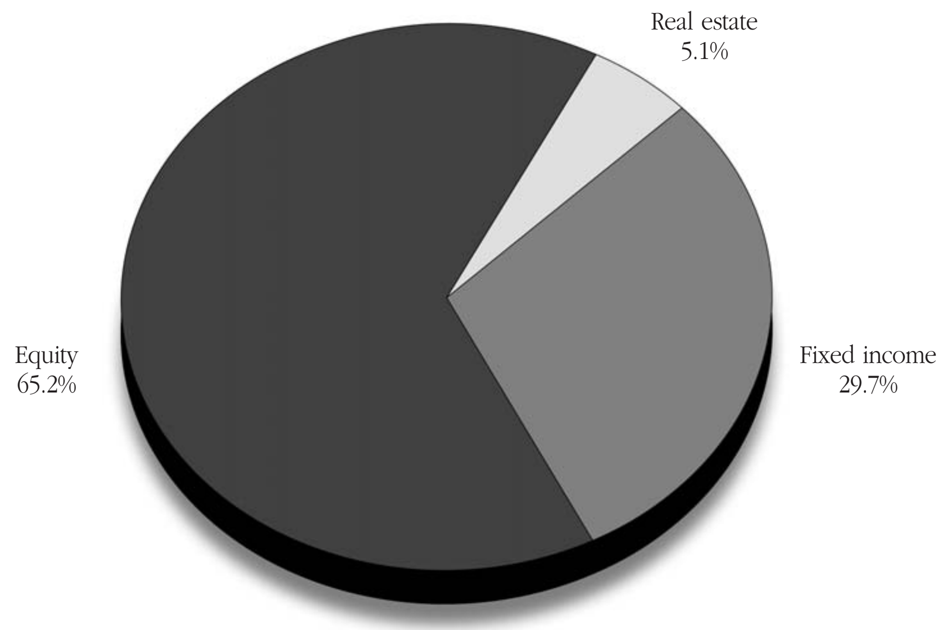
INVESTMENT PORTFOLIO SUMMARY
as of June 30, 2005 and 2004
(Expressed in Thousands)

		2005		2004	
		Fair Value	% of Fair Value	Fair Value	% of Fair Value
	Fixed Income				
	Domestic corporate obligations	$ 5,989,617	18.7%	$ 5,915,050	19.7%
	Mortgages & mortgage related securities	1,746,849	5.5	1,255,142	4.2
	U.S. Government obligations	1,761,411	5.5	843,134	2.8
	International obligations	310,876	1.0	185,974	0.6
**	Net cash & cash equivalents	-334,296	-1.0	473,686	1.6
*	Total Fixed Income	**9,474,457**	**29.7**	**8,672,986**	**28.9**
	Equity				
	Domestic stocks	15,453,612	48.3	14,486,273	48.2
	International stocks	4,982,880	15.6	4,574,130	15.2
	Alternative investments	161,979	0.5	107,134	0.4
**	Net cash & cash equivalents	268,503	0.8	149,881	0.5
	Total Equity	**20,866,974**	**65.2**	**19,317,418**	**64.3**
	Real Estate				
	Real Estate Investment Trusts	849,693	2.6	1,048,083	3.5
	Pooled funds	304,379	1.0	353,620	1.2
	Directly owned real estate	447,282	1.3	426,546	1.4
	Alternative investments	80,527	0.3	67,124	0.2
**	Net cash & cash equivalents	-43,309	-0.1	144,721	0.5
	Total Real Estate	**1,638,572**	**5.1**	**2,040,094**	**6.8**
	Total Potfolio	**$31,980,003**	**100.0%**	**$30,030,498**	**100.0%**

* *Security Lending collateral payable has been netted against the actual collateral. The amounts net to zero.*
** *Includes investment receivables and payables.*

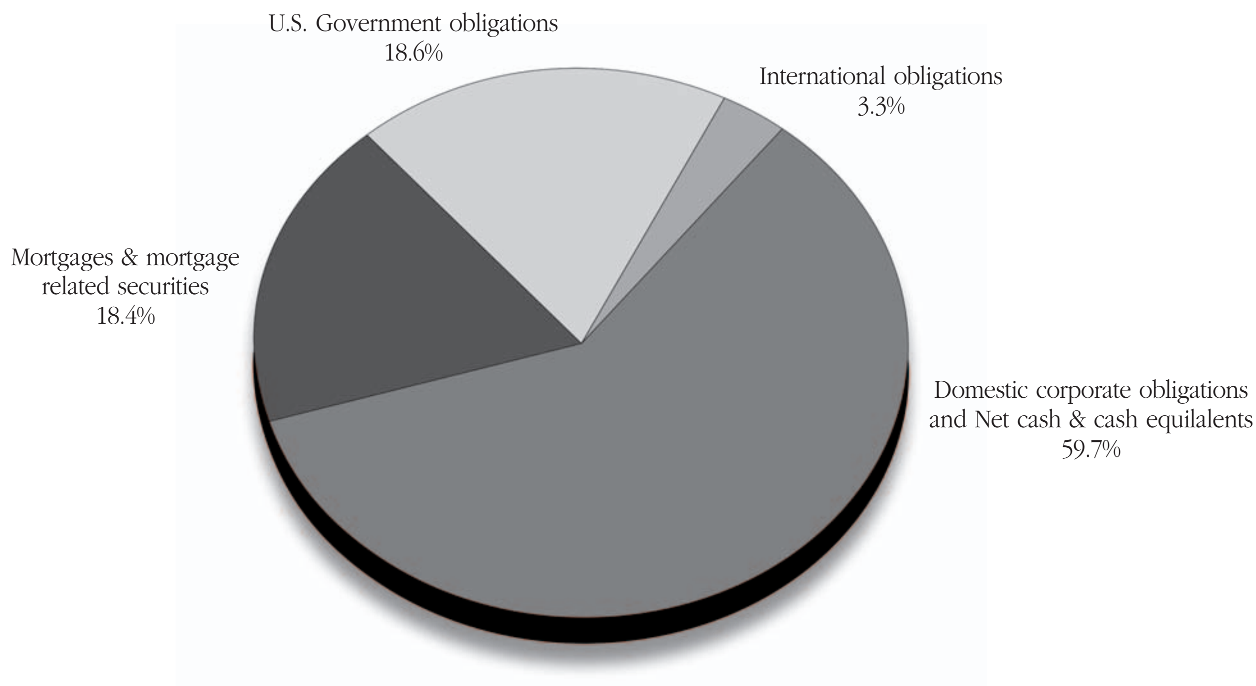
INVESTMENT PORTFOLIO ALLOCATION

as of June 30, 2005

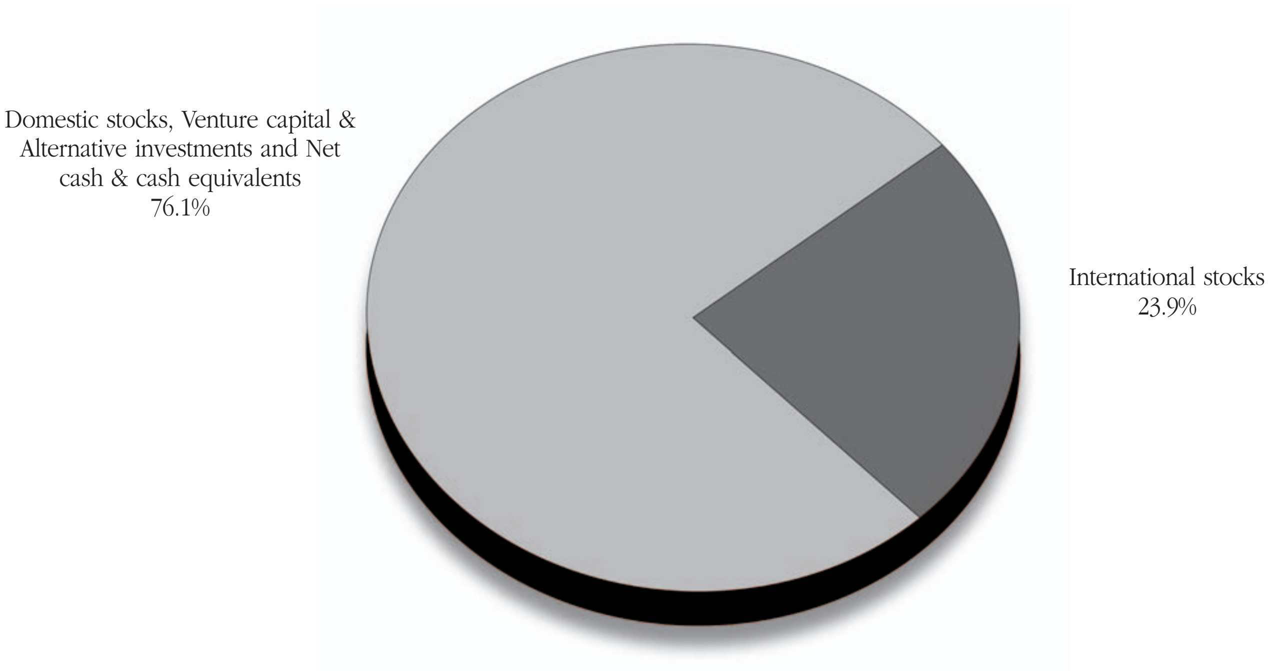


FIXED INCOME DISTRIBUTION BY TYPE

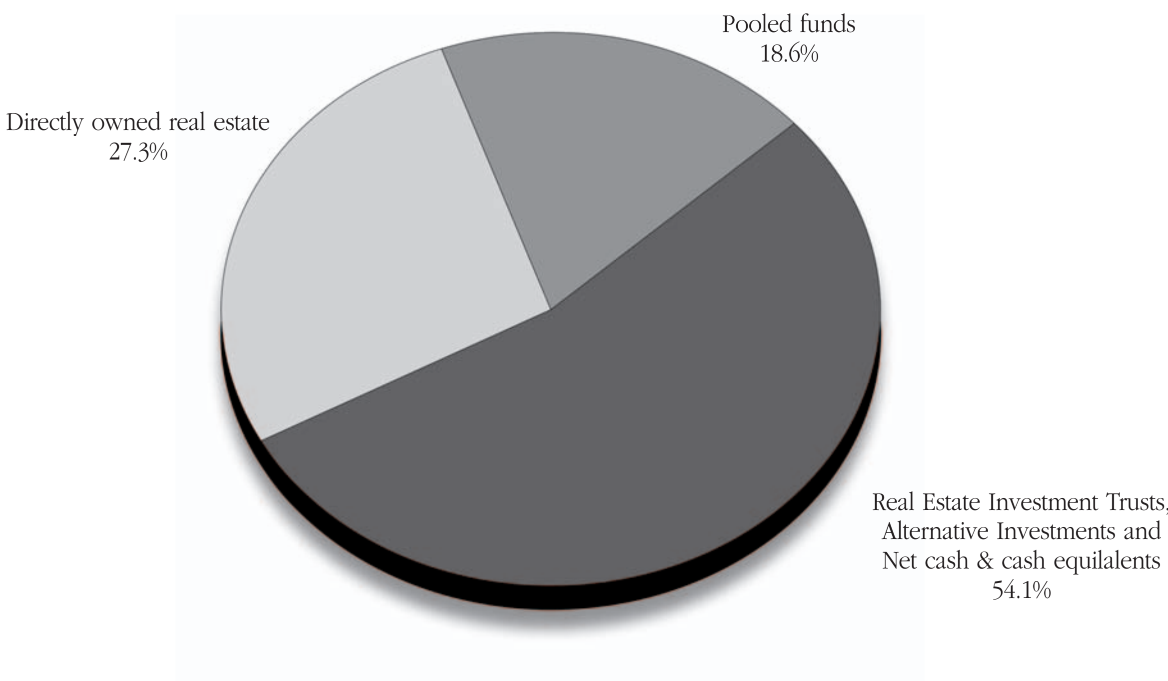
as of June 30, 2005



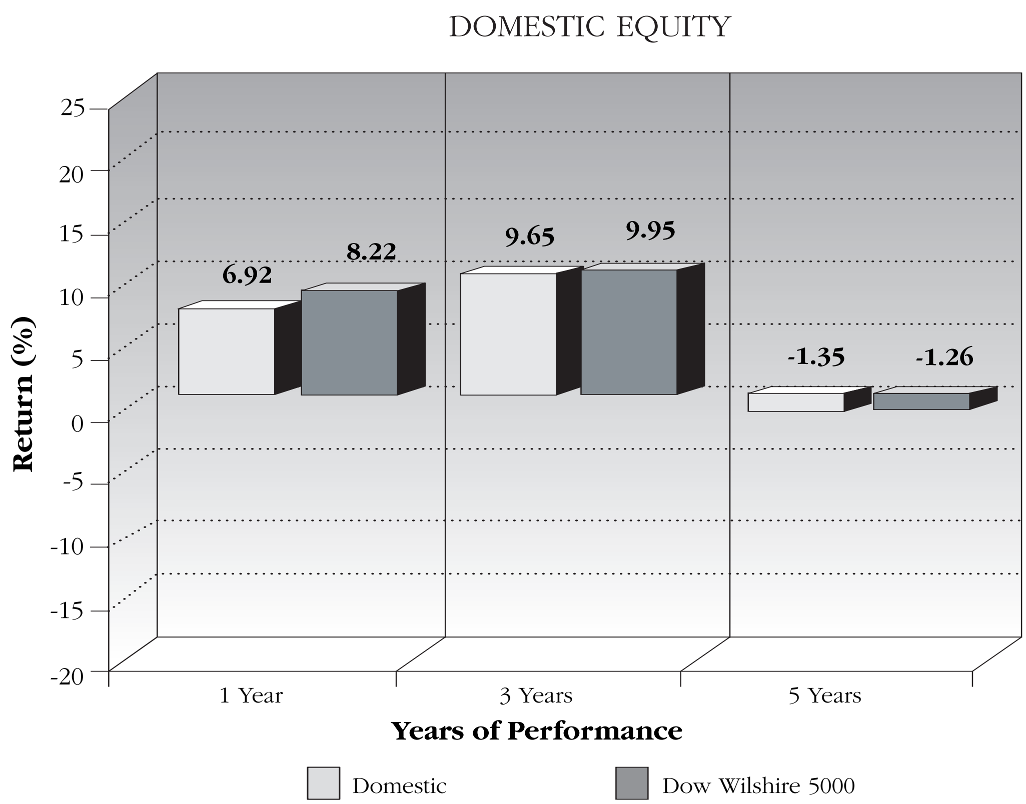
EQUITY DISTRIBUTION BY TYPE
as of June 30, 2005

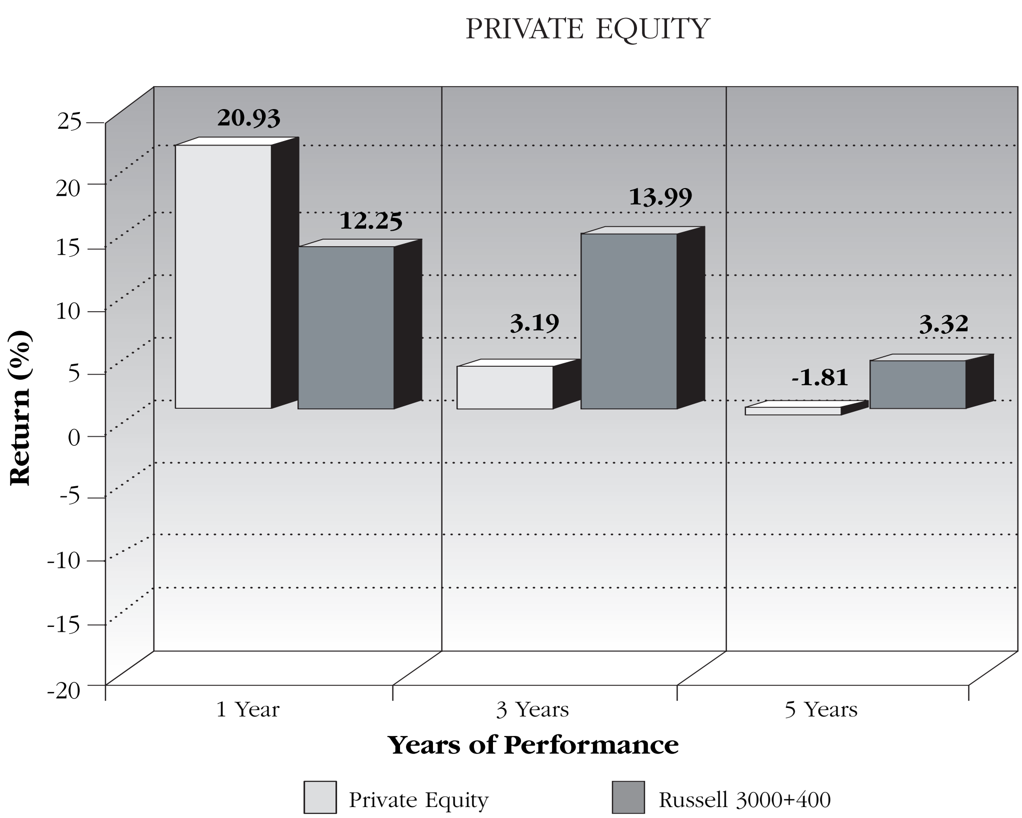


REAL ESTATE DISTRIBUTION BY TYPE
as of June 30, 2005

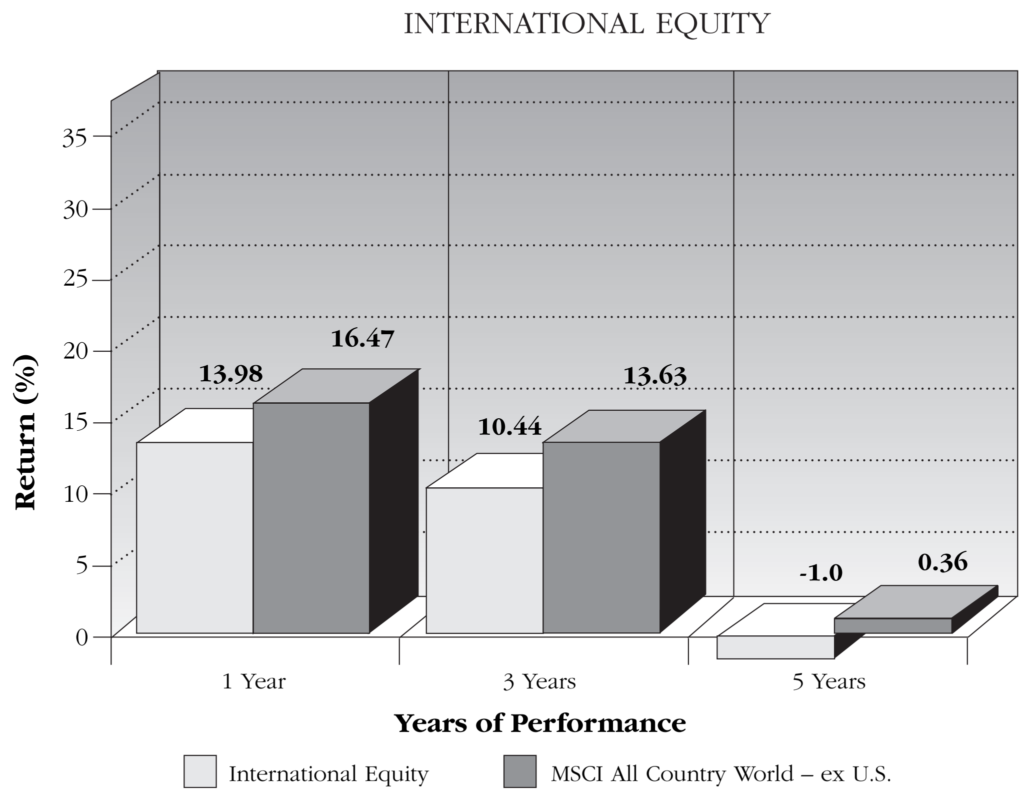


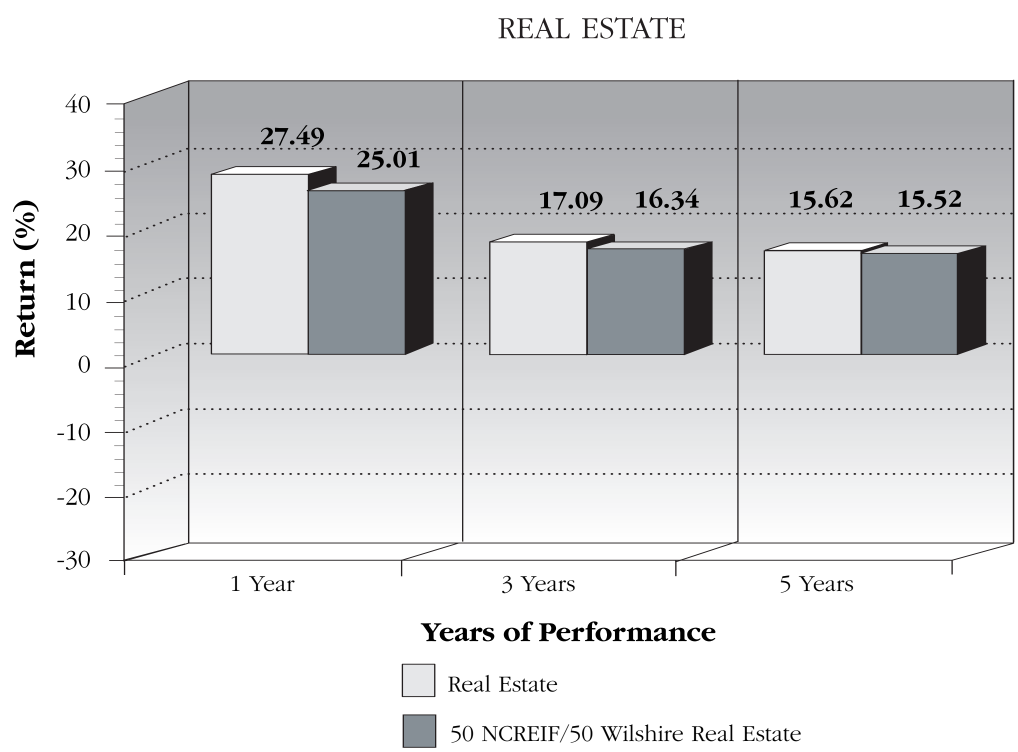
Comparative Investment Returns Ending June 30, 2005





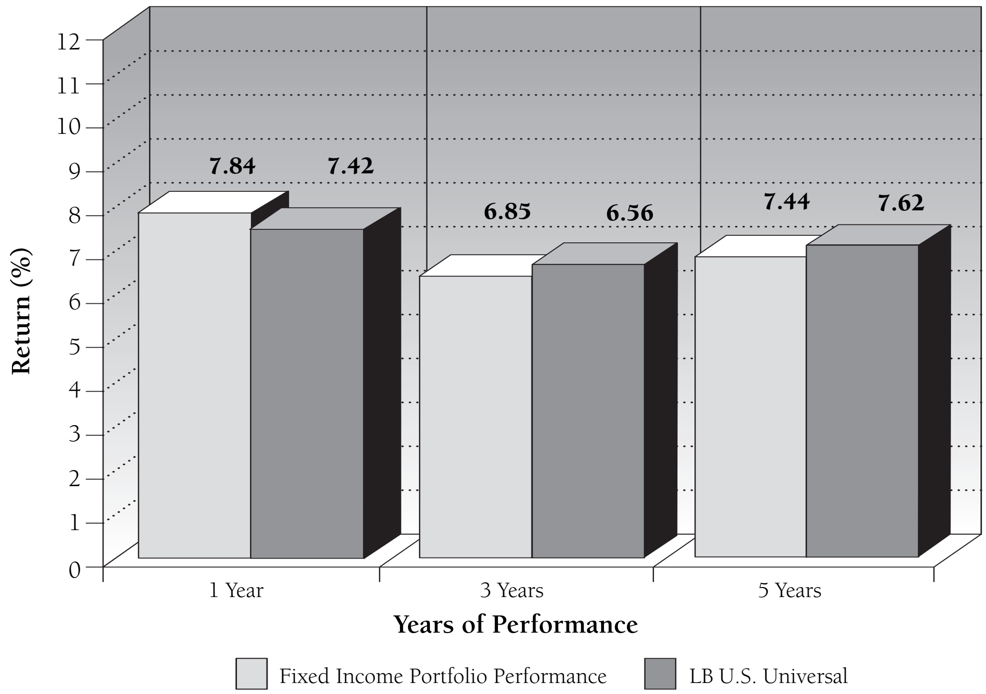
Comparative Investment Returns Ending June 30, 2005



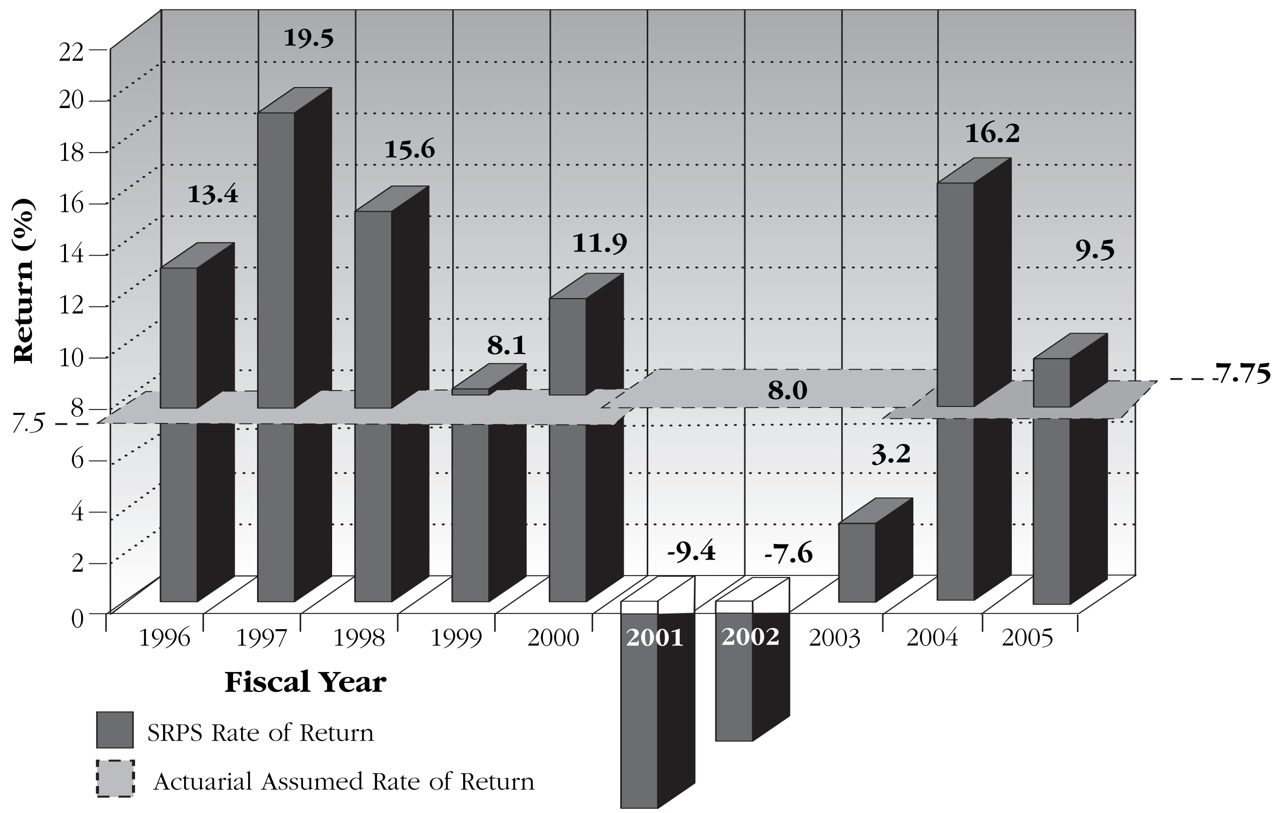


Comparative Investment Returns Ending June 30, 2005

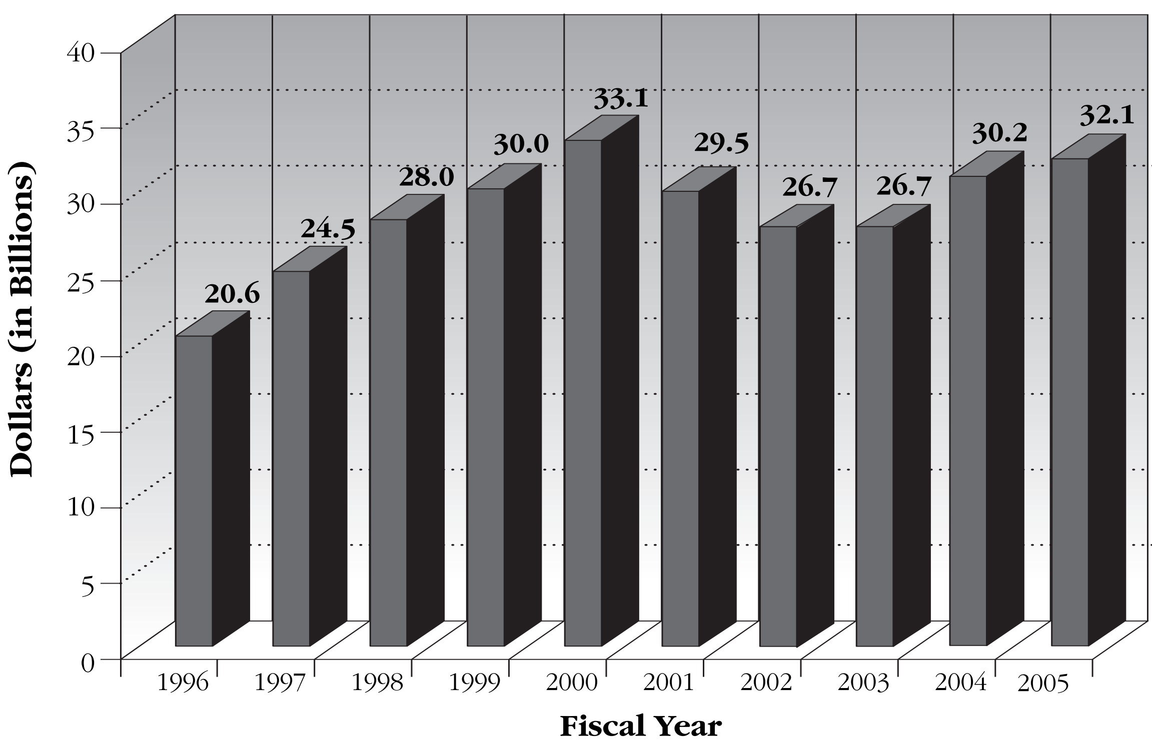
FIXED INCOME



TEN-YEAR HISTORY OF TIME-WEIGHTED ANNUAL RETURNS



TEN-YEAR GROWTH OF INVESTMENT PORTFOLIO



LARGEST 25 HOLDINGS
as of June 30, 2005

EQUITY INCOME SECURITIES:	No. of Shares	Fair Value
General Electric Company	3,448,114	$119,477,150
Countrywide Financial Corporation	1,835,368	70,863,558
Exxon Mobil Corporation	1,223,388	70,308,108
Nextel Communications, Inc.	2,125,000	68,658,750
Yahoo, Inc.	1,960,052	67,915,802
Unitedhealth Group, Inc.	1,286,192	67,062,051
Electronic Arts, Inc.	1,176,538	66,603,816
J.P. Morgan Chase & Co.	1,844,423	65,145,020
Google, Inc.	215,110	63,274,607
Vodafone Group	25,025,048	61,004,319
Microsoft Corporation	2,389,815	59,363,005
Cisco Systems, Inc.	3,106,105	59,357,667
Medtronic, Inc.	1,126,668	58,350,136
Nestle SA	225,112	57,635,420
Baxter International, Inc.	1,499,361	55,626,293
Sanofi Aventis	665,499	54,706,075
Tyco International Ltd.	1,855,727	54,187,228
UBS AG	685,288	53,492,155
Prudential Financial, Inc.	790,520	51,905,543
Dell, Inc.	1,313,435	51,893,817
Astrazeneca PLC	1,206,170	49,766,574
Novartis AG	1,036,573	49,397,222
Abbott Labs	989,640	48,502,256
AES Corporation	2,832,900	46,402,902
Aetna, Inc.	556,310	46,073,594
TOTAL		$1,516,973,069

FIXED INCOME SECURITIES	Par	Fair Value
United States Treasury Notes, 4.125% due May 15, 2015	$238,420,000	$241,922,395
Federal National Mortgage Assn. TBA, 5.5% due Dec 01, 2099	204,000,000	206,773,135
United States Treasury Notes, 4.875% due Feb 15, 2012	169,900,000	180,472,877
United States Treasury Notes, 4.0% due Apr 15, 2010	108,820,000	110,008,318
Federal National Mortgage Assn. TBA, 6.0% due Dec 01, 2099	103,090,000	105,691,414
United States Treasury Notes, 3.375% due Feb 15, 2008	102,841,000	102,102,600
FNMA Pool 725946, 5.5% due Nov 1, 2034	99,059,405	100,445,600
Federal National Mortgage Assn. TBA, 6.5% due Dec 01, 2099	90,880,000	94,046,605
United States Treasury Notes, 1.875% due Jul 15, 2013	87,953,679	89,878,106
United States Treasury Notes, 3.375% due Jan 15, 2007	83,503,320	86,184,612
United States Treasury Bills, 2.927% due Jul 28, 2005	80,370,000	80,007,036
Government National Mortgage Assn. TBA, 5.0% due Dec 1, 2099	73,800,000	74,359,264
Federal National Mortgage Assn. TBA, 5.5% due Dec 01, 2099	60,700,000	62,293,375
United States Treasury Bonds, 5.375% due Feb 15, 2031	51,870,000	61,230,977
United States Treasury Notes, 2.375% due Aug 31, 2006	58,130,000	57,335,365
United States Treasury Notes, 2.5% due Sep 30, 2006	57,740,000	56,970,903
Russian Federation, 1.0% due Mar 31, 2030	50,450,000	56,145,805
FNMA Pool 725773, 5.5% due Sep 1, 2034	53,733,224	54,485,143
United States Treasury Bonds, 6.125% due Nov 15, 2027	39,980,000	50,515,931
FNMA Pool 725425, 5.5% due Apr 1, 2034	49,004,882	49,702,375
Federal National Mortgage Assn. TBA, 5.5% due Dec 01, 2099	47,960,000	48,544,513
United States Treasury Notes, .875% due Apr 15, 2010	49,377,248	48,158,124
Federal National Mortgage Assn. TBA, 5.0% due Dec 01, 2099	44,600,000	44,596,517
United States Treasury Notes, 3.5% due Dec 15, 2009	43,410,000	43,000,643
FNMA Pool 773382, 5.5% due Apr 1, 2034	40,969,459	41,542,768
TOTAL		$2,146,414,398

A complete list of portfolio holdings is available upon request.

DOMESTIC AND INTERNATIONAL EQUITY COMMISSIONS TO BROKERS
for the Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

Brokers *	Total Shares	Total Commission
Merrill Lynch & Co., Inc.	29,435	$ 685
Goldman Sachs & Co.	39,615	607
Credit Suisse First Boston	59,783	529
UBS	21,460	493
Pershing Securities	32,940	437
Citigroup Global Markets	29,876	427
Morgan Stanley & Co.	19,991	423
Deutsche Bank	48,613	369
Lehman Brothers, Inc.	21,373	290
JP Morgan Securities, Inc.	28,849	262
State Street Brokerage	18,699	220
Bear Stearns	10,187	212
Legg Mason Wood Walker, Inc.	4,495	195
Warburg Dillon Reed	17,996	167
ABN Amro	9,227	131
Banc of America	2,876	121
Credit Lyonnais Securities	10,375	111
Jefferies Company, Inc.	2,851	101
Thomas Weisel Partners	2,432	101
Other Broker Fees	97,456	2,194
Total broker commissions	508,529	$8,075

** 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 197 other brokers each receiving less than $100,000 in total commissions.*

For the fiscal year ended June 30, 2005, total domestic equity commissions averaged 3.47 cents per share, and total international equity commissions averaged 13.51 basis points per share.

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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 2005 exceeded 86,000 participants. Membership includes all regular employees of the State of Maryland. In addition, 139 local governmental units have voluntarily joined the system to provide survivor, disability, and retirement benefits for their employees. The governor, members of the General Assembly, and state correctional officers are also included as members of the combined employees' systems.

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November 1, 2005

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, 2005.

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. As a result, the contribution rate for the Employees' Combined System is lower than the current cost. In addition, the contribution rates for both the Employees' and Teachers' Combined Systems are lower than the actuarially determined rates.

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 by Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. These assumptions are presented in the financial section of the System's Comprehensive Annual Financial Report (CAFR).

The results and conclusions of this report are only valid for the July 1, 2005 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, incomplete, or needs to be revised, the results of our analysis may likewise be inaccurate, incomplete, or may need to be revised.

Supporting Schedules
Certain information presented in the System's June 30, 2005 CAFR was derived from our June 30, 2005 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 2005 CAFR.

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

Sincerely,

Milliman

Robert Dezube

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

BOARD SUMMARY

This report presents the results of the June 30, 2005 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 2007;
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 **9.50%** for the year, which is **1.75%** above the 7.75% assumption. This marks the second 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 **5.90%**, or approximately **1.85%** 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 **$4,614** million as of June 30, 2005. This compares to a **$2,841** million unfunded liability measured as of the June 30, 2004 valuation. In relative terms, the overall System funding ratio of assets to liabilities fell from **92.2%** in 2004, to **88.2%** 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 unfunded actuarial liability was expected to grow by **$198** million. The investment loss increased the unfunded actuarial liability by **$611** million. Added to this was a liability loss of **$964** million, which indicates that actual experience during the year ending June 30, 2005 was less favorable than the non-investment actuarial assumptions. Thus the total System experienced a net actuarial loss of **$1,575** 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 this corridor, the appropriated rate will be adjusted one-fifth of the way toward the underlying actuarially calculated rate. This year the State portion of the Employees Combined System (ECS) remained out of the corridor necessitating an increase in the ECS contribution rate. The Teachers' Combined System (TCS) also fell out of the corridor this year, necessitating an increase in the TCS contribution rate.

The corridor method results in contributions that are less than those determined actuarially. In the case of the Employees' Combined System, the contribution is less than the normal cost.

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.

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

PRIOR YEAR EXPERIENCE

Assets (State and Municipal)

Plan assets for this Fund are measured on both a market value and an actuarial or smoothed value basis. The actuarial smoothing method, described in detail in Appendix C, essentially reflects only 20% of 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 the 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, 2005, the Fund earned **9.5%** on a market value basis and **5.9%** on a smoothed basis. While on a market basis, the Fund experienced an investment gain of **$520** million, the actuarial or smoothed basis grew by less than 7.75% which produced a loss of **$611** 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, 2004 Value	$30,167	$33,485
June 30, 2004 Municipal Withdrawals/		
New Entrants	3	2
Employer Contributions	671	671
Member Contributions	209	209
Benefit Payments	(1,799)	(1,799)
Expected Investment Earnings (7.75%)	2,303	2,561
Expected Value June 30, 2005	$31,554	$35,129
INVESTMENT GAIN (LOSS)	520	(611)
Assets from MTA Transfer to State LEOPs	2	2
June 30, 2005 Value	$32,076	$34,520

Liabilities (State and Municipal)

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 2005, the actuarial liabilities experienced an overall loss of **$964** million, which is **2.46%** of the total actuarial liability being measured. The primary cause for liability experience being less favorable than anticipated this past year was annual salary increases being higher than anticipated.

LIABILITIES (In Millions)	**Total Value (PVB)**	**Actuarial (EAN)**	**Accounting (PVAB)**
June 30, 2004	$43,716	$36,326	$30,400
June 30, 2005	$47,066	$39,133	$32,947

Unfunded Liabilities and Funding Ratios (State and Municipal)

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, 2004 and June 30, 2005, as well as the corresponding funding ratios for each (assets divided by liabilities).

Item (In Millions)	**Actuarial**	**PVAB**
6/30/2004 Net Surplus (Unfunded)	($2,841)	($233)
Funding Ratio	92.2%	99.2%
6/30/2005 Net Surplus (Unfunded)	($4,614)	($871)
Funding Ratio	88.2%	97.4%

Contributions (State Portion Only)

In Section IV, we show the various contribution rates by system. In this summary, we present the overall State contribution rate, and compare it to the rate developed in the June 30, 2004 actuarial valuation. In summary, due to the net impact of investment losses and liability gains, the overall State contribution requirement, payable in FY 2006 on the GASB disclosure basis, has increased by **1.16%** 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 2006 or FY 2007. 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 using the Corridor Funding Method for the two largest plans. This approach produced payroll-weighted averages of **8.46%** at June 30, 2004, increasing to **9.18%** as of June 30, 2005.

Rate as Percent of Covered Payroll – GASB Disclosure	
June 30, 2004 State Annual Required Contribution Rate	10.42%
Increase due to Assumption Changes	0.00%
Increase due to Investment Loss	0.49%
Increase due to Liability Loss	0.67%
June 30, 2005 State Annual Required Contribution Rate	11.58%

Rate as Percent of Covered Payroll – Budget (Corridor Method)	
June 30, 2004 State Appropriation Rate	8.46%
Increase due to Shift in Payroll for All Systems	0.04%
Increase in Systems not within the Corridor	0.08%
Increase due to TCS falling out of Corridor	0.23%
Increase due to ECS remaining out of Corridor	0.37%
June 30, 2005 State Appropriation Rate	9.18%

Membership (State and Municipal)

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. In Appendix B, we present extensive details on membership statistics. Below, we compare totals in each group between June 30, 2004 and 2005.

As shown below, there was an overall increase in participation during the year of **2.5%**.

	June 30, 2005	June 30, 2004	Change
Active Participants	188,050	185,861	1.2%
Terminated Vested Participants	37,248	36,523	2.0%
Inactive Participants	10,416	10,388	0.3%
Participants In Pay Status	100,196	94,880	5.6%
Total Participants	**335,910**	**327,652**	**2.5%**

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 2005, 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

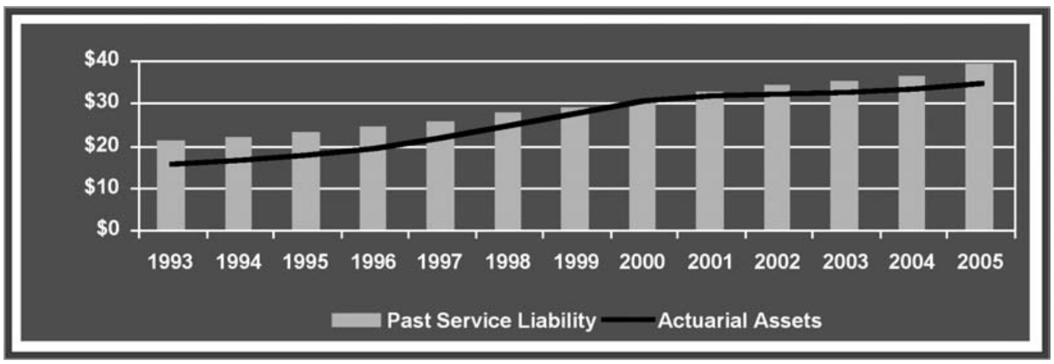


Chart B:
Cash Flows

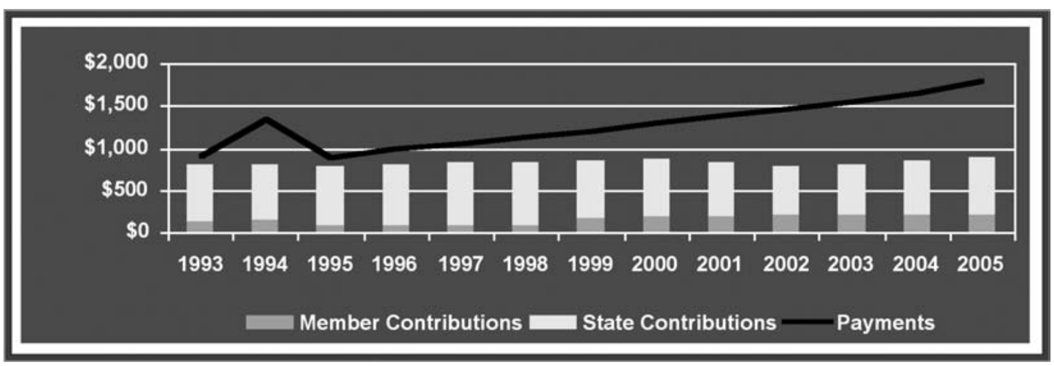
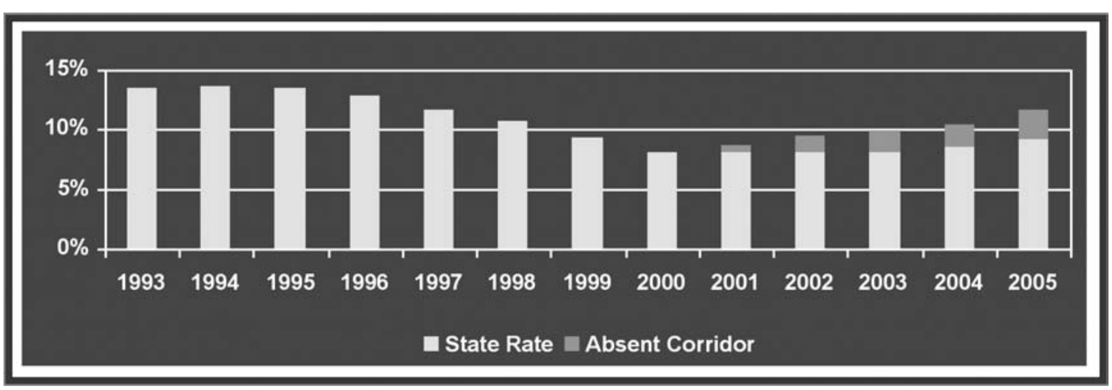


Chart C:
State Contribution Rate



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 increasing slower than payments to retirees due to the System becoming more mature. The ECS contribution rate started increasing in FY 2006 and 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 with the 2004 valuation. 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 2007 would be 2.40% of payroll higher than the amount to be budgeted under the corridor method. The actuarial contribution rate for FY2007 is 20% less than the actuarial rate.

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 (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 15-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.

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, 2005:

- a rate of return on investments of 7.75% compounded annually (adopted June 30, 2003);
- projected salary increases of 4% compounded annually, attributable to inflation (adopted June 30, 2003);
- additional projected salary increases ranging from 0.00% to 11.96% per year attributable to seniority and merit (adopted June 30, 2003);
- post-retirement benefit increases ranging from 3% to 4% 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% annually (adopted June 30, 2003).

ACCOUNTING STATEMENT INFORMATION
THE TOTAL SYSTEMS OF THE STATE OF MARYLAND
(STATE AND MUNICIPAL)

	2005	2004
A. FASB #35 basis		
1. Present value of benefits accrued to date:		
a. Members currently receiving payments	$19,997,772,896	$18,347,530,077
b. Former vested members	977,556,545	694,371,447
c. Active members	11,971,373,761	11,357,661,070
2. Total present value of accrued benefits (1 (a) + 1 (b) + 1 (c))	32,946,703,202	30,399,562,594
3. Assets at market value	32,075,918,515	30,166,724,000
4. Unfunded value of accrued benefits (2-3)	$ 870,784,687	$ 232,839,139
5. Ratio of assets to value of benefits (3/2)	97.36%	99.23%
B. GASB #25 basis		
1. Actuarial accrued liabilities for retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$20,975,329,441	$19,041,901,524
2. Actuarial accrued liabilities for current employees	18,158,120,326	17,283,802,541
3. Total actuarial accrued liability (1+2)	39,133,449,767	36,325,704,065
4. Net actuarial assets available for benefits	34,519,500,395	33,484,656,570
5. Unfunded actuarial accrued liability (3-4)	$ 4,613,949,372	$ 2,841,047,495

SUMMARY OF UNFUNDED ACTUARIAL
(STATE AND

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
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
2005	2,148,065,879	20,975,329,441	16,010,054,447	39,133,449,767	34,519,500,395

SUMMARY OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS
(STATE AND MUNICIPAL)

Fiscal	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase	Average
Year Ended	Number	Annual Allowance	Number	Annual Allowances	Number	Annual Allowances	in Annual Allowances	Annual Allowance
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
2005	8,179	179,497,068	2,863	41,696,122	100,196	1,730,334,175	8.65	17,269

LIABILITIES / SOLVENCY TEST
MUNICIPAL)

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%	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
100	100	71.18	88.21	4,613,949,372	8,603,760,761	54

STATEMENT OF CHANGES IN TOTAL ACTUARIAL PRESENT VALUE OF ALL ACCRUED BENEFITS
(STATE AND MUNICIPAL)

(Expressed in Millions)

	Accumulated Benefit Obligation (FASB 35)
Actuarial present value of accrued benefits at June 30, 2004	$ 30,400
Increase (decrease) during year attributable to:	
Passage of Time	2,288
Benefits Paid – FY 2005	(1,799)
Benefits Accrued, Other Gains/Losses	2,058
Plan Amendment & Changes in Actuarial Assumptions	0
Net Increase	2,547
Actuarial present value of accrued benefits at June 30, 2005	$ 32,947

REPORT OF THE ACTUARY ON THE VALUATION OF THE
STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND
(STATE AND MUNICIPAL)

as of June 30, 2005

Summary of Principal Results

	June 30, 2005	June 30, 2004	% Change
1. Participant Data			
Number of:			
Active Members	188,050	185,861	1.2%
Retired Members and Beneficiaries	100,196	94,880	5.6
Vested Deferred Members	37,248	36,523	2.0
Inactive Status Members	10,416	10,388	0.3
Total Participants	335,910	327,652	2.5
Covered Annual Salaries of Active Members*	$ 8,603,760,761	$ 8,069,480,852	6.6
Annual Retirement Allowances for for			
Retired Members and Beneficiaries	$ 1,730,334,175	$ 1,592,533,229	8.7
2. Assets and Liabilities			
Total Actuarial Liability	$39,133,449,767	$36,325,704,065	7.7
Assets for Valuation Purposes	34,519,500,395	33,484,656,570	3.1
Unfunded Actuarial Liability (Surplus)	$ 4,613,949,372	$ 2,841,047,495	62.4
FASB Accrued Liability	$32,946,703,202	$30,399,562,594	8.4
Market Value of Assets	32,075,918,515	30,166,723,455	6.3
Unfunded FASB Accrued Liability (Surplus)	$ 870,784,687	$ 232,839,139	274.0

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

REPORT OF THE ACTUARY ON THE TWENTY-SIXTH ANNUAL VALUATION OF THE TEACHERS' COMBINED SYSTEM OF THE STATE OF MARYLAND
as of June 30, 2005

Summary of Principal Results

	June 30, 2005	June 30, 2004	% Change
1. Participant Data			
Number of:			
Active Members	97,790	95,962	1.9%
Retired Members and Beneficiaries	48,091	45,691	5.3
Vested Deferred Members	14,775	14,379	2.8
Inactive Status Members	5,368	5,426	(1.1)
Total Participants	166,024	161,458	2.8
Covered Annual Salaries of Active Members	$ 4,867,396,045	$ 4,543,443,669	7.1
Annual Retirement Allowances for for Retired Members and Beneficiaries	$ 1,049,319,738	$ 973,734,838	7.8
2. Assets and Liabilities			
Total Actuarial Liability	$23,305,198,400	$21,724,178,194	7.3
Assets for Valuation Purposes	20,801,529,328	20,155,414,671	3.2
Unfunded Actuarial Liability (Surplus)	$ 2,503,669,072	$ 1,568,763,523	59.6
FASB Accrued Liability	$19,703,988,613	$18,286,822,230	7.7
Market Value of Assets	19,357,871,605	18,187,297,200	6.4
Unfunded FASB Accrued Liability (Surplus)	$ 346,117,008	$ 99,525,030	247.8

REPORT OF THE ACTUARY ON THE TWENTY-SIXTH ANNUAL VALUATION OF THE EMPLOYEES' COMBINED SYSTEM OF THE STATE OF MARYLAND
(STATE AND MUNICIPAL)

as of June 30, 2005

Summary of Principal Results

	June 30, 2005	June 30, 2004	% Change
1. Participant Data			
Number of:			
Active Members	86,656	86,444	0.2%
Retired Members and Beneficiaries	49,158	46,472	5.8
Vested Deferred Members	22,399	22,065	1.5
Inactive Status Members	4,950	4,872	1.6
Total Participants	163,163	159,853	2.1
Covered Annual Salaries of Active Members	$ 3,537,601,880	$ 3,337,542,706	6.0
Annual Retirement Allowances for for Retired Members and Beneficiaries	$ 574,110,012	$ 523,078,287	9.8
2. Assets and Liabilities			
Total Actuarial Liability	$13,671,755,822	$12,621,578,337	8.3
Assets for Valuation Purposes	11,855,672,591	11,514,654,915	3.0
Unfunded Actuarial Liability (Surplus)	$ 1,816,083,231	$ 1,106,923,422	64.1
FASB Accrued Liability	$11,225,188,692	$10,266,563,919	9.3
Market Value of Assets	11,037,018,138	10,395,821,867	6.2
Unfunded FASB Accrued Liability (Surplus)	$188,170,554	$ (129,257,948)	245.6

REPORT OF THE ACTUARY ON THE FIFTY-SIXTH ANNUAL VALUATION OF THE STATE POLICE RETIREMENT SYSTEM OF THE STATE OF MARYLAND
as of June 30, 2005

Summary of Principal Results

	June 30, 2005	June 30, 2004	% Change
1. Participant Data			
Number of:			
Active Members	1,439	1,445	(0.4)%
Retired Members and Beneficiaries	1,909	1,790	6.6
Vested Deferred Members	29	29	0.0
Inactive Status Members	18	15	20.0
Total Participants	3,395	3,279	3.5
Covered Annual Salaries of Active Members	$ 76,463,416	$ 76,444,973	0.0
Annual Retirement Allowances for for Retired Members and Beneficiaries	$ 68,733,154	$ 62,331,011	10.3
2. Assets and Liabilities			
Total Actuarial Liability	$ 1,284,949,704	$ 1,200,604,840	7.0
Assets for Valuation Purposes	1,289,345,033	1,287,981,246	0.1
Unfunded Actuarial Liability (Surplus)	$ (4,395,329)	$ (87,376,406)	95.0
FASB Accrued Liability	$ 1,209,385,668	$ 1,128,130,884	7.2
Market Value of Assets	1,154,310,866	1,112,668,245	3.7
Unfunded FASB Accrued Liability (Surplus)	$ 55,074,802	$ 15,462,639	256.2

REPORT OF THE ACTUARY ON THE TWENTY-SIXTH ANNUAL VALUATION OF THE
PENSION PLAN OF JUDGES AND THEIR SURVIVING SPOUSES
as of June 30, 2005

Summary of Principal Results

	June 30, 2005	June 30, 2004	% Change
1. Participant Data			
Number of:			
Active Members	282	283	(0.4)%
Retired Members and Beneficiaries	316	309	2.3
Vested Deferred Members	9	10	(10.0)
Inactive Status Members	6	4	50.0
Total Participants	613	606	1.2
Covered Annual Salaries of Active Members	$ 33,074,430	$ 32,937,016	0.4
Annual Retirement Allowances for for Retired Members and Beneficiaries	$ 18,471,726	$ 17,539,241	5.3
2. Assets and Liabilities			
Total Actuarial Liability	$328,032,741	$312,285,089	5.0
Assets for Valuation Purposes	260,124,866	250,272,253	3.9
Unfunded Actuarial Liability (Surplus)	$ 67,907,875	$ 62,012,836	9.5
FASB Accrued Liability	$314,096,676	$297,860,265	5.5
Market Value of Assets	240,135,182	223,735,442	7.3
Unfunded FASB Accrued Liability (Surplus)	$ 73,961,494	$ 74,124,823	(0.2)

REPORT OF THE ACTUARY ON THE FIFTEENTH ANNUAL VALUATION OF THE
LAW ENFORCEMENT OFFICERS' PENSION SYSTEM OF THE STATE OF MARYLAND
(STATE AND MUNICIPAL)

as of June 30, 2005

Summary of Principal Results

	June 30, 2005	June 30, 2004	% Change
1. Participant Data			
Number of:			
Active Members	1,826	1,675	9.0%
Retired Members and Beneficiaries	708	581	21.9
Vested Deferred Members	32	25	28.0
Inactive Status Members	72	56	28.6
Total Participants	2,638	2,337	12.9
Covered Annual Salaries of Active Members*	$ 87,219,783	$ 77,369,072	12.7
Annual Retirement Allowances for for Retired Members and Beneficiaries	$ 19,493,836	$ 15,155,236	28.6
2. Assets and Liabilities			
Total Actuarial Liability	$537,735,690	$454,814,985	18.2
Assets for Valuation Purposes	310,087,428	271,586,578	14.2
Unfunded Actuarial Liability (Surplus)	$227,648,262	$183,228,407	24.2
FASB Accrued Liability	$488,403,785	$408,003,847	19.7
Market Value of Assets	283,944,060	242,747,153	17.0
Unfunded FASB Accrued Liability (Surplus)	$204,459,725	$165,256,694	23.7

** Does not include members who elected DROP.*

REPORT OF THE ACTUARY ON THE FOURTEENTH ANNUAL VALUATION OF THE LOCAL FIRE AND POLICE SYSTEM OF THE STATE OF MARYLAND
as of June 30, 2005

Summary of Principal Results

	June 30, 2005	June 30, 2004	% Change
1. Participant Data			
Number of:			
Active Members	57	52	9.6%
Retired Members and Beneficiaries	14	37	(62.2)
Vested Deferred Members	4	15	(73.3)
Inactive Status Members	2	15	(86.7)
Total Participants	77	119	(35.3)
Covered Annual Salaries of Active Members	$ 2,005,207	$ 1,743,416	15.0
Annual Retirement Allowances for for Retired Members and Beneficiaries	$205,709	$ 694,616	(70.4)
2 Assets and Liabilities			
Total Actuarial Liability	$ 5,777,410	$12,242,620	(52.8)
Assets for Valuation Purposes	2,741,149	4,746,907	(42.3)
Unfunded Actuarial Liability (Surplus)	$ 3,036,261	$ 7,495,713	(59.5)
FASB Accrued Liability	$ 5,639,768	$12,181,449	(53.7)
Market Value of Assets	$ 2,638,664	$ 4,453,548	(40.8)
Unfunded FASB Accrued Liability (Surplus)	$ 3,001,104	$ 7,727,901	(61.2)

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
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
2005	6,255	464,693,323	74,291	6.41

Teachers' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2005	91,535	4,590,698,122	50,152	8.23

Employees' Retirement

(State and Municipal)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2005	9,869	423,715,070	42,934	2.71

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN

(continued)

Employees' Pension

(State and Municipal)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2005	76,787	3,187,380,273	41,509	6.37

Judges' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2005	282	33,897,984	120,206	2.62

State Police Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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
2005	1,439	77,610,367	53,934	0.52

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
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
2005	1,826	88,925,957	48,700	3.75

Local Fire and Police

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
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)
2005	57	2,085,416	36,586	6.73

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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 282 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, 2005

Amount of Monthly Benefit	Number of Retirees	Type of Retirement 1	2	3	4	5	6	7
$ 1 - 300	14,527	10,918	1,360	953	26	44	883	343
301 - 600	14,500	8,829	2,179	1,081	96	72	1,876	367
601 - 900	12,068	7,391	1,662	832	99	106	1,741	237
901 - 1,200	10,617	6,762	1,383	643	113	290	1,297	129
1,201 - 1,500	8,963	5,755	1,240	489	92	351	962	74
1,501 - 1,800	7,875	5,240	1,207	330	75	364	602	57
1,801 - 2,100	7,077	4,959	979	273	84	329	435	18
2,101 - 2,400	6,071	4,420	813	179	77	263	306	13
2,401 - 2,700	5,392	4,274	556	136	50	176	191	9
2,701 - 3,000	4,418	3,753	297	102	33	141	85	7
Over 3000	8,688	7,413	379	257	57	471	100	11
	100,196	69,714	12,055	5,275	802	2,607	8,478	1,265

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
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
2005	1,377,977	88,895	8,369	43,933	142,872	21,318	14,033	1,697,397

OF RETIREMENT AND OPTION SELECTED

#Option Selected							
Max.	**Opt. 1**	**Opt. 2**	**Opt. 3**	**Opt. 4**	**Opt. 5**	**Opt. 6**	**Opt. 7**
6,092	3,425	1,858	1,170	1,122	412	437	11
5,065	3,023	1,789	1,811	1,760	339	701	12
3,968	2,116	1,486	1,641	1,917	265	664	11
3,152	1,677	1,620	1,540	1,681	315	625	7
2,419	1,462	1,507	1,311	1,400	306	550	8
2,135	1,210	1,351	1,175	1,246	262	490	6
2,089	1,004	1,135	1,026	1,202	180	433	8
1,977	780	959	853	1,040	164	292	6
1,620	643	864	835	939	150	334	7
1,530	529	502	640	902	69	239	7
3,420	783	1,077	1,405	1,501	122	355	25
33,467	16,652	14,148	13,407	14,710	2,584	5,120	108

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 7/1/00 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
From 7/1/04 to 6/30/05				
Active Members	188,050	6,255	91,535	9,869
Average Annual Salary	$49,163	$74,291	$50,152	$42,934
Retired Members	100,196	30,921	17,170	24,633
Average Annual Retirement Allowances	$17,269	$26,066	$14,171	$15,025
Vested Former Members	47,664	1,351	18,792	1,291

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

DATA BY PLAN

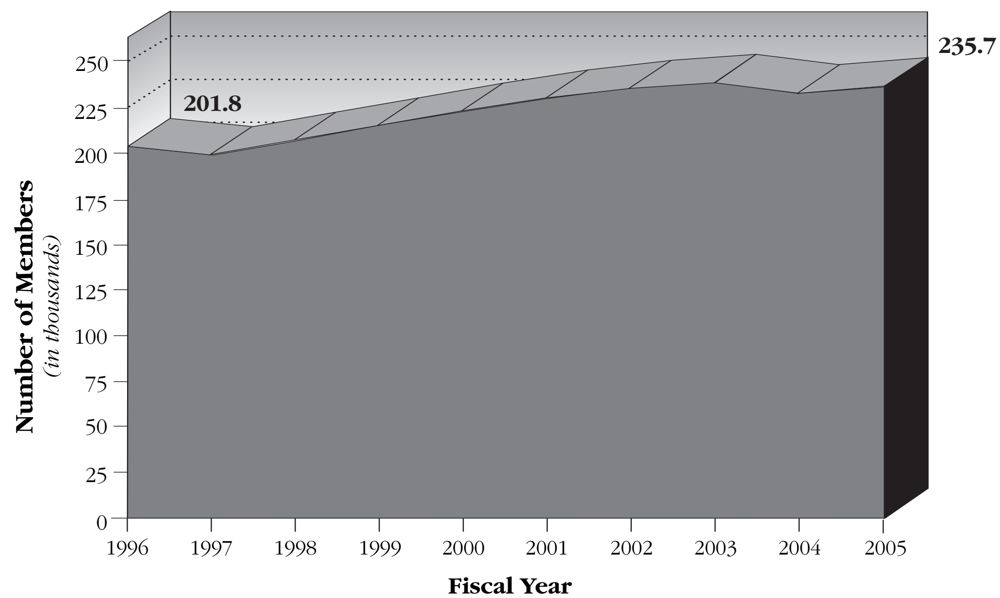
Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Fire and Police
76,024	281	1,578	1,318	140
$34,554	$108,735	$50,306	$45,856	$40,007
16,702	297	1,518	309	21
$6,278	$55,046	$31,695	$22,790	$20,170
24,396	13	24	49	30
78,584	281	1,589	1,410	181
$36,728	$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
76,787	282	1,439	1,826	57
$41,509	$120,206	$53,934	$48,700	$36,586
24,525	316	1,909	708	14
$8,318	$58,455	$36,005	$27,534	$14,694
26,058	15	47	104	6

TEN-YEAR HISTORY OF MEMBERSHIP BY PLAN

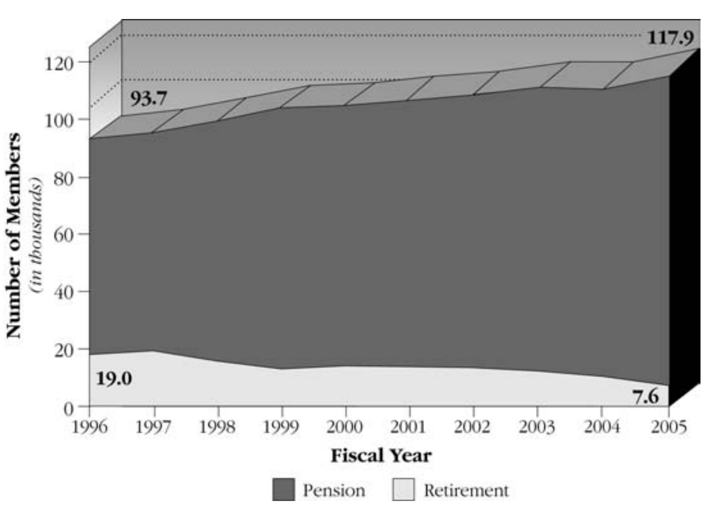
Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Fire and Police
1996	201,832	18,981	74,673	16,326	89,567	277	1,564	304	140
1997	202,568	17,681	78,659	14,912	88,918	282	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
2005	235,714	7,606	110,327	11,160	102,845	297	1,486	1,930	63

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

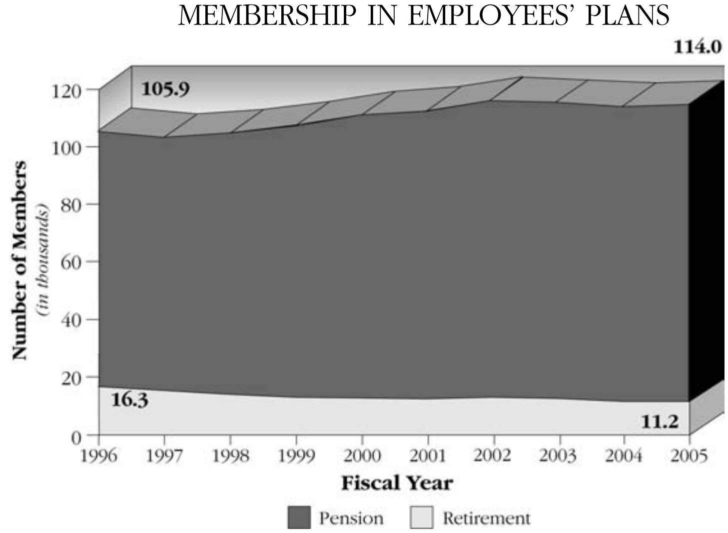
TOTAL SYSTEM MEMBERSHIP



MEMBERSHIP IN TEACHERS' PLANS



MEMBERSHIP IN EMPLOYEES' PLANS

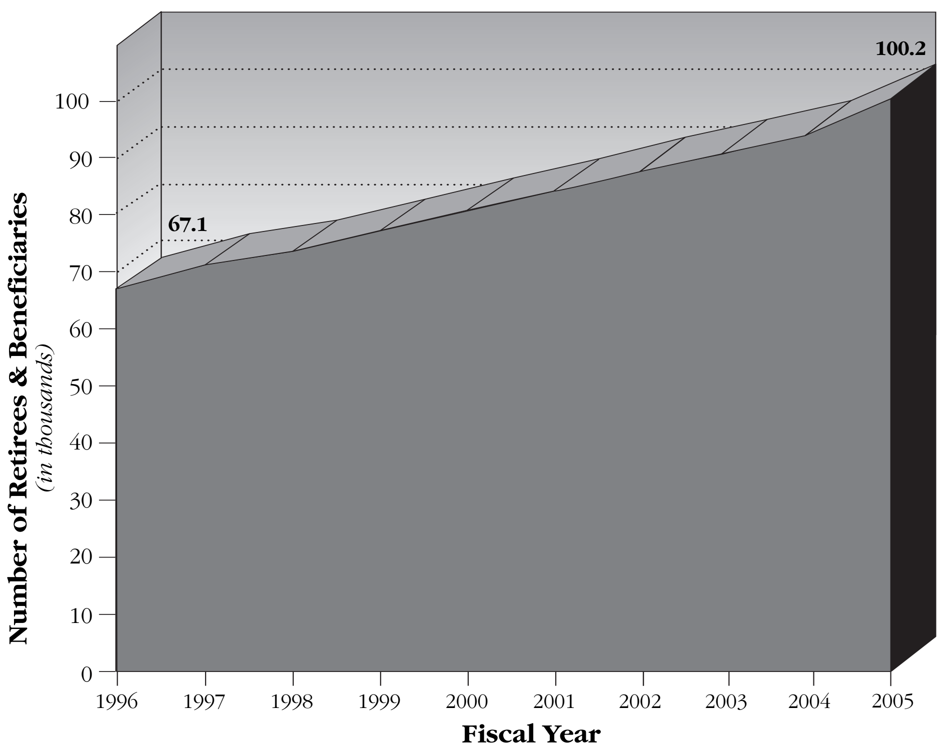


TEN-YEAR HISTORY OF RETIREES AND BENEFICIARIES BY PLAN

Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Fire and Police
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
2005	100,196	30,921	17,170	24,633	24,525	316	1,909	708	14

* 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)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Fund balance, beginning 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
Contributions	809.5	824.7	814.4	855.7	864.9	907.4	779.0	814.5	836.2	879.5
Net investment income	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	2,766.4
Benefit and expense payments	(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)	(1,738.9)
Fund balance, end of year	$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	$32,073.7

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**
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
2005	7.97	9.35	4.73	36.72	–	37.73	5.28	20.44	32.10	9.87	4.87

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
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
2005	208,997	670,554	8,603,761	7.79	2,766,389	3,645,940

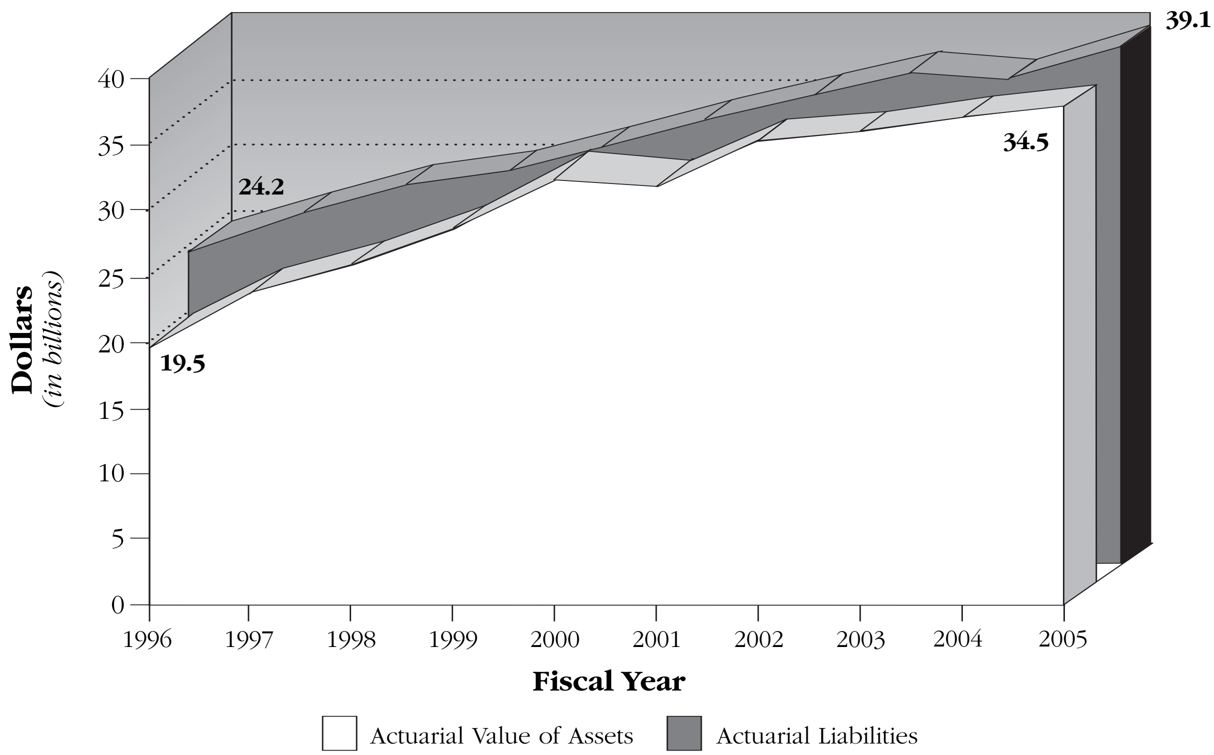
EXPENSES

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
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
2005	1,697,397	22,386	19,162	1,738,945

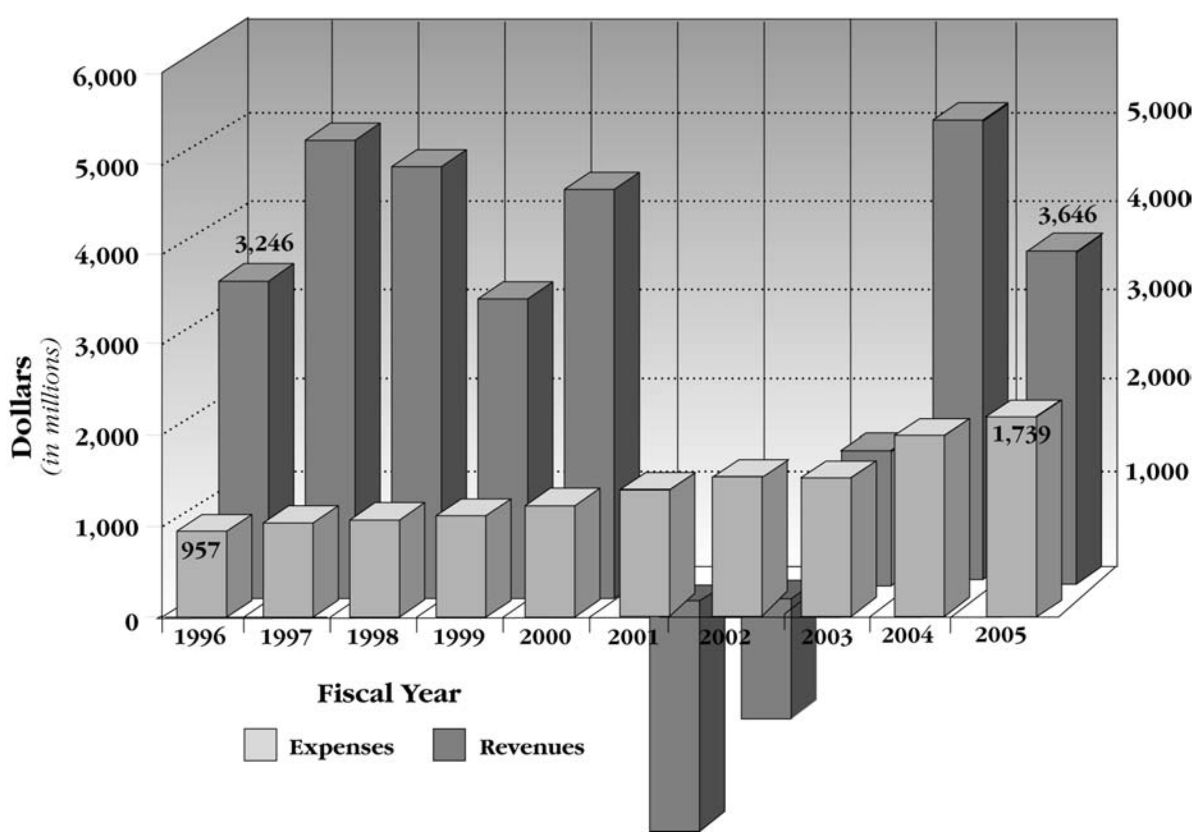
EMPLOYER CONTRIBUTIONS RECEIVED
(Expressed in Thousands)

	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 2005	Totals 2004
EMPLOYER CONTRIBUTIONS:								
Normal (A)	$ 361,079	$ 279,888	$ 9,570	$ 158	$ 264	$ 16,444	$ 667,403	$ 657,908
Unfunded Actuarial Liability	77,374	(93,949)	2,914	0	215	12,089	(1,357)	(31,280)
Total Employer Contributions	$ 438,453	$ 185,939	$ 12,484	$ 158	$ 479	$ 28,533	$ 666,046	$ 626,628
CONTRIBUTION RATES AS A PERCENTAGE OF PAYROLL:								
State:								
Normal	7.70%	7.50%	28.15%	25.05%	–	21.25%	8.02%	7.96%
Unfunded Actuarial Liability	1.65%	- 2.77%	8.57%	- 25.53%	–	16.48%	-0.05%	0.10%
Total State	9.35%	4.73%	36.72%	0.00%	0.00%	37.73%	7.97%	8.06%
Participating Governmental Units:								
Normal	–	6.55%	–	–	11.25%	20.90%	6.76%	5.30%
Unfunded Actuarial Liability	–	- 1.68%	–	–	9.19%	11.20%	- 1.48%	- 2.43%
Total Municipal	0.00%	4.87%	0.00%	0.00%	20.44%	32.10%	5.28%	2.87%

TEN-YEAR HISTORY OF FUNDING PROGRESS



TEN-YEAR HISTORY OF REVENUES VS. EXPENSES



Governmental Units Participating in the Systems

as of June 30, 2005

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 Community Action Committee
Garrett County Office for Children, Youth and Family
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
Queenstown, Town of
Regional Educational Service Agency of Appalachian Maryland
Rockhall, Town of
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. Mary's County Metropolitan Commission
St. Michaels, Commissioners of
Takoma Park, City of
Talbot County Board of Education
Talbot County Council
Taneytown, Town of
Thurmont, Town of
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
Garrett County Commission
Garrett County Roads Board
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

	2005	2004
Total Membership		
Active Vested	6,254	7,195
Active Non-vested	1	2
Terminated Vested	1,351	1,478
Retired Members	30,921	30,598
Active Members		
Number	6,255	7,197
Average Age	56.8	56.1
Average Years of Service	29.9	29.3
Average Annual Salary	$74,291	$69,819
Retirees & Beneficiaries		
Number	30,921	30,598
Average Age	72.8	72.5
Average Monthly Benefit	$ 2,172	$ 2,089

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.

Members who are in Selection A, B, or C will remain in these until their retirement. As of January 1, 2005, they were no longer permitted to change selections.

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).

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

As of January 1, 2006, Option 7 is eliminated.

Teachers' Pension System

A COMPOSITE PICTURE	2005	2004
Total Membership		
Active Vested	59,944	57,502
Active Non-vested	31,591	31,263
Terminated Vested	18,792	18,327
Retired Members	17,170	15,093
Active Members		
Number	91,535	88,765
Average Age	43.7	43.6
Average Years of Service	10.6	10.5
Average Annual Salary	$50,152	$46,337
Retirees & Beneficiaries		
Number	17,170	15,093
Average Age	65.7	65.4
Average Monthly Benefit	$ 1,181	$ 1,142

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.

Pension Changes

As of January 1, 2006, Option 7 is eliminated.

Employees' Retirement System

A COMPOSITE PICTURE

	2005	2004
Total Membership		
Active Vested	7,539	8,151
Active Non-vested	2,330	2,338
Terminated Vested	1,291	1,311
Retired Members	24,633	24,559
Active Members		
Number	9,869	10,489
Average Age	45.1	45.3
Average Years of Service	16.2	16.4
Average Annual Salary	$42,934	$41,801
Retirees & Beneficiaries		
Number	24,633	24,559
Average Age	73.3	73.2
Average Monthly Benefit	$ 1,252	$ 1,195

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.

Members who are in Selection A, B, or C will remain in these until their retirement. As of January 1, 2005, they were no longer permitted to change selections.

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.

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

As of January 1, 2006, Option 7 is eliminated.

Employees' Pension System

A COMPOSITE PICTURE

	2005	2004
Total Membership		
Active Vested	52,663	51,445
Active Non-vested	24,124	24,510
Terminated Vested	26,058	25,626
Retired Members	24,525	21,913
Active Members		
Number	76,787	75,955
Average Age	46.8	46.7
Average Years of Service	11.8	11.9
Average Annual Salary	$41,509	$39,024
Retirees & Beneficiaries		
Number	24,525	21,913
Average Age	66.2	66.0
Average Monthly Benefit	$ 693	$ 650

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.

Pension Changes

As of January 1, 2006, Option 7 is eliminated.

Judges' Retirement System

A COMPOSITE PICTURE

	2005	2004
Total Membership		
Active Vested	282	283
Active Non-vested	—	—
Terminated Vested	15	14
Retired Members	316	309
Active Members		
Number	282	283
Average Age	56.6	56.2
Average Years of Service	9.9	9.8
Average Annual Salary	$120,206	$117,137
Retirees & Beneficiaries		
Number	316	309
Average Age	77.6	77.5
Average Monthly Benefit	$ 4,871	$ 4,730

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 Court of Special 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.

Once retired, neither the option nor designated beneficiary(ies) may be changed.

Pension Changes

As of January 1, 2006, Option 7 is eliminated.

State Police Retirement System

A COMPOSITE PICTURE

	2005	2004
Total Membership		
Active Vested	1,095	1,121
Active Non-vested	344	324
Terminated Vested	47	44
Retired Members	1,909	1,790
Active Members		
Number	1,439	1,445
Average Age	35.3	35.8
Average Years of Service	10.9	11.7
Average Annual Salary	$53,934	$53,655
Retirees & Beneficiaries		
Number	1,909	1,790
Average Age	58.8	58.8
Average Monthly Benefit	$ 3,000	$ 2,902

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.

Pension Changes

As of January 1, 2006, Option 7 is eliminated.

Law Enforcement Officers' Pension System

A COMPOSITE PICTURE

	2005	2004
Total Membership		
Active Vested	1,282	1,178
Active Non-vested	544	497
Terminated Vested	104	81
Retired Members	708	581
Active Members		
Number	1,826	1,675
Average Age	39.5	39.5
Average Years of Service	10.7	11.3
Average Annual Salary	$48,700	$46,942
Retirees & Beneficiaries		
Number	708	581
Average Age	56.7	56.2
Average Monthly Benefit	$ 2,294	$ 2,174

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 (closed as of January 1, 2005). 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 retiree must have retired on either a service retirement allowance or a disability allowance.

Benefits — The special death benefit provided upon death for LEOPS retiree equals 50% of the retiree' 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 retiree' 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 retiree' spouse, or if there is no spouse, to any child under age 18. If the retiree have neither a living spouse nor children under 18 at retirement, the retiree 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 retiree' 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.

As of July 1, 2005, the special death benefit is to include the return of the members' accumulated contribution to the members' designated beneficiary(ies)

LOCAL FIRE AND POLICE SYSTEM

A COMPOSITE PICTURE

	2005	2004
Total Membership		
Active Vested	32	28
Active Non-vested	25	24
Terminated Vested	6	30
Retired Members	14	37
Active Members		
Number	57	52
Average Age	37.0	36.4
Average Years of Service	10.4	12.2
Average Annual Salary	$36,586	$34,279
Retirees & Beneficiaries		
Number	14	37
Average Age	57.9	53.5
Average Monthly Benefit	$ 1,224	$ 1,564

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. Effective January 1, 2005, membership in the LFPS was closed to new employers. Current employers continue to participate and membership remains mandatory for their law enforcement officers and fire fighters.

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

As of January 1, 2006, Option 7 is eliminated.

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